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Globalisation and Regionalism in International Trade: the EU-Canada Agreement Case Study

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ACRONYMS

ACP	African, Caribbean and Pacific Group of States
AG	Agricultural Product
AoA	Agreement on Agriculture
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BRIC	Brazil, Russia, India, China
CETA	Comprehensive and Economics Trade Agreement
CIS	Commonwealth of Independent States
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
EEC	European Economic Community
EPA	Economic Partnership Agreement
EU	European Union
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATT	General Agreement on Tariff and Trade
GDP	Gross Domestic Product
GI	Geographical Indication

IGO	Intergovernmental Organisation
IMF	International Monetary Fund
ISDS	Investor-State Dispute Settlement
ISMEA	Institute of the Services for the Agri-food Markets
JEFTA	Japan European Union Free Trade Agreement
MERCOSUR	Mercado Común del Sur (Southern Common Market)
MFN	Most Favourite Nation
MPS	Market Price Support
NAFTA	North American Free Trade Agreement
NGO	Non-governmental Organisation
NON-AG	Non-agricultural Product
OECD	Organisation for Economic Cooperation and Development
PSE	Producer Support Estimate
PTA	Preferential Trade Agreement
RoO	Rules of Origin
RTA	Regional Trade Agreement
SCT	Single Commodity Transfer
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
TPP	Trans-Pacific Partnership

TRQ	Tariff-rate Quotas
TSE	Total Support Estimate
TTIP	Transatlantic Trade and Investment Partnership
UK	United Kingdom
UNICITRAL	United Nations Commission on International Trade and Law
UNIDROIT	Unification of Private Law
US	United State
USMCA	United State Mexico Canada Agreement
WB	World Bank

INTRODUCTION

The entry into force in 2017 of the Comprehensive and Economic Trade Agreement, the so-called CETA, between the European Union (EU) and Canada has inspired the study of this thesis. The thesis investigates the context in which the CETA was born: the features of the international trade, the logics that it follows, and the shapes that it took in its evolution. From the international trade background, the thesis shifts to the analysis of the features characterising the trade between the EU and Canada and then to the aspects of the CETA. What are the main aspects of the trade between them? What were their motivations in dealing the Agreement? What was the process of negotiations and what does the Agreement promote? Attention has been given to the trade in soft commodities between the contracting Parties and the provisions of the Agreement related with them. The thesis observes also the ways each Parties act out in agricultural field and in trading agricultural products. This study reports also the example of other two agreements signed by the EU. They are the EU-Korea free trade agreement (FTA) and the EU-Japan economic partnership agreement (EPA). These two additional case studies offer some points of reflection and some comparison. Moreover, they represent a litmus test for understand the trend of the EU toward the bilateralism approach.

The thesis' framework is divided in two main parts. The first one concerns the descriptive and the theoretical background. In order to understand the context in which the CETA took shape, the thesis offer an overview on the main theories of international trade. However, the theoretical part has just a descriptive role, indeed the examined models are not empirically used in the thesis, but they just provide some devices to better understand the issues. After that, it is presented the description of international trade. Specifically, the two fundamental phenomena that characterise international trade's landscape are globalisation and regionalism. Globalisation manifests itself in multilateral trade agreements, while regionalism is embodied by regional trade agreements. To explain the advent of these two phenomena, it is mentioned the rise of globalisation that was intrinsically linked with the creation of the General Agreement on Tariffs and Trade (GATT), the precursor of the World Trade Organisation (WTO). Beside globalisation also regionalism made its appearance in the post-war scenario. As the decades passed, the phenomenon of regionalism

increased, and it became an answer to the growing dissatisfaction toward the effects of globalisation and to the impasse affecting multilateral trade agreements. Since the early 2000s, even more countries are making use of regional trade agreements of different kinds. The main actors of the global scene started to build preferential relations with targeted countries. Obviously, each Part involved in a new agreement aims at obtaining the major advantages as possible at the expense at the multilateral ideal. The thesis observes the behaviour of major entities in dealing such agreements and the recent events that are arising in the second decade of 2010. Facts like the 2016 election in the United States (US) and the Eurosceptical sentiments are even more affecting the globalisation's future prospects.

In the second part the thesis turns to case studies. To make it is easier the comparison between the EU-Korea free trade agreement and the EU-Japan economic partnership agreement it is provided an overview on the EU macroeconomic and trade data. This first analysis facilitates the comprehension of the agreements signed by the EU with Korea and Japan. Then the thesis shifts to explain the agreement itself. It is explained the role of agriculture in both the agreement and it was found out that trade in agriculture has an important role for the EU in both the agreements. From the study of the two agreements, some considerations arise, and they are proposed in the last paragraph of Chapter three. The last two Chapters address the topic of the CETA. First, the thesis supplies a sort of Canadian factsheet to provide basic data and information concerning Canadian economic and society structure, Canadian agriculture, the general aspects of its trade and then its trade relations with the EU, in particular as concern agricultural products. Compared with the previous analysed cases, the CETA is examined from a broader viewpoint. The process of negotiations, absent in the study of both EU-Korea and EU-Japan trade agreements, is, instead, explored in the agreement with Canada. It is highlighted the fact that this Agreement has not formally enter into force yet because the process of ratification involved controversial issues. At this regard, during the nine years of CETA negotiations, the Walloon affair and the Italian government opposition to the Agreement stand out. Italy is at the forefront in the CETA affair. Not just because Italy is against it, but also because Italy is among the first interested party in the CETA's provisions related with agriculture, in particular as concern the protection of geographical indications. The last Chapter addresses exactly the Italian point of view in the CETA affair. At the beginning, the thesis provides useful data concerning the trade between Italy and Canada. After that, it is offered some considerations concerning the possible Italian benefits coming from the Agreement and the different reasons why the CETA is provoking a great deal of discussions.

Finally, in the conclusions, the thesis offers the final consideration arising from this study. In this part, I seek to summarise all the information provided in the different Chapters and to answer the questions put at the beginning of this introduction.

1. INTERNATIONAL TRADE

1.1. International trade

1.1.1. History background

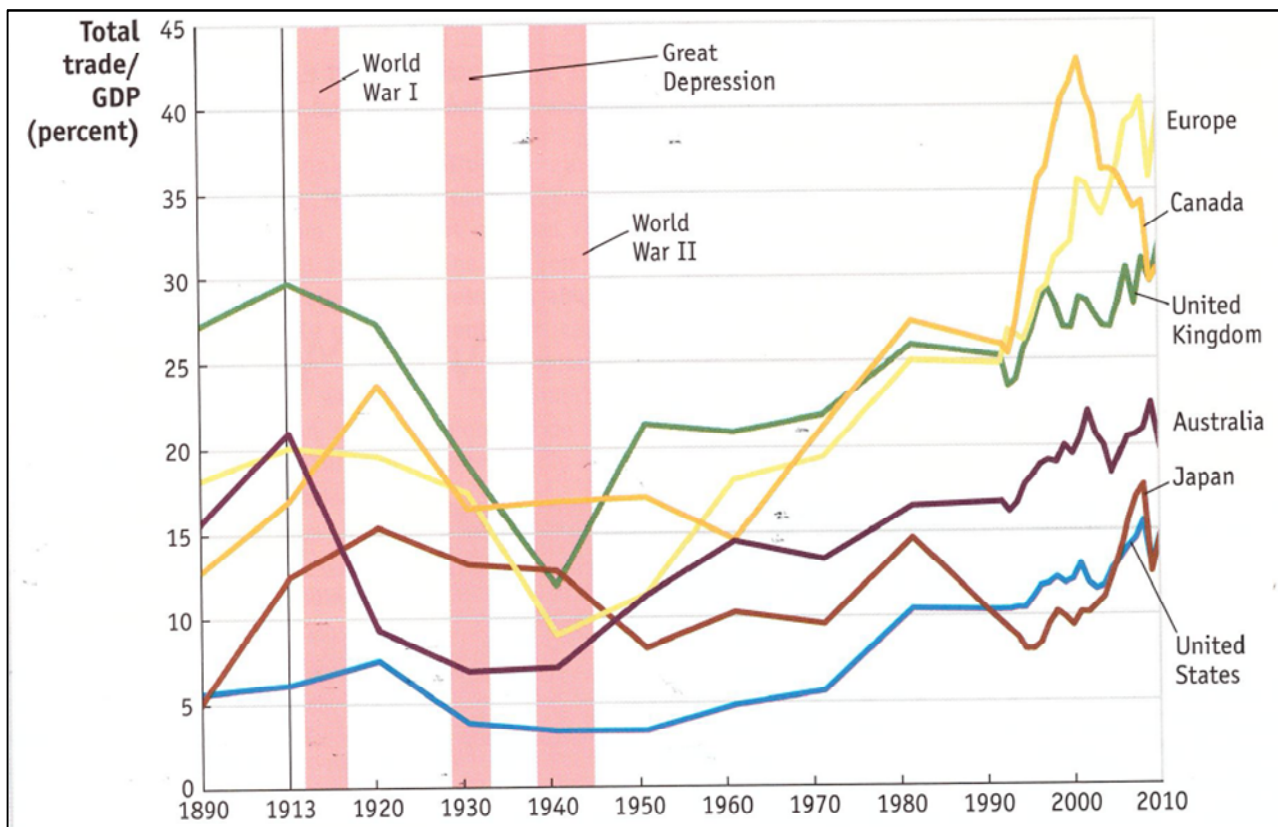
After the end of the World War II trade value through borders started to increase again. During the period between World War I and World War II trade value fell in all countries. These years of trade decline was only a deadlock for international trade because before World War I trade was booming and after World War II it started again to rise.

Golden Age of international trade is the name used to refer to the period between 1890 and World War I. According to Krugman (1995, 330), the beginning of the global economy should be dated in 1869 when the Suez Canal and the Union Pacific railroad were opened. It was the improvements in transportation that led this increase. The main means of transportation leading the improvement were the steamship and the railroad. In the second half of nineteenth century railways and steamship represented the global transport network. In the same period steamship technology improved dramatically trying to answer new needs of growing productions. Indeed, the increasing manufacturing productivity needed new markets where to be consumed and where to collect raw materials and foodstuffs, therefore, trade became even more a necessary aspect for industries. To give an idea of the size of the phenomenon, in 1887 tonnage of trade reached 49.3 million tons, meanwhile just in 1840 it amounted to 1.4 million tons (Stopford 2009, 24). The common trade pattern planned the export of land insensitive commodities exchanged with manufactured goods from industrialised countries. Another important aspect during characterizing the so-called *Golden Age* of international trade was undersea cable network linking different part of the globe. It was an important step in the trade development because it made possible planning transports.

In 1913 United Kingdom (UK) trade/GDP ratio was the highest, equal to 30%. Other countries with high values in terms of trade were Australia, Canada and the average of European

countries. US trade/GDP ratio in 1913 was 7.5% (Feenstra and Taylor 2009, 14). As will be explained below, this is not an unusual value for a big country. What is relevant is that these values, referred to the early 1900s, are impressive because the same level of trade was recorded again only in last decades of 1900s, specifically in mid-1970s (Krugman 1995, 330). This proves not only that the value of trade was already great before the second wave of globalisation¹, but also that it was even higher despite the technological disadvantage.

Figure 1.1 Trade in goods and services as a share of GDP.*



* Trade is measured as the annual average of import and export and divided by annual GDP.

Source: Feenstra et al. (2014).

Figure 1.1 gives an overview of the trade trend from 1890 to 2000. World war I and II and Great depression are underlined, and it is easy to visualise changes in the trend of the trade due to these events.

¹ The first wave of globalisation is generally identified under the period 1870-1914. Before 1870 trade in good and services, movement of people and capital stocks across countries were not considered enough significant. The second wave of globalisation corresponds to the period 1945-1980 and the third covers the period after 1980.

During inter-wars years, different causes affected international trade, not just the wars. In 1929 the Great depression brought the US to charge high tariff attempting to keep the demand into their markets. To react to the US protectionism, some countries also decided to adopt tariffs. The first were Canada and France. These measures increased even more tariffs, involving major economies. The average world tariff in 1933 reached the 25% (Feenestra and Taylor 2009, 16). Protectionism drove international trade back down. This was one of the reasons that persuaded Allied countries to meet after the World War II and develop international agreements to reduce tariffs. First and foremost, the GATT.

After World War II, trade simply regained its trend. In other words, it recovered to previous level thanks to the measures agreed with the GATT and the improved transportation costs. Some countries immediately increase trade after the War. Those were UK, Europe and Australia, even if they did not reach same level of the pre-war period until 1970s or more. For instance, in 1917 merchandise trade share of UK was 27.7%, meanwhile in 1987 it was only 21.1% (Krugman 1995, 331). Nevertheless, other nations were late to recover trade trend. In 1956 the invention of the shipping container revolutionized the transport system. In the post-war global economy labour costs were rising: mechanisation was needed. Thus, the even more expensive labour was replaced by cheaper capital equipment. Cargoes were containerized and standardized to exploit economies of scale. Mechanizing cargo handling reduced time of transport with the result that ports terminal appeared empty as compared to previous years (Stopford 2009, 36). For instance, a ship's time in port terminal decreased from three weeks to 18 hours (Feenestra and Taylor 2009, 15). Since 1970s a shift in economics system brought capitalistic economies from been ruled by the states to been ruled by the financial markets. Neo-liberal policies took root from the US. These policies were generated from the guidelines of the *Washington Consensus*, i.e. a series of economic and financial directives aimed at trade and markets openness (Amato and Talia 2015, 55-59). By the end of the 1960s European colonies became independent. They were encouraged to open their boundaries and start export their products. Trade agreements developed, leading to an increasing exchange of raw materials and goods between North and South economies (Stopford 2009, 37). The surplus capabilities reached by industrialised countries after World War II and the product cycles were asking for production decentralisation in developing countries, therefore, the need of markets liberalisation grew. In 1980 liberalism was promoted by right wings in US and UK under the Reagan and Thatcher governments respectively (Fossati 2015, 223-225). Since 1980 developing countries started to actively participated to international trade. Some of them were Brazil, Russia,

India and China, the so-called BRIC, their economies improved particularly from 2003 to 2013, but also Malaysia, Thailand and Ireland. In 1980s, developing countries were characterized by low-skilled and cheap labour. These aspects gave them a competitive advantage in labour intense manufactured goods and labour intense services. This was possible because developed countries started to break production process and spread it in different part of the world. On one hand this allowed developed countries to benefit from low wages in developing countries, on the other hand allow the latter to increase export. As a consequence, these changes led to a growth of the trade. Indeed, the complexity of manufactured goods added with the shared production of intermediate items boosted trade growth (Krugman 1995, 333).

1.1.2. Recent figures

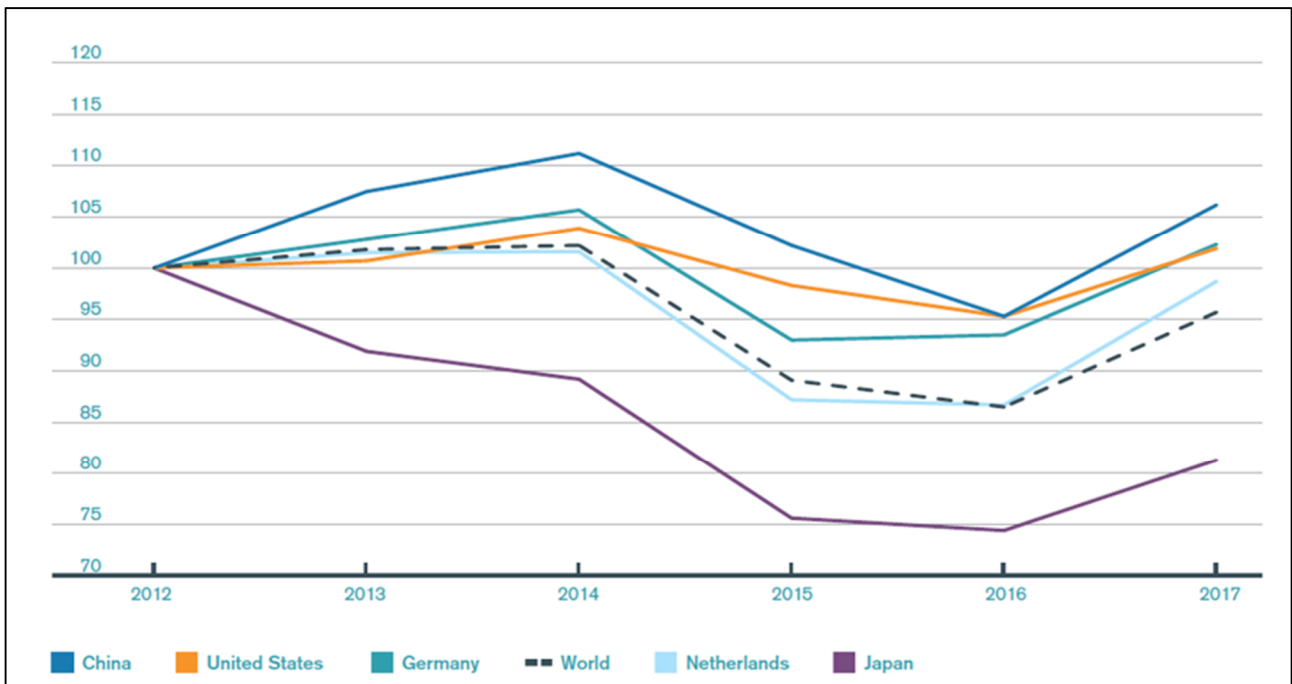
By 2010, almost all the countries displayed in **Figure 1.1** exceeded the trade/GDP ratio recorded in pre-war period. Canada's trade ratio rose by 19 percentage points between 1920 to 2000 and then decreased in 2010 at 30%. Both the European countries and the US recorded an increase. The global financial crisis that broke out in 2008 affected the trade ratio. This is also evident looking at the years just before 2010 showed in the graph. In 2015, Talia and Amato wrote that the international trade did not suffer great bumps despite the financial crisis shock (2015, 59). They stated that because, until the moment they were writing, any state had turned to protectionism. The two authors were writing before the 2016 US' presidential election. As shown below, 2017 trade data do not seem to be affected by Trump's trade policy. Nevertheless, it can be assumed that effects on the trade values will be seen later and they will negatively affect the trade for the reasons that will be explained below.

As reported by the WTO (2018a), in 2017, the world merchandise trade increased by 4.7% in volume terms and by 11% in value terms up to a total of \$US 17.73 trillion². It was the highest growth rate in six years. The EU³ recorded the highest amount of exported merchandise goods, with a value of 4.67 trillion expressed in US dollars. China follows the UE with US\$ 2.13 trillion, meanwhile US recorded US\$ 1.13 trillion. Canada exported almost 0,21 trillion in merchandised good in 2017, ranging between the first 10 economies in terms of export value.

² In 2017 increasing in commodities prices partly explains the growth in the value of merchandise exports.

³ Here it is considered the European Union consisting of 28 countries.

Figure 1.2 Total trade for the top five traders* (2012-2017).



*(value index: 2012=100).

Source: WTO (2018a).

Excluding the trade within the EU (intra-EU trade), in 2017, the larger importer of goods were the US. On the contrary, excluding again the trade within the EU, China resulted the larger exporter of goods in 2017. If trade within the EU have been also considered, it would have shown higher values than US and China both in import and export flow. Briefly, the main reasons explaining this assertion are the absence of trade tariffs inside the region and the proximity of the countries. Farther, considering the EU countries separately (i.e. excluding intra-EU trade), the mayor world traders⁴ in 2017 were: China, the US, Germany, Japan and the Netherlands as shown in **Figure 1.2**.

⁴ It is measured the sum of import and export of merchandise trade.

Table 1.1 World Merchandise Import in selected economies.

YEAR	1948	1953	1963	1973	1983	1993	2003	2017
World (Billion dollars)	\$ 59.00	\$ 84.00	\$ 157.00	\$ 579.00	\$ 1,838.00	\$ 3,688.00	\$ 7,379.00	\$ 17,198.00
USA %	13.00	13.90	11.40	12.40	14.30	15.90	16.90	13.70
Canada %	4.40	5.50	3.90	4.20	3.40	3.70	3.20	2.50
Mexico %	1.00	9.00	8.00	6.00	7.00	1.80	2.30	2.50
North America %	18.40	28.40	23.30	22.60	24.70	21.40	22.40	18.70
Germany %	2.20	4.50	8.00	9.20	8.10	9.00	7.90	6.60
United Kingdom %	13.40	11.00	8.50	6.50	5.30	5.50	5.20	3.70
France %	5.50	4.90	5.30	6.40	5.60	5.70	5.20	3.60
Netherland %	3.40	3.30	4.40	4.80	3.30	3.30	3.40	3.30
Europe %	45.30	43.70	52.00	53.30	44.10	44.50	45.00	37.10
China %	0.60	1.60	9.00	9.00	1.10	2.70	5.40	10.50
Japan %	1.10	2.80	4.10	6.50	6.70	6.40	5.00	3.80
Asia %	13.90	15.10	14.10	14.90	18.50	23.50	23.50	31.50

Source: WTO (2018a).

Table 1.2 World Merchandise export in selected economies.

YEAR	1948	1953	1963	1973	1983	1993	2003	2017
World (Billion dollars)	\$ 59.00	\$ 84.00	\$ 157.00	\$ 579.00	\$ 1,838.00	\$ 3,688.00	\$ 7,379.00	\$ 17,198.00
USA %	21.60	14.60	14.30	12.20	11.20	12.60	9.80	9.00
Canada %	5.50	5.20	4.30	4.60	4.20	3.90	3.70	2.40
Mexico %	0.90	0.70	0.60	0.40	1.40	1.40	2.20	2.40
North America %	28.00	20.50	19.20	17.20	16.80	17.90	15.70	13.80
Germany %	1.40	5.30	9.30	11.70	9.20	10.30	10.20	8.40
United Kingdom %	11.30	9.00	7.80	5.10	5.00	4.90	4.10	2.60
Netherland %	2.00	3.00	3.60	4.70	3.50	3.80	4.00	3.80
France %	3.40	4.80	5.20	6.30	5.20	6.00	5.30	3.10
Europe %	35.10	39.40	47.80	50.90	43.50	45.30	45.90	37.80
China %	0.90	1.20	1.30	1.00	1.20	2.50	5.90	13.20
Japan %	0.40	1.50	3.50	6.40	8.00	9.80	6.40	4.10
Asia %	14.00	13.40	12.50	14.90	19.10	26.00	26.10	34.00

Source: WTO (2018a).

Table 1.1 and **Table 1.2** show some data about the top merchandise importers and exporters during last 70 years. In **Table 1.1**, it is highlighted the percentages per countries based on region aggregation. As one can easily see, the EU has been the first economy in terms of imported merchandise goods from 1948 to 2017. Regional economies data, like the ones observed in the EU,

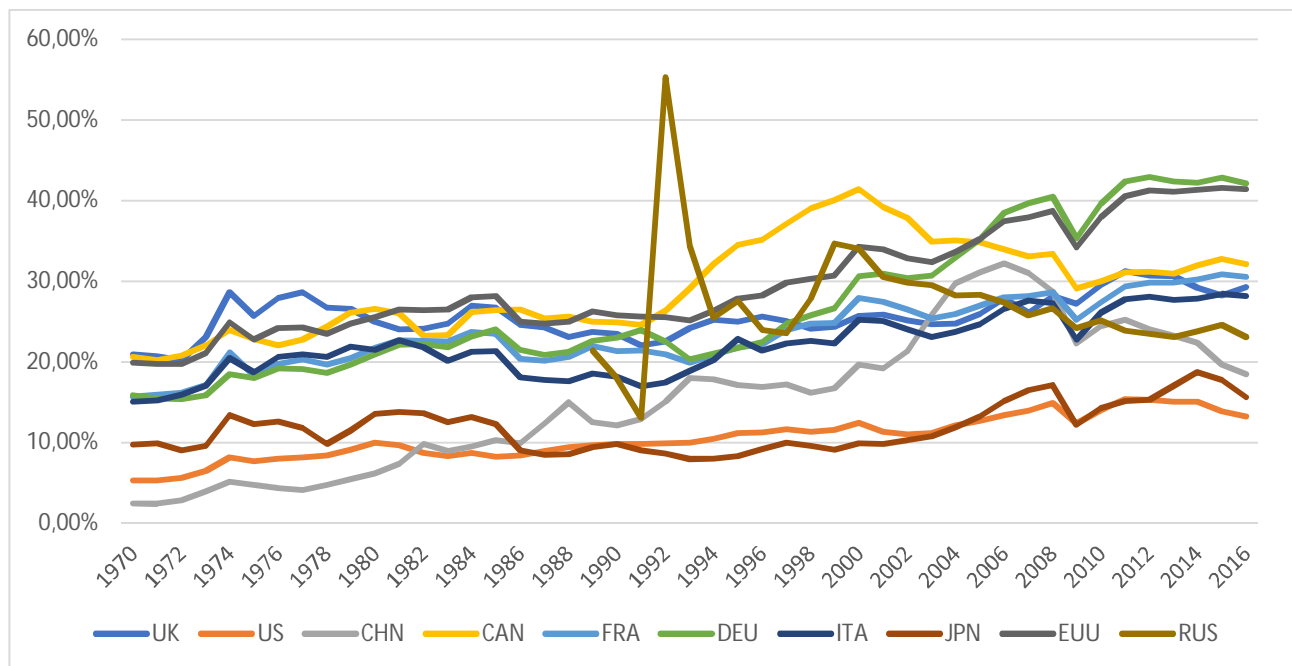
North America and Asia, consider the aggregate values of the countries belonging to that area. So, for instance, in the EU the total merchandised imports are the sum of intra-Europe imports and extra-Europe imports. As a consequence, it is obvious that Europe shows so much higher value than, for example, North America where US are considered as a unique country and, therefore, imports and exports between US countries are not considered. **Table 1.2** refers to the same economies presented above in terms of exported merchandise goods. Again, the EU is the first economy in terms of export during the interval 1948-2017.

As regards service industry, export of commercial services grew by 8% in 2017 worth US\$ 5.28 trillion. The US was the first economy in terms of value of imported and exported commercial services (US\$ 761.7 billion in exports and US\$ 516 billion in imports), followed by UK and Germany in terms of exported commercial services. The largest importers of commercial services were the US, China and Germany. In general, in 2017, the EU was the larger regional trade agreement, it accounted for 34% of the total world trade (WTO 2018a).

It could be useful considering a visual representation of the total value of trade comparing with the amount of GDP for each country. This measure, already considered in this thesis in order to provide an indication of the phenomenon, is the trade/GDP ratio, i.e. the trade as a percentage of the country's gross domestic product. It is computed considering the average value between export and import on the GDP⁵. Trade/GDP ratio does not indicate countries' trade policies. It could happen that countries with high level of the ratio also have high barriers to trade. This measure better describes the single country's trade dependency. In general, lower value for big countries is expected because they are supposed to be less trade dependent. On the contrary, smaller countries usually record higher values. Indeed, on one hand, a small country cannot benefit of economies of scale and produce at a competitive cost without trading, on the other hand it cannot efficiently produce a great range of all the goods it needs. The economy of big countries can better absorb the domestic output than small ones do, and they are able to produce a wide range of goods leveraging economies of scale. Besides, consider the US: trade within the borders of the 50 states is not considered as international trade (Gerber 2007, 4). At the same time, the European Union value could be measured as the sum of member states' trade, therefore, as stated above, the result overtakes all the other economies.

⁵ Data of import and export concern both goods and services.

Figure 1.3 Trade/GDP Ratio (annual)*



* Trade is measured as the average of import and export for both goods and services.

Source: our elaboration on WB (2018).

The **Figure 1.3** shows that the value of import and export represents a high percentage of the total GDP for all the economies considered. In the graph had been computed the trade/GDP rate for G8 countries and, in addition, China and the EU countries considered as a whole. Thus, in **Figure 1.3** it has been chosen to show the most industrialised economies, China, since its even more important role both in economics and global policy, and the group of EU countries. Germany and EU record the highest level of import/export value on GDP. The EU value is measured as the sum of member states' trade, therefore, as stated above, the result overtakes all the other economies. China and US do not present high ratios. Nevertheless, as already said, US was the first economy in terms of imported and exporter commercial services and China the second one.

Another important aspect is the value of *foreign direct investment* (FDI). FDIs are relevant because they belong to the phenomena related to international trade. Indeed, FDIs make economies more interdependent, so ultimately, they are a driving force for trade through borders. FDIs are a kind of capital flow. Generally, scholars distinguish flows of financial capital representing paper assets from the ones representing physical assets. The latter should be real estate, factories and businesses. Flows of capital related with physical assets are called foreign direct investments. When this kind of capital flows move from one country to another it means that nation's savings shift and

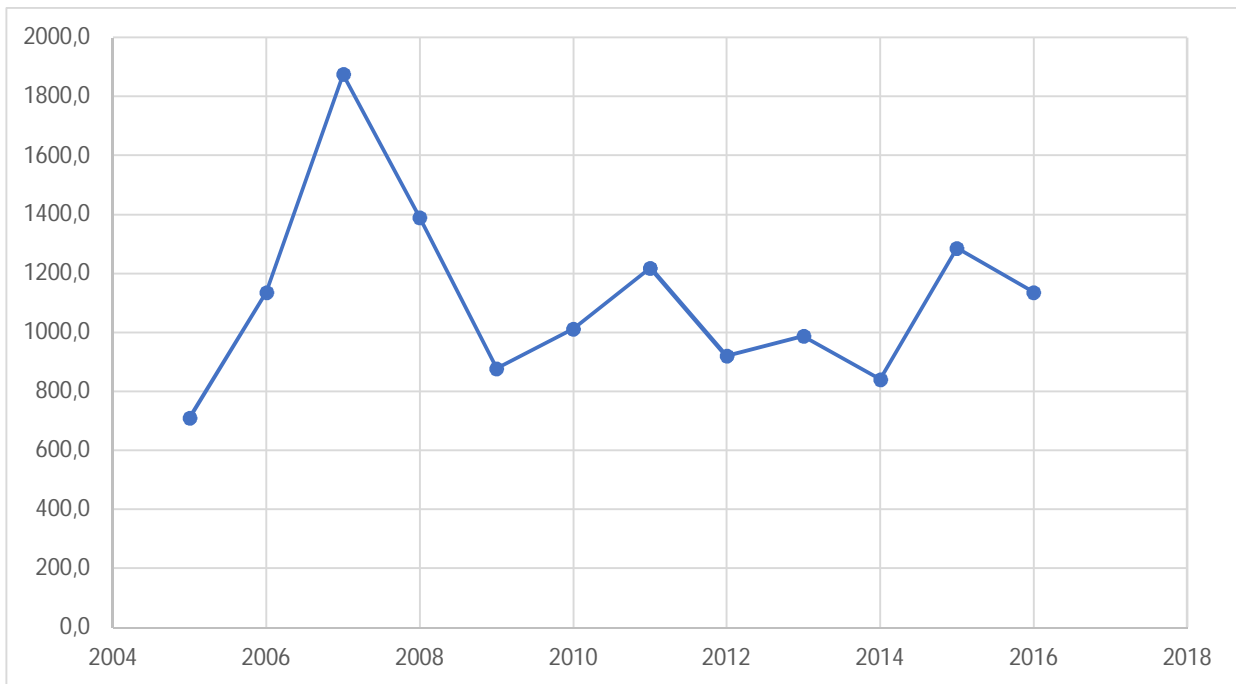
become available to another nation (Gerber 2007, 5). FDIs are categorised as horizontal FDIs and vertical ones. The first refers to the situation in which the investment involves developed countries. Usually the FDI is a tool to avoid trade tariffs directly producing in the market one would target. The second kind happens when a developed country invests in a developing country. Here avoiding custom tariffs is still one of the main reasons. In addition, another advantage is the cheap labour force that firms can find in developing countries (Feenestra and Taylor 2009, 22-27). As previously said, this second kind of FDI has been increasingly used since the beginning of the third wave of globalisation, i.e. since 1980s. Since then, international trade has been featuring new characteristics, one of them is the share and the distribution of production processes in different geographical areas⁶. The relocation of part of production of developed countries took place in developing countries moving wealth from the firsts to the seconds.

FDI are strictly related with trade flux: it is easy to image that a multinational company setting a new business abroad will generate new clients and suppliers rising commercial flows. Indeed, it will have to acquire facilities to carry on the business abroad, it will produce a higher level of intra-firm trade and it will rise the export of intermediate goods from home country or a foreign one. What is more, FDI promote the spread of technologies, innovations, know-how and best practices. All these inputs are going to increase production and trade as well. The result is not only the maintenance of current volume of trade, but an expansion of it. Foreign direct investments benefit from regional trade agreements. Multinationals companies, exploiting an integrated, free of internal barriers market, create scale economies. In 2000, economies belonging to the Organisation for Economic Cooperation and Development (OECD) recorded US\$ 1300 billion flows of FDI⁷, equal to 90% of the total amount of FDI (Feenestra and Taylor 2009, 23).

⁶ The other features of the third wave of globalisation are the infra-trade, emergence of superpowers focused on trade and the emergence of huge exports of manufactured goods from countries with low wages (Krugman, Growing world trade: causes and consequences 1995, 332).

⁷ Foreign Direct Investment flows means the value of cross-border transactions related to direct investment.

Figure 1.4 OECD FDI flows. Outward, Billion US Dollars (2005 – 2016).



Source: our elaboration on OECD (2018a).

In **Figure 1.4**, the chart shows the OECD economies' total amount of FDI during the period 2005-16. The figure refers to the outward flows, it consists in the transactions able to rise the investment that investors in the reporting economy have in enterprises in a foreign economy, less the ones that decrease their investment. The value of the last data available is almost US\$ 1136 billion. The trend of FDI shows a sharp decrease after 2008 crisis. In 2016 FDIs had not recovered the pre-crisis level yet. The first half of 2018, OECD outward foreign direct investment decreased by 65%, as said by the OECD (2018a). The origins of the decrease are to be found in changes in US tax policies that, starting from 2016 elections, led parent US companies to repatriate cash held abroad.

Despite the escalation of trade tensions started in 2017 with the trade war threat⁸, generally trade data shown a strong scenario. In the first half of 2018, an increasing number of trade-restrictive measures on goods and economies were imposed. That remain to be seen how these measures will impact trade.

⁸ Trade war threat refers to the scenario that took shape when the president Donald Trump took office in January 2017.

To sum up, it seems clear that trade could be explained and understood differently depending on the point of view and on the method used to measure and described the phenomenon. What is relevant for the purpose of this thesis is that trade has become a larger share of economies all around the world growing faster than world income since the end of World War II (Gerber 2007, 4).

1.2. Theoretical approach to international trade

Different theories were elaborated to explain the phenomenon of international trade. Depending on different historical moments, scholars observed different characteristics on how and why countries trade goods between each other. The study of these theoretical approaches is essential to understand the logic behind the phenomenon of multilateralism as well as the one of regionalism that will be explained in the following Chapter. Therefore, this paragraph offers a summary of theories and models related with these two topics. In order to develop this summary, it has been considered mainly the book of Fenestra and al. (2014).

The conventional trade theories are the one of Ricardo and Heckscher Ohlin. The Ricardian model was elaborated in the 19th century. It identifies the main reason of the free trade in the different technologies used by countries. Ricardo's theory suggests that each country specialise in the production of a product for which it has a comparative cost advantage. It means that a country will specialise in the production of a good which involves the lower opportunity cost, i.e. the lower relative marginal cost coming from the choice of a production option over another. On the other hand, the so called Heckscher Ohlin model was developed at the beginning of the 20th century. According to this model, countries export the product that required the most abundant and cheapest factor available in their respective countries. At the same time, they import from other countries the other products they need. While the Ricardo's model explains the international trade through the differences in the level of technology across countries, Heckscher-Ohlin model is based on the differences in the availability of resources. Indeed, the latter model assumes that technology can be easily transport from one country to another. Despite their differences, the two models present also some similarities. They both assumes that countries exchange their products under perfect competition, and that they export a good while they import a different one. These theories do not explain why countries simultaneously import and export the same goods between each other.

On the contrary, the monopolistic competition is a “new” model of international trade that gives an explanation of why countries exchange also the same products between each other. In other words, it explains why there is intra-industry trade between countries. As it will be showed below, the monopolistic competition model is strictly related with other two concept: the first is exactly intra-industry trade and the second is the gravity equation. In the 1980s monopolistic competition was used to explain regional trade agreements (RTAs)⁹. Because regionalism is one of the main topics of this thesis, the model of monopolistic competition is now deeper illustrated.

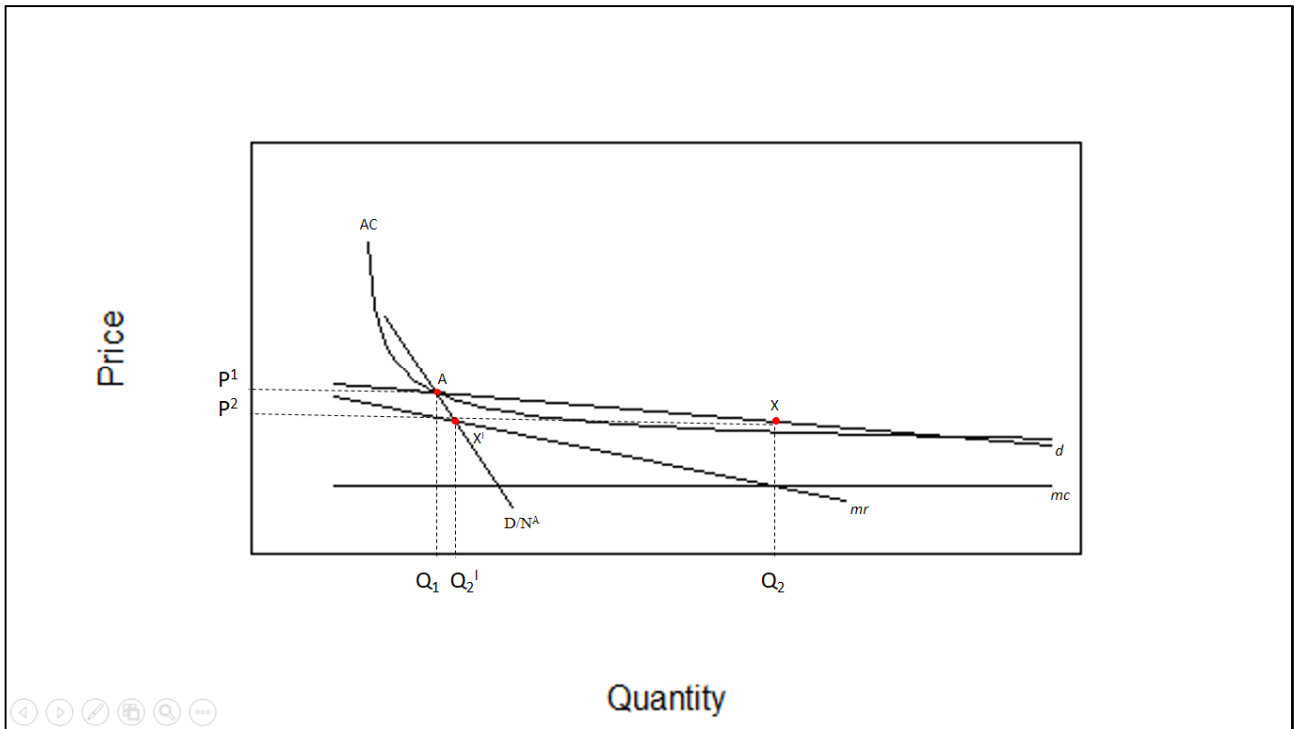
Monopolistic Competition is a kind of Imperfect Competition that well explains a trade pattern where economies exchange different types of the same product. At first, it was elaborated by Chamberlin (1933). Later, between the 1970s and 1980s, scholars like Helpman (1981, 1990) and Krugman (1979) used monopolistic competition to explain the increase of regionalism. Deardorff (1984), testing the conventional trade theories (Ricardo and Heckscher-Ohlin) and the new monopolistic competition, validates the idea that the latter is the one best suited to explain the world in the end of 20th century. The first relevant aspect of the Monopolistic Competition is that there are more firms and they offer different products and so, in a sense, they get control of the price. Indeed, under monopolistic competition, if a firm increases the price, it does not lose all its clients. Meanwhile, because it is not a monopolist, the firm cannot fix a too much high price. The second important feature is scale economies. As stress by Krugman (1979) the main reason for trading is scale economy rather than countries’ technologies or factor endowment. In a free trade environment, firms spread their target market increasing their production and selling their products abroad. Producing and selling higher quantity allows firm to produce further down its average cost curve, which means that it lowers its per-unit cost of production. In addition, all players can freely enter and exit the market. It means that firms enter the market until they gain monopoly profits. Obviously, the more the firms join the business, the less monopoly profits they obtain. In the long run, profits are equal to zero as it happens under perfect competition. Let say that A and B are the two countries in the free trade environment. They have the same number of customers, the same technology, the same cost curves and the same number of firms in autarky equilibrium. When the two countries liberalise their economies, the number of variety of products doubles, and so does the number of firms. With a higher number of varieties of product for customer to choose from, the demand curve’s elasticity rises. This means that if a firm lowers its price, it attracts more clients

⁹ See Chapter two.

than it could do in autarky scenario. Thanks to the free trade, the firm acquires more costumers both from A and B. **Figure 1.5** shows the short run monopolistic competition equilibrium in free trade. The graph needs some assumptions. First, the technology used by firms allows increasing returns to scale. As a consequence, the average cost curve (AC) decreases in the increasing of production. Second, the marginal cost (*mc*) is assumed constant and flat for simplicity¹⁰. As shown in **Figure 1.5**, the point A signed the long run monopolistic competition in autarky equilibrium. At this point, firms sell the quantity Q_1 at the price P^1 . When the two countries decide to open the trade, the demand curve d (i.e. the demand curve when just a firm lowers its price while the other ones maintain the price unchanged) lies over the AC curve when the price is lower than P^1 . Production level that maximizes profits is where marginal revenue (*mr*) equals marginal cost (*mc*), i.e. Q_2 . At this level of production, the firm fixes the price P^2 , here the firm achieves monopolist profits because, at this point, the average cost curve lies down the demand curve. As one can see, the firm is encouraged to lower its price from P^1 to P^2 indeed, at this point, it gains profits. Considering the latter outcome, all firms in the industry want to achieve the same result and they join the business. When all firms simultaneously reduce prices, the single firm's demanded quantity increases following the D/N^A curve (industry demanded quantity when all the firms fix the same price, where N^A is the number of firms of a country in autarky equilibrium) instead of the d curve. As a result, every firm sells the quantity Q_2^I at the price P_2 instead of quantity Q_2 . At price P_2 , all firms are selling quantity Q_2^I suffering losses. Thus, some of them will be driven out of the market. This scenario represents the short run equilibrium of free trade under monopolistic competition: firms lower prices reckoning they could achieve profits at point X but, they suffer losses at point X^I .

¹⁰ Moreover the marginal cost is lower the average cost, otherwise the average cost should not be decreasing with the increase of production.

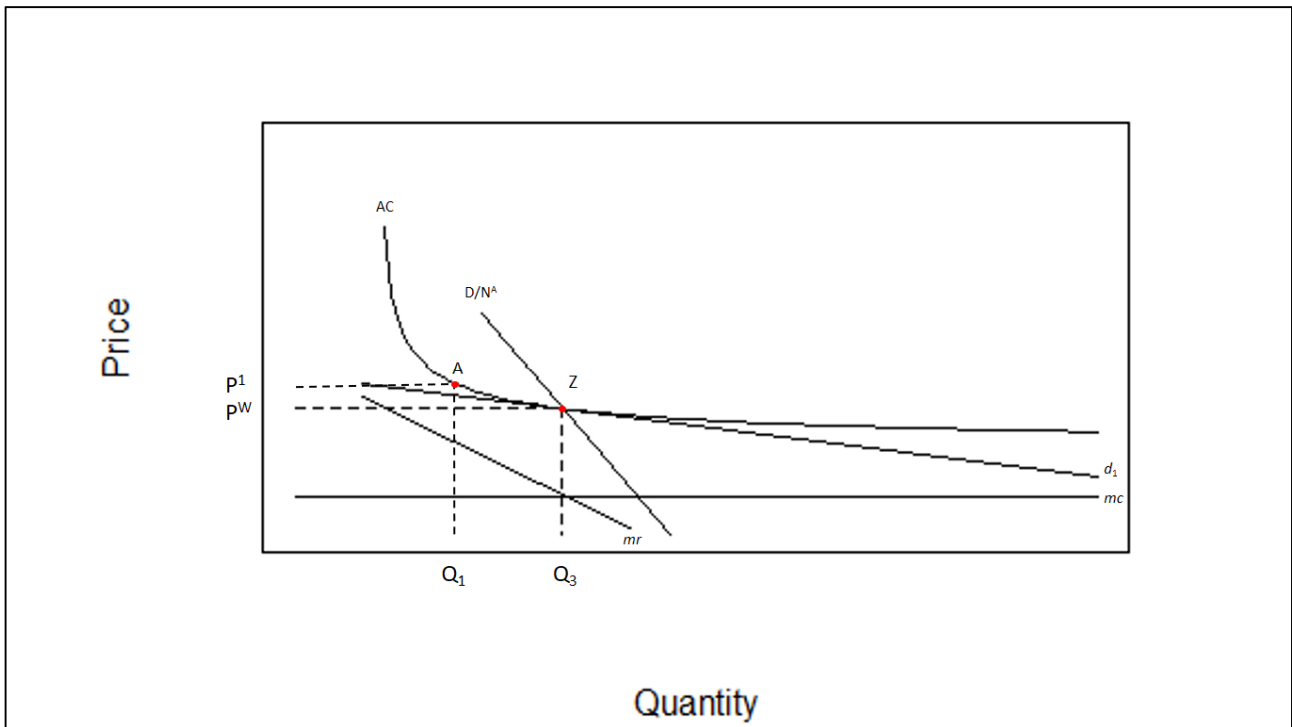
Figure 1.5 Short run monopolistic competition equilibrium in free trade



Our elaboration on Feenstra and Taylor (2009).

After that, some firms exit the market, while still competitive firms' demand increases (both along D/N^A curve and d curve). Now the number of varieties of product for customer to choose from is lower than the previous situation. Single firm's share of demand rises, indeed, because the number of remain firms is N^T and $N^T < N^A$, then $D/N^T > D/N^A$. As shown in **Figure 1.6**, at point **Z**, the demand curve d_1 is the tangent of the average cost curve **AC**. In the long run of free trade under monopolistic competition, the remain firms sell the higher quantity Q_3 at the price P^W that is lower than the autarky price P^1 .

Figure 1.6 Long run monopolistic competition equilibrium in free trade.



Our elaboration on Feenestra and Taylor (2009).

As previously mentioned, in the 1970s and 1980s this model started to be used to explain the increase of regionalism in international trade. How is this framework explaining us why countries should want to deal trade agreements? First of all, free trade reduces the price of every variety of product sold in the market. Thanks to scale economy, firms reduce the per unit average cost of production. It means that they produce in a more efficient way and, ultimately, it implies a reduced price for consumers. The graph shows the price lowering: in long run autarky equilibrium price was P_1 , on the contrary, in long run free trade equilibrium under monopolistic competition, the price is P_w . Further, in this scenario a bigger number of varieties is available to each customer indicating an increase in welfare level. Even if some firms had been driven out of the market both in countries A and B, the total number of firms in free trade overtakes the number of firms both in A and B in autarky equilibrium. On the other hand, one could stress that it could happens that customers, even in free trade with more products availability, continue to purchase the same products they did under autarky. It is not possible to exclude that but, it seems unlikely.

On the other hand, countries have to face some cost of the free trade in the model of monopolistic competition. First, as already discussed above, some firms are pushed out of the business in moving to the long run free trade equilibrium. This happens because when all firms simultaneously cut prices, the demand quantity increases along D/N^A curve and not above d curve. The exit of some firms from the market entails more unemployment (Feenestra and Taylor 2009, 209-217). Consider the net welfare effect under the basic assumptions of the just described model, pros seem to overtake negative aspects. Of course, conclusions must be discussed in view of the situation and keeping in mind the complexity of real cases.

A concept related to the monopolistic competition model is the *intra-industry trade*. The intra-industry trade model was born as an implication of the reworked version of the monopolistic competition model. The model assumes that industries in a country manufacture many varieties of the same product and trade that varieties with other countries. In other words, economies specialize in different brands, then, all brands are demanded in each and every country. The intra-industry trade model is useful because, differently than the factor- proportions theory¹¹, validates the idea that high level of trade can also happens between countries with similar factor proportions (Helpman 1990). Therefore, the new model acknowledges that counties, even if owning similar proportions of factors, exchange similar products.

Consider a country importing and exporting the product j . If the value of product j 's imports is alike the value of product j 's exports, it means that the trade in the product j is almost totally intra-industry trade. The intra-industry trade index gives the share of trade involving both imports and exports and it can be represented by:

$$\text{Intra - industry trade index} = \frac{\text{Min. between import and export}}{\frac{1}{2}(\text{imports} + \text{export})} \quad (1)$$

High values of the index mean high value of intra-industry trade, and so high import-export values. One could observe high percentages when the costs of exchanged products are similar between countries and when products are differentiated (Feenestra and Taylor 2009, 227-229).

¹¹ Heckscher-Ohlin Theory asserts that trade flows between two countries occurs due to differences in the factor composition of the two countries.

Despite the Equation (1) give us an idea of the level of intra-industry trade for a product between two countries, it does not provide a measure of the quantity of trade between them. To obtain the value of trade, it is better to use another equation: the *gravity equation*. The *gravity equation* was elaborated for the first time by Tinbergen (1963). As described in Equation (2) explained below, Tinbergen put a linear and directly proportional relationship between the economic level of two countries and the degree of trade between them, while stressed the inversely proportional relationship between the distance between the two countries. During the last fifty years the model was used and revised by other scholars. Anderson (1979) was the first to use the model incorporating microeconomics theories. Anderson was followed by Bergstrand (1985), who join the model with the principles of factor- proportions theory¹² and Deardorff (1997). Helpman et al. (2008) proposed a revised model useful to determine the amount of exports resulting from selected companies in a country. Cipollina et al. (2010) used the gravity model to measure the effect of Preferential Trade Agreements (PTA) in trade flows between partners countries.

The model is inspired to the Newton’s Law of universal gravitation¹³. Indeed, the equation states that, just like two objects attracts each other depending on their masses and their distance, two countries register more trade between them depending on their GDP and their distance. If two countries are large in terms of GDP and they are geographically close to each other, it is easier that they present high degree of merchandise and service flows between them. On the contrary, if they are far apart and they are economically underdeveloped, it is likely that they do not trade with each other. This connection between the GDP and the amount of trade is a “consequence” of the fact that the gravity equation is linked with the monopolistic competition model. Indeed, as explained above, according to the monopolistic competition model two big countries exchange more products because they produce more goods and their domestic demand is high. As a consequence of the first assumption they export more and, as a consequence of the second assumption, they import more.

The gravity equation is presented below. Compared with the Newton’s Law, it uses GDP instead of mass of objects and, instead of the force of gravity, it predicts the quantity of trade.

$$Trade = B \frac{GDP_1 GDP_2}{dist^n} \quad (2)$$

¹² See Note 11.

¹³ According with the Newton’s law, the masses of two objects attracts each other with a force that is directly proportional to the product of their masses and inversely proportional to the square of the distance between them.

The first side of the equation, *Trade*, refers to the amount of trade between the two parties. It is measured by the exports, imports or by their average. Obviously, GDP_1 and GDP_2 are the gross domestic products of the countries under examination, and $dist^n$ is the distance between the two parties. Differently from the Newton' Law, the distance in the gravity equation is raised to the n power, instead of to the 2 power. The reason is that the relation between trade and geographical distance between two country is not clear. Indeed, contrary to what has been just said, in some cases the distance between two countries turned out to be not so important in affecting trade flows. A simple example should be the trade relation between England and the countries belonging to the British empire. Indeed, despite the distance between some countries and the Motherland, the amount of trade was significant. Thus, taking in mind this example, it is easy to understand that not always the distance is determinant in determine the quantity of goods exchange between countries.

The term B is a constant. It represents the relationship between the first term, i.e. the *Trade*, and the second term, i.e. the gravity term. This constant indicates how much other factors affect the relationship between the two terms of the equation. Indeed, it could be also thought as a measure that incapsulates all the factors that, other than the distance and the GDP, influence the trade between two countries. To compute this figure, one should take into account the culture of the two countries, the language, if they share a common border, if they have a common history, but also how much high is their level of protectionism, the level of tariffs and quotas, or, on the contrary, if their governments promote liberalisation policies. Indeed, however the gravity model has been using since 1960s to conduct trade analysis between countries, the original model was reductive. For this reason, it was enriched with additional variables trying to take into consideration as much factors as possible (Feenestra and Taylor 2009, 229-234).

The fact that the terms of the equation are multiplied between each other, allows us to use natural logarithm to obtain a linear correlation between the logarithm of trade flows and the logarithms of counties' economics dimensions and of distance:

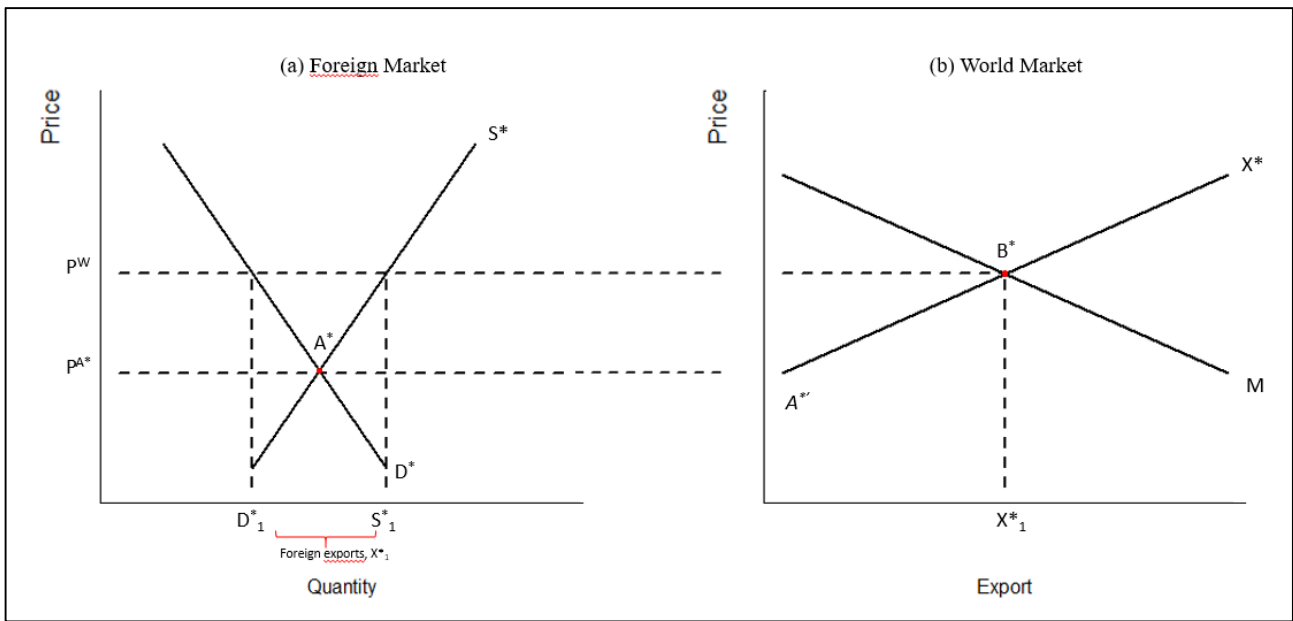
$$\ln T_{ij} = \beta_1 \ln Y_i + \beta_2 \ln Y_j - \beta_3 \ln dist_{ij} + \rho \ln R_j + \varepsilon_{ij} \quad (3)$$

Where T_{ij} is the amount of trade between countries, Y_i and Y_j are the GDP of the countries, $dist_{ij}$ is the distance between the parties, $R_j = 1/Y_w$. The ε_{ij} represent the error term and it could be estimate with an ordinary least squared regression.

1.2.1. The reasons of multilateral trade agreements

If on the one hand the monopolistic competition model is useful to explain the phenomenon of regional trade agreements, on the other hand, an explanation is needed also for the other phenomenon that will be discussed in this thesis: multilateral trade agreements. As it will be widely stressed in the next Chapter, multilateral trade agreements are used to worldwide remove trade barriers between economies. To well understand the reasons behind multilateral trade agreements it is better to consider the effect of the most commonly used trade policy: the tariff. In so doing, it is easier to figure out the reason for choosing worldwide liberalisation. Governors try to balance pains and gains resulting from international trade using tariffs. If a country is big enough to affect the global price with its tariff than it could actually obtain an improvement of national welfare using the tariff. To understand why it is possible, it is now considered the effect of a tariff applied by a big country under monopolistic competition. Before analysing the tariff, it is described the foreign export supply. It is imaged a world composed by two countries: F and H, the foreign and the home country. Countries F and H have the same dimension and country H is big enough so that, if it imposes a tariff, country F reduce its price to keep part of the market. In panel (a) of **Figure 1.7** it is shown the demand curve of country F, D^* , and its supply curve S^* . In panel (a) the two curves, S^* and D^* , intersect at point A^* . At point A^* corresponds the autarky equilibrium price P^{A^*} . At this point the demanded quantity of country F is equal to its supply quantity, so the exports of country F are equal to zero. In panel (b), the point A^{**} represents the amount of exports of country F at the autarky equilibrium price P^{A^*} in the world market (that correspond to the export of country F at the autarky equilibrium price P^{A^*} toward country H because of the fact that the world is composed just by F and H).

Figure 1.7 Foreign export supply.



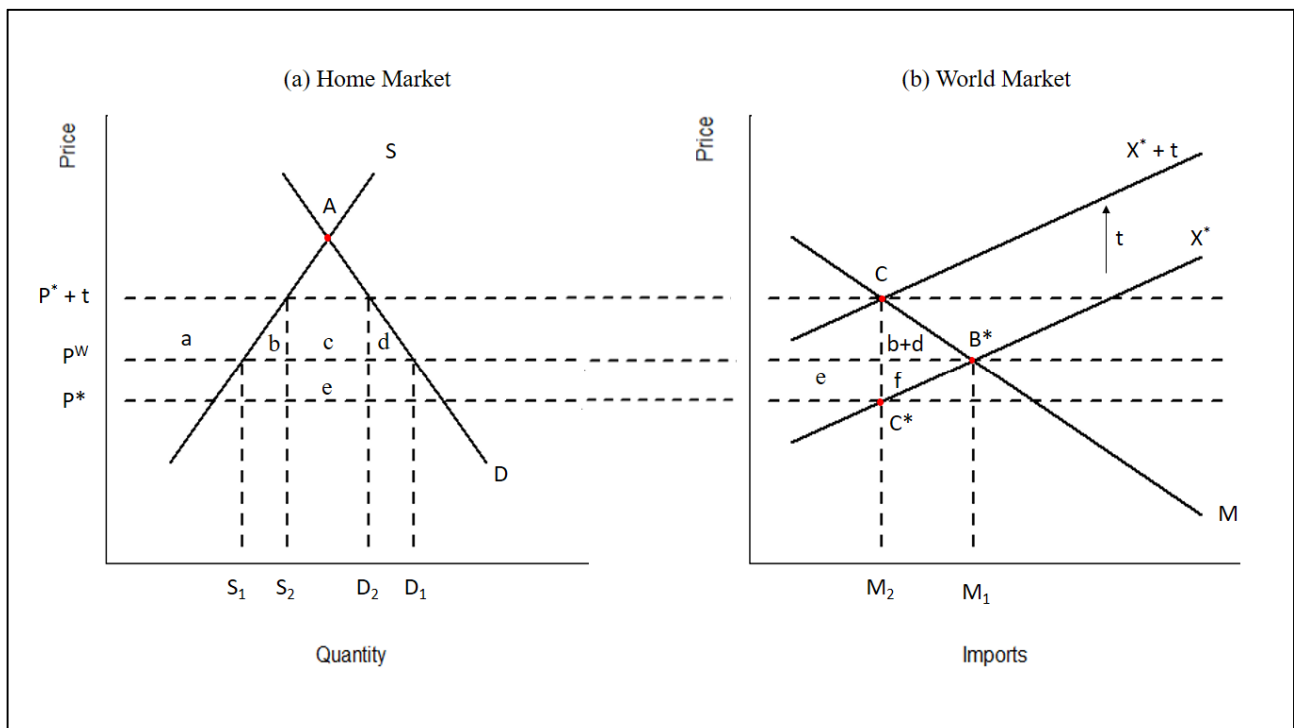
Our elaboration on Feenstra and Taylor (2009).

Now in panel (b) it is derived the foreign export supply curve. It is supposed that the world price (P^W) is higher than the autarky price in country F (P^{A*}). In panel (a), at price P^W , the quantity demanded by country F is lower than the quantity demanded at the autarky price P^{A*} and it corresponds to D^*_1 , but, at price P^W , the quantity supplied by the firms in country F is higher than the demanded quantity and it is equal to S^*_1 . Because of the fact that, at price P^W , the foreign supply exceeds demand, country F exports the quantity $X^*_1 = S^*_1 - D^*_1$ at price P^W , corresponding to the point B^* in panel (b). Connecting with a line the point A^* and B^* it is obtained the foreign export supply curve X^* . X^* and the world import demand curve, M (that is the import demand of country H) intersect at point B^* at which correspond the world price P^W .

In **Figure 1.8**, the panel (b) shows the import demand curve of country H, M , and the export supply curve of country F, X^* , and the world equilibrium at point B^* . When H charges a tariff, t , the producers in country F face a cost for supplying the market of country H that is t more than it was before the tariff. Because of the introduction of the tariff, the export supply curve of F (X^*) shifts up by the amount of the tariff from X^* to $X^* + t$. The new curve $X^* + t$ intersects the import demand curve (M) at the point C. At point C corresponds the price paid by the consumers of country H (the price includes the tariff) and it is $P^* + t$. On the other side, the exporters of country F receive the net of tariff price, represented at the point C^* . At point C^* , the new world price is P^* and it is the price received by exporters of country F at point C^* . C^* is the new world price. What is

interesting to notice is that, after imposing the tariff, country H pays for its imports a price that rise by less the amount of tariff t . In other words, the price increases less than the amount of tariff for consumers in country H. What does it mean? It means that Foreign producers absorb part of the tariff, indeed, they reduce their price from P^W (initial free trade equilibrium) to P^* (world price after the tariff), so, the price that producers of country F receive is a lower price than the initial world price. As a result, consumers in country H suffer less the consequences derived from the tariff imposed by their government (Feenstra and Taylor 2014).

Figure 1.8 Tariff for large country.



Our elaboration on Feenstra and Taylor (2009).

What are the consequences of the tariff on the welfare of the countries? In panel (a) the consumer price in country H increase from P^W to $P^* + t$ recording a loss of surplus for consumers equal to the area $(a + b + c + d)$. At the same time, the producers' surplus in country H rises because of the increasing in the price they receive (from P^W to $P^* + t$) and the surplus is represented by area (a) in the graph. Government revenue collected from the tariff is also to be considered. It is equal to the amount of the tariff t times the quantity of imports, i.e. $M_2 = D_2 - S_2$, which corresponds to the areas $(c + e)$ in panel (a). As a result, the total loss, for country H, coming from the tariff is equal to

(b + d), while the total gain is equal to (e). Depending on the value of (e) and (b + d) it is possible to compute if the tariff has a positive effect on H or not. If (e) is bigger than (b + d) gains exceed losses.

On the contrary, country F always suffers a loss when a tariff is charge by the country H. The loss is represented by the areas (e + f). Area (e) represents the terms of trade gained by country H, but, at the same times, it represents the terms of trade loss for country F. In addition, country F suffers also a loss equal to the area *f*. In conclusion, the world welfare suffers a net loss represented by the area (b + d + f).

However ultimately the tariff lead to a loss in world welfare, country H could consider advantageous to charge a tariff if the improvement in the terms of trade overtakes the reduction of customers surplus. The model just described shows why a country can obtain an improvement of national welfare using the tariff. Tariff could be a productive tool for a policy if it is chosen at an optimum level. It is possible to compute the optimal tariff using the formula:

$$\text{Optimal Tariff} = \frac{1}{E_x} \quad (1)$$

E_x is the elasticity¹⁴ of the foreign export supply. If the country charges the optimal tariff, it reaches the maximum increase in welfare. The effect of a too much high tariff is leading to a level of imports equal to the one recorded in autarky equilibrium. A tariff lower than the optimal one rises anyway the welfare of the country¹⁵. So why countries would like to liberalise trade through trade agreements if we have just figure out that tariffs could be profitable? Some more explanations are needed to understand why countries decide to liberalise trade.

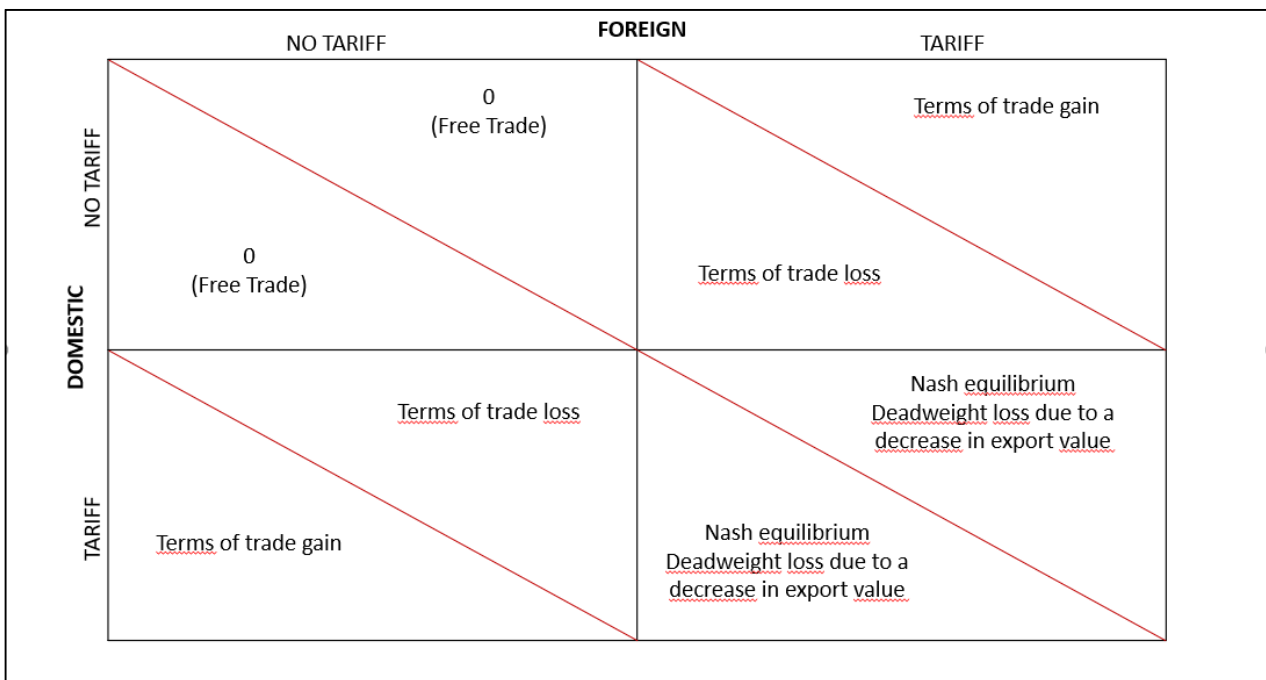
The Prisoner's Dilemma is a pattern of payoff that explain the welfare of the domestic and the foreign countries as compared with the free trade. This pattern of payoff helps to visualise different possible scenarios depending on the decision of countries to charge a tariff or not. For convenience, the payoff of the countries under free trade is set equal to zero. It means that the other payoffs are measured by comparing them with free trade. Among the payoffs there is also the Nash equilibrium. Nash equilibrium is defined as the situation in which each player (countries H and F) is making its best decision, given the action of the other. Each country, acting on its own, charge the

¹⁴ Supply curve elasticity means the percentage increase in supply in response to a percentage increase in price.

¹⁵ The optimal tariff formula is equal to $1/E_x$ where E_x is the elasticity of the export supply curve.

tariff because moving to free trade keep the single country in a worst situation. So, in this case, Nash equilibrium happens when both countries apply a tariff. As state above, H and F are supposed to have the same dimensions. In Nash equilibrium they charge the optimal tariff. Now suppose that their tariffs are equal. As shown in **Figure 1.9** in the lower-right quadrant, the improvement in the terms of trade, gain thanks to the tariff, is offset by the loss recorded because of the other country tariff. In this scenario no one of the countries gain an improvement in terms of trade, on the contrary, both suffer a deadweight loss. Indeed, as previously said, when domestic country applies a tariff the foreign country lowers its level of export and so doing it suffers a loss in the terms of trade. In the case both countries apply a tariff, both of them will suffer the same loss because of the decrease in terms of export. Nash equilibrium is negative for both country H and F.

Figure 1.9 Payoff in a tariff game.



Our elaboration on Feenestra and Taylor (2009).

Figure 1.9 show also the case in which only country H applies a tariff (lower-left quadrant). It is obvious to say that this could be the most positive payoff for country H, but the behaviour of country H would lead country F to also charge a tariff with the result to reach Nash equilibrium.

This negative outcome is avoided if countries join some kind of trade agreement. The logic of multilateral trade agreements is exactly the following: to cancel out the Prisoner Dilemma and to avoid Nash equilibrium scenario. The goal of multilateral trade agreements is increasing the

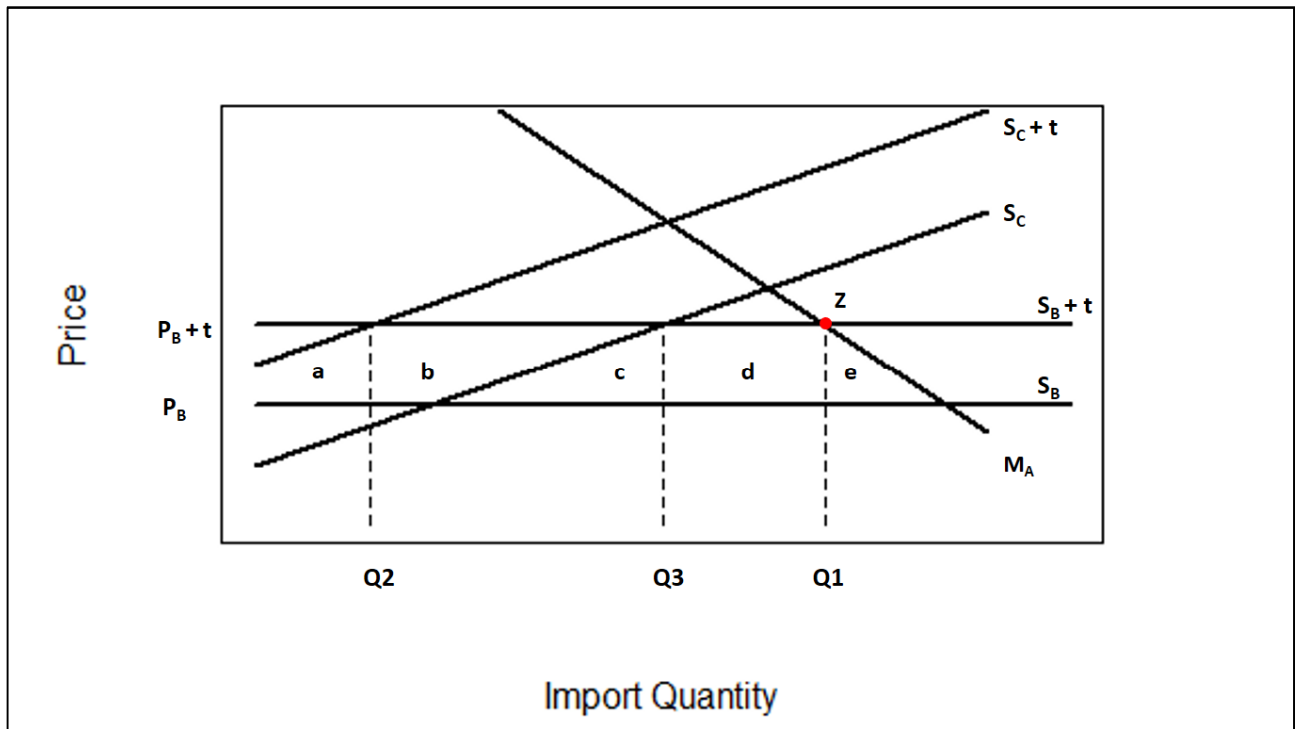
reduction of tariffs in order to reach the upper-left quadrant of the matrix payoff. Here the recorded value is zero, i.e. the free trade. In other words, multilateralism provides an incentive to remove tariffs. When a country decides to join multilateral trade agreements, it has to reduce its own tariffs, but it also benefits of the fact that all the other member countries will do the same.

The belief that trade openness is a better policy than closing off a country is generally accepted by economists. Proofs can be inspected in empirical evidence of historical experience, in economic models and in statistical tests. A model explaining reasons behind reduction of tariff has just been illustrated and another one will be shown below. Great Depression of the 1930s and the following introduction of high tariffs that affected trade and the huge growth of import export values all around the world after GATT measures are some historical evidences. Another one is the experiences of Latin America and East Asia during 1960s, 1970s and 1980s. East Asia took part in world economy and participated to international trade, meanwhile Latin America stayed at the borders partially closing its economy. The latter suffered crisis in 1980s, the first, on the contrary, realised a unique growth (Gerber 2007, 10).

The Prisoner's Dilemma is a pattern often used to explain why countries would like to eliminate tariffs through multilateral trade agreements. Usually, there is another argument used in favour of multilateral trade agreements. Put it better, it is an argument related to negative effects of RTAs. Indeed, as explained by Viner (1950), when a RTA is drawn up, it increases trade in two ways. *Trade creation* occurs when a country, that earlier produced a good by itself, starts to import that good from another country. In this case both consumers of importing country and producers of exporting country gain a surplus. Indeed, consumers of importing country obtain a wide range of goods at a lower price and the producers of exporting countries sell more of their product. Welfare increases in both economies. Meanwhile, there is another kind of increase in trade due to the creation of regional trade agreement: the *trade diversion*. Suppose that a country, formerly an importer of a product from another country, stop to import from that country and start to import from a third country belonging to a new trade regional partnership just signed between the first and the third: this is what trade diversion means (Feenestra and Taylor 2009, 437). Whilst it is absolutely unquestionable that the effects of trade creation has always positive effective in increasing trade, it is not so taken for granted that trade diversion always optimises trade flows. Both trade creation and trade diversion have the remarkable effect to increase trade between economies taking part in a regional agreement. However, trade diversion, in a way, falsify the reality and it not necessarily bring to the best results. Indeed, through a preferential trade agreement,

two or more countries decide to openly advantage their national exporters at the expense of most competitive ones from outside the regional agreement. This inevitably bring to an economic cost.

Figure 1.10 Trade Diversion.



Our elaboration on Feenstra and Taylor (2009).

Figure 1.10 facilitates some reasoning about the matter. The Figure represents the demand curve of the country A, M_A , and the free-trade export supply curve of country B (S_B) and of country C (S_C). It is guessed that A is a small country, indeed the price of B is considered fixed. Inclusive of the tariff, the price of goods imported from B becomes $P_B + t$ and the supply curve $S_B + t$. Equally, with the tariff, the price of imported goods from C is $P_C + t$ and the supply curve is $S_C + t$. Without any agreements between the Parties, the equilibrium imports are at point Z where country A imports the total quantity $Q1$ from foreign suppliers, both B and C, specifically $Q2$ from country C and $Q1 - Q2$ from country B. The least amount of product is imported from country C because it is less efficient than B. However, if A and C create a regional trade agreement and they decide to remove tariff among themselves, country A starts to purchase the greater quantity $Q3$ from C and fewer quantity from B ($Q1 - Q3$). The price at which C supplies A is the same as before because of the increasing marginal costs due to higher production. So, what does it means? It means that the partnership between the two countries lead to a surplus for producers in country C (area a + b), but

a loss of tariff revenues for A (area $a + b + c$). Overall the loss overtakes the gain. The problem is that C is not the most efficient country and the root of the matter lies in marginal costs. Indeed, someone could say that if country C invests enough to improve competitiveness and it is able to reduce marginal costs, the regional trade agreement could improve welfare for both countries. That is true, but only if C manages to reduce the price at the level of P_B . In that case, consumers in A gain a surplus (area e) as well as producers in country C. In this kind of situation there are both the trade creation and diversion (Feenestra and Taylor 2009, 437-443).

From the graph (**Figure 1.10**) and from the explanation it follows that also when two countries have already been exchanging goods among themselves and they decide to establish a PTA, the PTA gives a positive output. In other words, not necessarily trade partnerships are modified by the agreement. It may happen that a free trade area is agreed between two countries the suppliers of which already supplied reciprocal countries before the agreement. So, the impact of the trade diversion depends on the range and the amount of product previously exchange between the countries. If the suppliers of the countries of a PTA are among the most competitive, the effect of the trade diversion is minimal. Nevertheless, PTA are not a kind of trade liberalisation as intended by the art. 14, par. 4 of the GATT. Regional trade agreements create new system of preferences and make PTAs even more necessary. It seems that firms are more likely to supply foreign markets depending on their governments ability to negotiate agreements then on their competitiveness. Moreover, because of the fact that rules of origins (RoO) (and different countries apply different RoO), are increasing alongside PTAs phenomenon, an even more complex administrative situation is arising.

2. MULTILATERALISM AND REGIONALISM

2.1. Introduction: institutions related with international trade

International trade is ruled by some international institutions. After World War II allied nations started to negotiate agreement to give an order to economies and trade between them. The need for these rules became evident when economies' integration started to rise. Formal institutions are set of rules coming in different shape and size which are used to establish what is allowed and what is not. There are also informal institutions; they do not have legal enforcement but were born from customs and traditions. Both international organisations, and international trade agreements are kinds of formal institutions (Gerber 2007, 5-19). International organisations can be both *intergovernmental organisations* (IGOs), like the WTO, and *non-governmental organisations* (NGOs), like the International Chamber of Commerce. IGOs are not only rules containers, but also a framework where discussing new rules and dealing with issues before they become more serious. They also have the function to collect information and produce documentation about topic of international concern. International law distinguishes between regional IGOs (for instance OCSE) and universal IGOs (for instance WTO). Then they can be also classified as general IGOs or special IGOs to distinguish the ones dealing with general issues to the ones dealing with a specific topic. Such institutions may reduce national sovereignty partially eroding the role of states in the global landscape. For these reasons they also create dissatisfaction. They are criticised by both rich countries for limiting the national action, and by poor ones which affirm that IGOs protect wealth elites. Nevertheless, in the post-wars period, nations felt like they needed them to keep a stability.

As regard to international trade, IGOs encourage to make trade law uniform: some specific institutes like the International Institute for the Unification of Private Law (UNIDROIT) and the United Nations Commission on International Trade and Law (UNCITRAL) work for this aim. IGOs also elaborate *soft laws* tools and encourage national application of them even if these tools are not mandatory laws. In addition, IGOs related with international trade arrange contractual models to facilitate trade across borders. The main intergovernmental organisation linked with

international trade is first of all the WTO. The International Monetary Fund (IMF) contributes to international trade, too. Resulted from the 1944 Bretton Woods conference with the goal to solve currency issues, the IMF also promotes the development of international trade. During Bretton Woods conference, together with the IMF, the International Bank for Reconstruction and Development was created for assisting post-war reconstruction. The latter was renamed the World Bank (WB) and in 1980s started to lend capital to developing countries and to promote the trade liberalisation on the wave of the previous discussed liberalisation measure answering production needs. (Galgano and Marrella 2011, 51-89).

These institutions started to be conceived in the post-World War II period with the aimed to create a global order. In other words, these institutions aim to spread worldwide common regulations. Despite the intention to bring together all nations under common trade regulations, the international trade took two roads: multilateral agreements and regional agreements. Multilateralism and regionalism are the two phenomena that shape international trade. The first is embodied by the WTO, the second manifests itself in different kinds of bilateral, plurilateral agreements.

2.2. Multilateralism: the World Trade Organisation

After having introduced the topic of international trade giving some background information, the thesis now turns to analyse the two phenomena that characterise the international trade landscape. The first one is multilateralism, embodied by the WTO, the second one is regionalism that manifest itself in different kind of bilateral or plurilateral trade agreements.

The WTO represents the main institutional framework that regulate trade relations between its members. It is the only international organization dealing with the global rules of trade between nations. It is based on a multilateral approach. It aims to spread the membership worldwide. This is basically what “multilateral” refers to: the creation of a global space without barriers between countries where trade is made as fluid as possible. Respect with its predecessor agreement, the GATT, the WTO is an IGO owning legal personality. The WTO text keeps the rules established under GATT and, in addition, covers new issues like trade in services and intellectual property rights¹. Thus, it has broader roles. Its fundamental functions are

¹ The TRIPS Agreement represent the multilateral system protecting intellectual property rights with commercial purpose. The World International Property Organisation (WIPO) is a forum that put into practice the

- To ensure the implementation of the Agreements established under the WTO.
- To provide its members a framework for the negotiations of other multilateral agreement related to the topics covered by the WTO. Indeed, WTO represents a common institutional framework for dealing trade relationships. It is responsible for giving the set of rules needed to carry on with all the multilateral trade agreements and negotiations. Moreover, it is also a “location” for dealing and discuss other matters as labour and environment.
- To manage the rules related with the dispute resolution. Countries can bring disputes to the WTO if they reckon their rights, recognised by the WTO Agreements, have been adversely affected.
- To examine and monitor the trade policies of its members. The WTO ensure that the agreed requirements are observed by members countries. Moreover, the WTO asks for the notification of laws applied by member countries. The aim is ensuring the transparency of trade-related measures adopted by WTO members that could be harmful for the other members. If a country does not fulfil its obligation or adopts harmful policies against another member, the injured country is allowed to adopt some measures (as anti-dumping tariffs or the safeguard provision as explained above).
- To provide the regulation for the admission of new members. The WTO regulate the process for the entrance of new members. The process required the positive vote with the two-third majority of the member states. Obviously, new members has to prove their ability to fulfil the rules agreed under the WTO (the reduction of barriers to trade, and the compliance with WTO standards).

During the period between the World Wars, world trade decreased because of high tariffs. In 1947 during a conference held in Geneva, representatives of allied countries proposed to create the

provisions of the TRIPS Agreement. The TRIPS Agreement covers different areas: copyrights, trademarks, design and industrial models, patents, trade secrets and geographical indications. Art. 22 of the TRIPS states that “Geographical indications are [...] indications which identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin. In respect of geographical indications, Members shall provide the legal means for interested parties to prevent: (a)the use of any means in the designation or presentation of a good that indicates or suggests that the good in question originates in a geographical area other than the true place of origin in a manner which misleads the public as to the geographical origin of the good;(b)any use which constitutes an act of unfair competition [...].” (TRIPS 1994) GIs represent a recurring theme in this Thesis, indeed they are strictly related with trade in agri-food products.

International Trade Organisation (ITO) ruling trade across nations. They failed in their aim, but they opened negotiations over tariffs reduction and agreements on trade rules. The set of reductions and agreements fell under the name GATT. The function of the GATT was exactly to reduce trade barriers at world level. Contrary to the WTO, the GATT merely ruled the negotiation of agreement aimed at reducing tariffs between countries. Each member had the possibility to accept just the agreements it was interested to respect. On the contrary, WTO's members have to implement all the agreement of the *single undertaking*. Geneva conference was only the first of a series of meetings periodically held for negotiating. These negotiations are being called *rounds*. One of the following most important rounds was the Kennedy Round held in 1960s and the Tokyo Round in 1970s. In the beginning the main topic was incremental tariffs reduction, then other trade aspects were addressed like dumping, subsidies and non-tariff barriers. Thus, starting from shallow integration², following rounds tried to reach a deep integration³. The Uruguay Round began in 1986 and concluded in 1993. It kept talking about subsidies and paved the way for the WTO. The WTO came into being in 1995 and it absorbed the GATT. The Doha Round was the latest round of negotiation among the members. It started in 2001 and it debated about developing countries (Gerber 2007, 20-22). It was postponed, interrupted and resumed, token of the complexity of the topic and of the multilateralism crisis⁴. It is also known with the non-official name Doha Development Agenda because the development of developing countries was the main topic (WTO 2017).

As an IGO the WTO has an organic structure. The main body is the Ministerial Conference, that decide the political directions. The General Council is responsible for implementing measures agreed. It also covers the function of Disputes Settlement Body and it monitors the trade policies. The Ministerial Conference and the General Council are assisted by other smaller entities. One of them are the Plurilateral Committees. They monitor plurilateral agreements progresses and report them to the Ministerial Conference. The Plurilateral Committees importance is limited inside the WTO organisation, but their presence underlines the fact that the WTO acknowledges the coexistence of multilateral agreements and plurilateral ones (Galgano and Marrella 2011, 51-70).

² Refers to the progressively elimination of tariffs and quotas.

³ Refers to the progressively elimination of trade barriers caused by other kind of domestic policies.

⁴ 2003 Cancun Conference was a failure. In 2005, Hong Kong conference scheduled a new calendar of meeting. In 2006 negotiations were interrupted and resumed in 2008. After 2008, despite some attempts, Doha Round came to an impasse.

The most important principles that lead the work of WTO are the national treatment and the non-discrimination. The first article of the GATT embodies the non-discrimination ideal. Indeed, art. I par. 1 of the GATT refers to the *most favoured nation* clause. It states that:

“With respect to customs duties [...] and with respect to all rules and formalities in connection with importation and exportation [...] any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties [...]” (1947).

It means that WTO members must treat each other without favouritisms. Simply put, if a member state gives a favour to another state, the same advantage is widespread to all other member states. The national treatment principle orders that foreign goods have to be treated as domestic goods once they enter a nation’s market. Art. 3, par. 1, 2 of the GATT acts:

“The contracting parties recognize that internal taxes and other internal charges, and laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products, and internal quantitative regulations requiring the mixture, processing or use of products in specified amounts or proportions, should not be applied to imported or domestic products so as to afford protection to domestic production.” (1947).

The products of the territory of any contracting party imported into the territory of any other contracting party shall not be subject, directly or indirectly, to internal taxes or other internal charges of any kind in excess of those applied, directly or indirectly, to like domestic products. Moreover, no contracting party shall otherwise apply internal taxes or other internal charges to imported or domestic products in a manner contrary to the principles set forth in paragraph 1.” (1947).

There is another important principle introduced in the GATT in 1994 regarding the elimination of quotas⁵. The art. 11, par.1 GATT states:

“No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party.” (1994).

It is an instrument used to guarantee the transparency of member countries trade barriers. It encourages countries to use only tariffs in their trade policies and to avoid other kind of trade barriers.

⁵ Quotas are limitations to the amount of a good that a country can purchase from another one.

Nevertheless, there are some exceptions and derogations to these principles. As regard the most favoured nation clause, the WTO allows to charge a tariff in response to unfair trade behaviours, such as *dumping*. In this case the importing country can use a tariff. If a member country introduces in another member country a product at less than its normal value and it causes an injury to an industry established in that territory, the country injured by the dumping can impose a tariff, that is called *anti-dumping tariff*. What does it mean normal value? Less than the normal value means that the price of the product exporter is lower than the price of the same product in the domestic country. Alternately, the price of exporter product is considered less than the normal value if it is less than costs of production and shipping. Art. 6 of the GATT 1994 says that:

“The contracting parties recognize that dumping, by which products of one country are introduced into the commerce of another country at less than the normal value of the products, is to be condemned if it causes or threatens material injury to an established industry in the territory of a contracting party or materially retards the establishment of a domestic industry. For the purposes of this Article, a product is to be considered as being introduced into the commerce of an importing country at less than its normal value, if the price of the product exported from one country to another

(a) is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country, or,

(b) in the absence of such domestic price, is less than either

(i) the highest comparable price for the like product for export to any third country in the ordinary course of trade, or

(ii) the cost of production of the product in the country of origin plus a reasonable addition for selling cost and profit [...]” (1994)

Countries can also temporarily raise tariffs on particular products in order to help domestic producers to face import competition. This measure is called the *safeguard provision* or the escape clause. Art. 19 of the GATT 1994 expresses the clause as follows:

“If, as a result of unforeseen developments and of the effect of the obligations incurred by a contracting party under this Agreement, including tariff concessions, any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession [...]” (1994)

In addition to the safeguard provision, art. 20 and art. 21 of the GATT 1994 provides some exceptions that specify that the system of rules provided by WTO do not prevent the adoption by

the countries member of WTO of measures necessary to protect, for instance, public moral, humans, animals and plants life or health and measures necessary for the security of the nation.

Moreover, derogating from *most favoured nation* clause, WTO allows countries to create regional trade agreements. Regional trade agreement could be a free trade area or a custom union. In the first case a group of countries remove trade barriers between themselves. In the second case countries also agree a common tariff between their group and the rest of the world. Regional trade agreements are allowed because they can contribute to enhance economic cooperation and integration and it was thought that ultimately, they would lead to multilateralism. As art. 24, par. 4 of the GATT 1994 states:

“The contracting parties recognize the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries parties to such agreements. They also recognize that the purpose of a customs union or of a free-trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories.” (1994)

The Article is not implemented if these agreements jointly rise tariff and other regulation applicable in the constituent territories not taking part to the free trade area or the custom union. The just quoted article is a contradiction of the *most favoured nation* clause established by the art. 1 of the GATT that states that every WTO member country should be treated equally. Thus, recognising the possibility for the countries belonging to the WTO to create trade partnership with other countries, the art. 24 of the GATT 1994 waives the *most favoured nation* principle. The country belonging to the regional agreement will be treat better than an excluded country. Despite the contradiction between the first article and art. 24 of the GATT 1994, they are permitted because it is thought that the removal of tariffs and barriers among an increasing number of countries will lead to the creation of an even more trade integrated world.

As previously said, the group of countries belonging to a free trade area voluntarily eliminate the tariffs and other non-tariff barriers (as the art. 14, par. 8, let. (a) says “except, where necessary, those permitted under Articles 11, 12, 13, 14, 15 and 20”) among themselves. Nevertheless, they keep the tariffs they have with the rest of the world, in other words, every country belonging to the area is free to decide to charge any tariff with respect of the rest of the countries not belonging to the group. An example of a free trade area was the North American Free Trade Agreement (NAFTA) created in 1989 between US and Canada and joined by the Mexico in 1994. The Art. 24, par.8, let. (b) describing the features of a free trade area specifies that:

“(In) A free-trade area [...] duties and other restrictive regulations of commerce [...] are eliminated on substantially all the trade between the constituent territories in products originating in such territories.” (GATT 1994)

The WTO requires to liberalise almost all the tariff lines⁶ (“substantially all the trade”). It is not defined what “substantially all the trade” means, because the WTO’s Committee on Regional Trade Agreements did not reach an agreement on that. The range swings between 80% and 100% of all trade. What is sure is that WTO decided to specify it because it was thought that a complete coverage, without excluding any delicate sector, would have brought to maximize gains (Heydon and Woolcock 2009, 19). So, while free trade area is defined as a group of countries that decide to eliminate tariffs among themselves, what really happens is that countries often strategically decide which tariff lines liberalise following an arbitrary scheme. Moreover, there are also barriers to the trade that are not tariffs and a free trade area is not supposed to remove non-tariff barriers, too. In fact, some waivers are forecasted, as expressed by art. 14, par. 8, let. (b).

Art. 24, par. 4 of the GATT 1994 speak also about custom union. What is the difference between custom union and free trade area? The countries of a free trade area do not agree a common tariff to apply against the countries outside the area. In so doing a problem rises. Indeed, if one of the countries belonging to the free trade area apply a lower tariff than other countries do, outside countries could take the advantage and enter all the market of the area across the borders of the country with the less expensive duties⁷. In order to solve this problem, free trade area agreements establish some rules of origins. RoO clarifying on which basis a good is considered to be produced (and so come from) in a country of the area. As a consequence, they regulate which goods can freely move within the free trade area. RoO are an important part in FTAs, however, there are no agreed international rules on the matter. For this reason, different approaches came up⁸. One can only image how much work the RoO require. Obviously, a custom union does not face this matter because the countries of the union all together agree a common tariff⁹. So, it could be much

⁶ A tariff line is the product code used at the national level beyond the six digits of the Harmonized System.

⁷ It is useful to clarify that import duty refers to the actual amount of money paid on the imported product. It depends on the imported quantity.

⁸ One of these approach, for instance, consists in consider a product as originated in a country of the area if it has been wholly obtained or substantial transformed in there. If so, the product can be freely shipped within the area. In other words, it is to specify, for each product, how much of its production is based in the country within the area (Heydon and Woolcock 2009, 34-36).

⁹ An example of custom union is the European Economic Community (EEC), as far as set forth in 1957 by Rome Treaty. It was a custom union and also, to date, the EU continues to be a custom union involving EU countries plus Turkey even if Turkey has different concessions than EU countries.

easier to create a union instead of a free trade area. The reason why group of country decide to maintain different tariffs for outside countries is that some industries are strategic and the liberalisation of some of them is a very sensitive issue. The tariff is used by politicians as a tool to equilibrate gains and pains rising from international trade or to give an advantage to specific social groups.

2.2.1. The WTO's Agreement on Agriculture

According to Bagnato et al. (1987, 68-73), agriculture has always been fundamental for nations, indeed all countries aim, to a different extent, to the self-sufficiency. The concern about the self-sufficiency push all countries to maintain the agricultural production high and varied. Another fundamental aspect is the environmental impact of agricultural sector, but also the social role related with it. For these reasons, it has always been characterized by a higher degree of protectionism than the industrial production. The protection of agricultural sector is justified with the need to rebalance the decrease of farmers revenue. Indeed, the increasing trend of the abandonment of agricultural activity toward other economic sectors represents the main threat to the self-sufficiency. Agriculture is the main economic sector in developing countries in terms of contribution to the GDP, while it represents a smaller share of GDP in developed countries. Nevertheless, the agriculture production has hugely been increasing since the World War II. The reason lies on the fact that, when countries improve their level of GDP, usually they start consuming more meat than cereals, and the demand of agriculture product rise because of the need for animal feed. As a consequence, agricultural trade still plays a fundamental role in overall economic activity despite agriculture's share in world merchandise trade has been declining over recent decades. Thus, all these features make the trade in agriculture characterised by a lack of transparency, by some peculiarities and by protection policies. One of this peculiarity is the distinction between duties and tariffs. In agricultural trade some tariffs are expressed as duties, i.e. the actual amount of money paid on imported products. Meanwhile the custom tariffs, as already specified, refers to the tax expressed as a percentage of the value of the imported products that the exporter has to pay (De Filippis 2002, 94). Tariffs are the most common form of protectionism generally used to protect any industries. To sustain the home agricultural sector, countries use also other instruments, some of them are still used, others are not. Import quotas are quantitative restrictions to imported goods. Compared to the tariff, it has the effect to raise the prices for the domestic consumers. For this reason, the WTO pushes countries to substitute quotas with tariffs.

The Uruguay Round introduced the broad use of *tariff-rate quotas* (TRQs), i.e. a tariff that is charged on a defined quantity of imported goods (De Filippis 2002, 100). Anti-dumping duties are applied when a foreign firm is dumping its good. Countervailing duties are not used anymore, in fact they were duties applied against imports in response to foreign export subsidies (eliminated in 2015). Safeguard tariff, also called *escape clause*, provides for the *Emergency Action on Imports of Particular Products* (Feenestra and Taylor 2009, 352-380).

In order to deal issues related with the trade in agricultural products, in 1995 the WTO created the Agreement on Agriculture (AoA). It has the role to regulate trade in agriculture and it represents a general framework useful for dealing new agreements. Indeed, the WTO not only collects agreements that rule international trade between member countries, but also defines agreements that pave the way for the conclusion of other bilateral or plurilateral trade agreements. This is the case of the AoA. The AoA is the result of a long process started in 1970s. The need to deal with such a delicate issue led WTO's members to carry on discussion about agricultural trade liberalisation through Rounds. Since the Tokyo Round held in 1970s, member countries have been discussing about subsidies. Subsidies can be categorized as export subsidies or production subsidies. Export subsidies involve a payment, provided by the government, for every unit exporter. They are considered to have a deeper distortive impact than the other form of subsidies. Otherwise, production subsidies involve a kind of payment for every unites produced. Both of them are thorny issues because governments use them to protect some strategic industries or to protect specific groups in society like farmers. Art. 6 of the GATT 1994 regulates the implementation of production subsidies and it states that:

“If any contracting party grants or maintains any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports of any product from, or to reduce imports of any product into, its territory, it shall notify the contracting parties in writing of the extent and nature of the subsidization, of the estimated effect of the subsidization on the quantity of the affected product or products imported into or exported from its territory and of the circumstances making the subsidization necessary.”
(1994)

Tokyo Round eliminated subsidies for export of industrial goods, meanwhile it did not remove the ones for agricultural goods, textile and apparel. The Tokyo Round gave another important contribution to trade in food and agricultural products. Indeed, in 1979 the Agreement on Technical Barriers to Trade (Agreement on TBT) was signed. It relates to technical regulations for human and food safety, animals and plants heath, but also measures related to the use of pesticide and standard for labelling, text and certification procedures (Galgano and Marrella 2011, 242). The

first aim of this agreement is eliminating non-tariff barriers to trade and made trade between countries more fluent encouraging them to adopt the proposed international standards. The second action of this agreement is preventing the incorrect use of trade barriers. Indeed, it provides international rules that limit indiscriminate use of protectionist measures under the pretext of human safety. Nevertheless, the Agreement on TBT does not runs counter to WTO's provisions designed to ensure legitimate right of member countries, like for instance the *safeguard provision* previously described.

The Uruguay Round carried on the negotiations and established the AoA that came into force in 1995. The goal of this agreement is to create a fair agricultural trading system by reducing domestic support, protection, export subsidies and market access (Gerber 2007, 22). As regard to the market access, the Agreement purpose was shifting from the huge number of non-tariff barriers to a system based only on tariffs, in order to make agricultural market access conditions more transparent. Reduce domestic support is a challenge because the Agreement aimed to reduce it while leaving domestic agricultural policies a degree of flexibility. AoA created two categories of domestic supports. The first category refers to all the supports without distortive effects on trade, the second includes all the kind of supports that have distortive effects on trade. Depending on the effect, supports are categorized in the green, blue or amber box. Measures under green box are government service programmes that not provide price support to producers. Programmes providing some payments fall inside the blue box. They are designed to encourage agricultural and rural development and are implemented in developing countries. Domestic supports that are direct or involve market price support enter the amber box and they have to been reduced. As regard to export subsidies they were limited and later, Doha Round order to remove all of them by 2013. Other topics were also agreed, and non-trade topics were integrated in the Agreement on Agriculture, as the food security (Bagnato and Camanzi 1987). In addition to the AoA, the Uruguay Round brought also to the signing of the Sanitary and Phytosanitary Agreement (SPS Agreement). The SPS Agreement text was finalised and entered into force at the end of the Round in 1995. The topic of SPS measures has a lot to do with trade in agricultural and food products. It refers to all the provisions related to the protection of human, animal and plant health, and thus, provide standards to guarantee the availability of safe food for both human and animals. It was born of the need to establish a set of scientific-based rules to manage a safe food trade between countries without endanger the public heath of a nation (Galgano and Marrella 2011, 243). The Agreement involved a complex process of negotiation, due to differences between the EU and the US. However, it pawed

the way also for the conclusion of the AoA. During the Doha Round the subsidies issue become even more complex, specially at the 2005 Hong Kong meeting. Indeed, the Round revolved around developing countries and the need to give them greater visibility. The main matter was the huge range of interests to be protected. On one hand, land-rich developing countries' farmers generally benefit from higher agricultural prices, on the other hand, high agricultural prices harm the costumers of poor-land developing countries (Feenestra and Taylor 2009, 389-394). The Hong Kong meeting distinguish between export subsidies and all the other kind of domestic support that increase production. The reason is that export subsidies have a deeper distortive impact then the other forms of subsidies. The output of the meeting was the decision to eliminate all agricultural export subsidies by the end of 2013 and the agricultural indirect subsidies like the food aids from developed to poor countries that were sponsored by the states.

WTO's difficulties in proceeding in round negotiations have always been associated with the thorny issue of trade in agriculture. In the long run those difficulties in achieving multilateral agreements contributed to the growth of the regionalism phenomenon in the trade arena (Bagnato and Camanzi 1987, Lambert and McRoy 2009).

2.3. Regionalism: overview of regional trade agreements

From a broad point of view, *regionalism* refers to the vision of the global governance system as divided into regions. According to this theory, regions are the actors of the global scene. Countries belonging to the region cooperate among themselves at multiple levels, for instance at the political level, the economic level or also the military one. This cooperation comes in many shapes and grade: from the agreement to the actual organisation (as the case of the EU). The regional cooperation arises following the logic of rational choice or the logic of ideological factors (Fossati 2015, 149-164). The first underlines the logic of interest, the second the sharing of values. Generally, the logic of interest better explains why countries feel the need to aggregate in a group. The geographical proximity plays a fundamental role in bringing some states to join and create institutions. These institutions exercise authority that, in a way, collide with the global governance system created by international institutions like the United Nations or the World Trade Organisation. According with Amato and Tallia (2015, 24), regionalism is a possible interpretation of the global space order of the XXI century: if, during the VI century, the world was ruled by western countries and it was bipolar during the cold war after World War II, nowadays global space

is divided in regions and each of them partially influence the others taking part in the global governance system.

Having say that, this thesis refers to regionalism from an economic point of view. In this regard, the concept of regionalism is the opposite of the concept of multilateralism. Indeed, regionalism refers to that situation in which regional trade agreements are preferred to multilateral trade agreements. RTAs are agreements among groups of countries that reciprocally reduce barriers to trade. So, the effect of reducing barriers benefits only the countries taking part in the regional trade agreement. The great question under multilateralism and regionalism is if the two phenomena could be seen as related to each other's. In other words, the issue lies in understanding if RTAs are compatible with multilateral negotiations. Economists (Krugman 1989; Krugman 1991; Lesser 2007; Levy 1997; Bhagwati 1995; Elliot 2018) generally agree that regionalism represents a deviation from multilateralism and that it is not a step toward it. Another aspect on which all of them agreed is that the rise of regionalism is linked with the failure of multilateralism. In his paper "Is bilateralism bad?" Krugman (1989) justifies the increase of regional trading blocs with the dissatisfaction of the liberalisation through multilateral negotiations¹⁰. Krugman highlights that the common deeper motivation of the rise of regionalism was the loss of confidence in the WTO. This loss of confidence began to rise in 1980s for two main reasons. The first is related with the loss of US leadership role in the multilateral system, the second with the increasing room in the global stage occupied by emerging powers¹¹. The same idea is expressed also by other authors like Amato et al. (2015), Bhagwati (1995) and Fossati (2015). Krugman (1991) also names other causes of the impasse of multilateralism. One of those is the increasing difficulty in facing and negotiating new trade-related problems through old criteria. Another one is linked with the rise of new kind of protectionism¹². In this scenario, governments have the perception that RTAs are a path through which trade can still rises. In other words, considering the decreasing confidence on multilateral agreements, RTAs are seen as an alternative way to multilateral system. So, the growing number of RTAs is "more a symptom than a cause of the decline of the GATT, and [...] it is unlikely that a

¹⁰ In his attempt of evaluating the effects of RTAs on world welfare, he argues that the relationship between the number of trading blocs and the world welfare follows a U-shape. Indeed, while a reduce number of blocs or a high number of them can improve welfare, a moderate number of blocs minimizes the welfare. He identifies the worst situation with three trading blocs, and, he observed that, in the moment he writes (1989), three is exactly the number of blocs the world is evolving toward (America, Europe and Asia).

¹¹ Asian tigers, Russia and Brazil.

¹² Krugman mention voluntary export restraints, red tape barriers (i.e. excessive regulations that prevent trade), countervailing duties.

world without regional free trade agreements would do much better.” (1991). Moreover, Krugman recognises that if trade agreements are dealt between neighbour countries it is easier that the blocs will increase the world welfare because “natural trading blocs” are supposed to exchange good and services between each other’s even without a trade agreement. In other words, an RTA within neighbours is less probable to cause trade diversion¹³. Indeed, trade diversion. is small when two countries, geographically close to each other, arrange a trade agreement.

From this point of view, RTAs could have positive effects for the parties taking part to the agreement, even if damages arise for players that do not take part to it. In this sense, RTAs create winners and losers in the international trade landscape¹⁴. Moreover, as expressed by Bhagwati (1995), regionalism causes a complex network of rules from which is difficult to obtain trade gains. Indeed, the more the number of bilateral or plurilateral relations between countries, the more the different sets of rules applied among them. He accepts and justifies RTAs only when they assume the shape of a common market.

Levy (1997) reinforce the idea that RTAs, in particular bilateral agreements, undermine the process toward multilateralism. He states that countries are attracted by trade agreements because there is the perception that they could offer parties great gains with small losses. Indeed, trade agreements provide parties with an increased number of products varieties rising their welfare. As a result, the enthusiasm for bilateral agreements’ benefits overshadows the support for multilateral agreements. Indeed, when two countries present similar capital-labour ratios they are supplied with more variety of products enhancing their welfare and, as a consequence, the popularity of bilateral agreements rise. The more popular the bilateral agreements are, the more they undermine multilateral ones.

Baldwin (2011), links the rising phenomenon of regionalism with the WTO’s inability to regulate new trade-related issues that were not previously considered to hinder trade among

¹³ See p. 27

¹⁴ Krugman (1991) stated that RTAs could bring to three main negative effects: trade diversion that happens when the creation of a trade agreements between two parts reroutes the trade previously kept with other partners and makes it less profitable and efficient. The second negative effect is the beggar-thy-neighbour effect. It happens when the creation of a trade agreement, even if not directly, negatively impacts on other countries that are not part of the agreements. The third effect is a threat against the global trade welfare. Indeed, a trade agreement involving more countries give to the block more market power and potentially enables it to use a more aggressive trade behaviour.

countries¹⁵. He distinguishes the RTAs of the 20th century with the ones of 21st century. He states that RTAs observed in 1990s are different from the RTAs that has been rising since the first decade of 21st century. In particular, Baldwin observes that the new generation of RTAs not only go beyond WTO's provisions, but also cover new areas that the WTO does not. The reason is that regulating trade-related issues is becoming even more complex and countries are asking for more international discipline to rule trade in investments and services¹⁶. Writing in 2011, Baldwin reckons that the emerging trend of mega-regional trade agreements is consistent with the desire of some countries to pursue more integration with the possibility to include other countries in the future when also they will be ready to join the agreement. From this point of view, he believes that the impasse in the multilateralism can be avoid through two-speed integration.

Observing the more recent evolutions of WTO's negotiations, Amato et al. (2015) write that in the public opinion has been growing the idea that the multilateral liberalisation is providing stagnation and inequality and rules-based trade is subject to criticism. Hence, not only the multilateral system embodied by the WTO is no longer the proper actor giving an economic global order, but it starts to be seen as the cause of recession. Also Elliot arguments are consistent with this thesis (2018). Indeed, at the end of the second decade of 2000s, he highlights not only that regionalism is definitely an alternative to multilateralism rather than a complement, but also that both RTAs and multilateral negotiations are shaking. He argue that the solutions offered by regionalism to the frustrations toward the deadlock of multilateral negotiations seems to waver as well as multilateralism. The efforts to enhance international trade through both regional and multilateral system clashes with emerging populist movements in the US and the EU. In the international trade field populist movement translate into a generalise hostility against globalisation and with the withdrawn into national economy sphere. Also Gruszczynski et al. (2018) remark that, especially since the economic crisis of 2008, these sentiments against the global governance has been evolving into populist movements and into the retreat in national economy both in the EU and the US. Studying the main aspects of the US President Donald Trump's foreign policy, he shows how Trump's first aim is fixing the imbalance in the terms of trade with the rest of the world. From the President's point of view the negative terms of trade is due to unfair competition from China and

¹⁵ Among them are included digital trade, environmental standards, labour standards.

¹⁶ Baldwin specifies that the RTAs observed after 2000s not only provide WTO+ provisions, but also WTO-X provisions. Indeed, they deepen the regulation supplied by WTO, but they also cover new trade-related fields and areas (2011).

other countries like Mexico. In order to improve the US's trade balance, Trump's policy focused on: the renegotiation of the NAFTA, punitive tariffs toward China and the withdraw from mega-regional agreements¹⁷. The change of the NAFTA into the new United States Mexico Canada Agreement (USMCA) was signed in November 2018¹⁸. This renegotiation is consistent with the Trump's aim to disadvantage Chinese producers. Indeed, the agreement establish stricter RoO to discourage imports from non-member countries¹⁹

Equally important in the construction of the overview of the international trade sides is the Brexit event. It is useless focusing on the details of this affair, but it seems appropriate to mention it because it symbolises the feeling of frustration that involves not only British, but all EU citizens. The Brexit is the litmus test that confirms the global trend of this historic moment: the tide to incriminate globalisation and to turn to compete in the international trade field rather than cooperate. According to Callinicos (2017, 188-194), when in 2009 the economic crisis hit the EU and the Eurozone sovereign debt crisis arose, the EU started to implement austerity policies. As a result, the so-called Euroscepticism and the distrust of the EU institutions started to rise among members countries. As well as in the US of Trump, in the EU took hold anti-neoliberal and anti-elitist populist movements²⁰. Populist parties stir up also fear toward immigrants and refugees that sum up to resentments toward the threats of globalisation. As a consequence, these social and political attitudes affect also the way nations approach the international trade. In the EU this tense climate resulted in the UK's referendum of 2016. Euroscepticism wave is seen as the last straw that brought to the referendum, however Brexit rationales were deep rooted. As Larik (2018) notes, the UK has always been a reluctant partner of the EU²¹. Nevertheless, it is though provoking that this unprecedented event fits into this context.

¹⁷ The Trans Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP).

¹⁸ Meanwhile the NAFTA was a RTA made by three countries, the USMCA is made by two different bilateral agreement: one between the US and Canada and the other between the US and Mexico. It has not been ratified yet by the three Parties. Indeed, it has to be approved by the Parliaments of the three countries before definitely enter into force.

¹⁹ The USMCA establishes that to respect rules of origins the product must be produced at least for the 75% in one of the three-member countries. This provision should benefit US, Mexicans or Canadian producers.

²⁰ It should be recall the success of different European wings: Syriza in Greece, Podemos in Spain, the French National Front and the Five Stars Movement and Northern League in Italy and Jeremy Corbyn in the UK.

²¹ UK and the EU has ever had uneasy relationship since when the UK became a European Economic Community (EEC) member in 1973. Already in 1946 Churchill expressed doubt concern the possibility for the UK to become a member state of the EEC. Moreover, before 1973 there were two failed attempts to join the EU (Larik 2018, 7-9).

2.2.1. Regionalism: key terms

It is not easy to shed light on regional trade agreement because of all its facets and the quantity of terms used to describe specific situations or contexts. Therefore, approaching this chapter, it may be useful specifying a taxonomy that discerns different levels of integration. As stated in Chapter 1, the art. 24, par 4 of the GATT distinguishes two kinds of RTAs: free trade area and custom union. In addition, also the common market and the economic and monetary union should be taken into consideration referring to RTAs. Both of them are characterised by a deeper integration between the parties. The common market is a custom union where also the factors of production can flow freely, as is the case in the EU. Meanwhile, the economic and monetary union provides members a common currency and common macroeconomic policies, an example is the Eurozone. Figure 2.1 provides a visual representation of the different degrees of regional agreements. Obviously, the Eurozone is represented by the smaller circle, indeed, fewer countries belong to it because of its high level of inclusiveness.

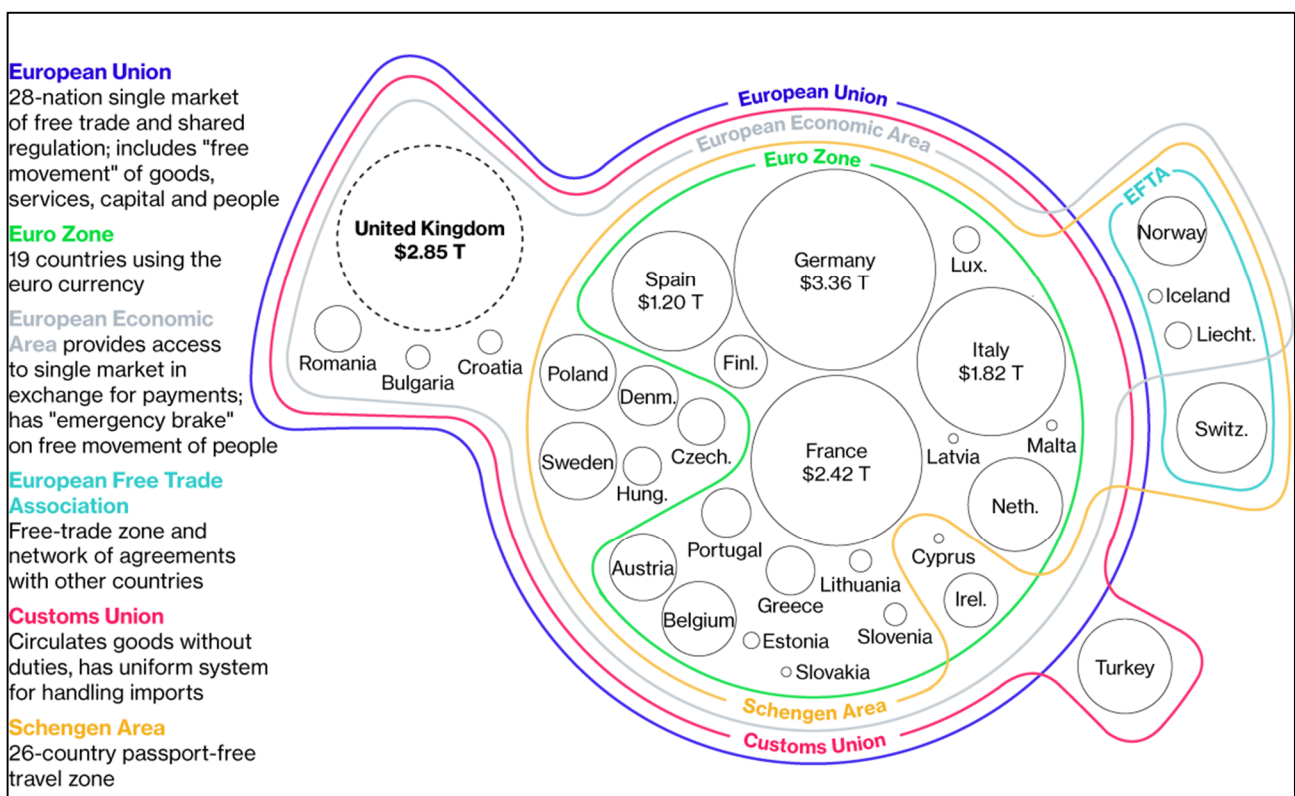
Another notion that is better to name now is the *preferential trade agreement* (PTA). According to Frenkel et al. (1997, 12-17), PTAs are agreements establishing just partial trading preferences to the parties belonging to the agreement. Preferential trade agreements, just like interpreted by the WTO, are bilateral (or plurilateral) agreements between one developed country (or a group of developed countries as for instance the EU) and one developing country (or a group of developing countries)²². Thus, WTO interpretation is consistent with the definition given by Frenkel et al. (1997), indeed, in preferential trade agreements usually some favourable unilateral provisions are allowed for developing countries in order to promote trade and development in those countries. However, PTAs are often created also among developed group of countries under the name of “free trade area”. In this latter case, usually contracting parties choose names for their trade agreements that are too much ambitious. Indeed, even if lots agreements are named “free trade area”, they do not eliminate all the trade barriers within the members neither liberalise substantial all trade among them²³. This behaviour should be considered discriminatory against the art. 24, par 4 of the GATT. Nevertheless, this kind of agreement is commonly used nonetheless. What is more, after 1990s, the term PTA is broadly used instead of RTA. Indeed, under this name are identified

²² The part 4 of the GATT (“Trade and Development”) allows PTA contracting parties to avoid the *enabling clause*. Enabling clause state that agreements have to be reciprocal between contracting parties.

²³ Frenkel et al. bring as examples the case of NAFTA and Association of South East Asian Nations (ASEAN).

agreements with different degree of trade liberalisation. After 2000, countries have been using them to reach even more measures of integration, also beyond the simple reduction of tariffs and to go beyond the WTO provisions covering issues not subject to the WTO. Examples include foreign investments, the digital economy and cross-boarders data flows. Moreover, they may come under the patter of long-distant partnerships. At the same time, they may exclude some sectors from liberalisation. Some PTAs involve regions, as in the case of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the East Asian Regional Comprehensive Economic Partnership (RCEP) and the African Continental Free Trade Area. Other are bilateral PTAs like the agreements negotiated by the EU, as the ones with South Korea, Japan and Canada. PTAs could be themselves divided into more specific subgroups. The *economic partnership agreement* (EPA) and the *free trade agreement* are, indeed, kinds of PTA. Specifically, they have been using by the EU after 2000s.

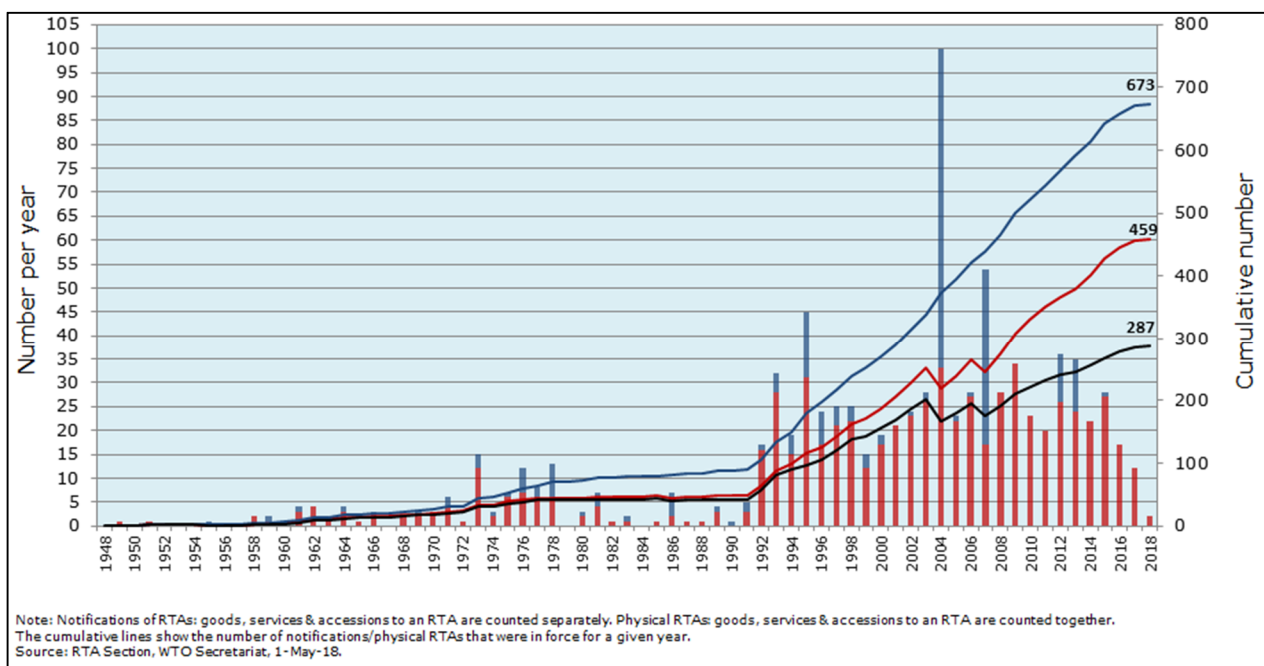
Figure 2.1 Different levels of Integration in regional trade agreements: The EU 2015.



Source: Bloomberg (2015)

To date (January 2019) the total number of RTAs in force are 292, meanwhile just at the beginning of 2000s they were 79, so in less than 20 years the number of RTAs has almost quadrupled (WTO 2019). According to the WTO's World Trade Statistical Review (2018a), in 2017, all of the WTO's members were part of at least one RTA and the major RTA in terms of intra-region trade were the EU. The 64% of the EU trade happens within the regional trade agreement and the EU is also the largest RTA, recording 34% of the world trade. **Figure 2.2** shows the trend of RTA since 1950 to 2018.

Figure 2.2 Regional Trade Agreements: the evolution in the world (1948-2018).



Source: WTO (2018c)

2.4. Evolution of RTA's: different path and rationales

2.4.1. After World War II

According to the WB's prospect (2005, 27-53), after the World War II, there were two common framework of regional trade agreement. The first was the agreement between one Northern country and a Southern country. This was the case of the UK's preferential agreements with the members of the British Commonwealth. The second kind of agreement that catheterised the period immediately after the World War II was the agreement between two or more Northern countries.

This case was embodied by the process toward the European Economic Community (EEC) led by founding countries²⁴. It was motivated by political reasons. Indeed, the aim of EEC was attenuating antagonism putting coal and steel control under a single authority.

Following the case of the EEC, also South-South agreements started to be dealt. The first examples are given by the Association of South East Asian Nations (ASEAN)²⁵ and the Southern Common Market (MERCOSUR)²⁶ both agreed between 1960s and 1980s. The Common Market for Eastern and Southern Africa (COMESA) arrived later, in 1994²⁷. This kind of RTAs were generally explained with the desire to create a most efficient regional base for future initiatives or negotiations. In other words, the first goal of South-South agreements was the desire to have a voice in international affairs, but also to avoid the hub-and-spoke effect²⁸. Moreover, the case of MERCOSUR proves that another rationale of the South-South regionalism was attenuating military hostility like the one emerged between Brazil and Argentina in mid-1980s²⁹. In addition, often among the common reasons of the creation of a regional trade agreement between Southern countries there is the desire to deal with a region-specific issue, like for instance migration or energy, but also in order to organise common standards and regulations³⁰ (WB 2005, 35-37).

2.4.2. 1990s

The augmented number of RTAs, observed in 1980s, kept increasing tremendously since 1990 (Levy 1997; Frankel 1997; WB 2005; Bhagwati 1995; Krugman 1991). In addition to the changes in the perception of the multilateral liberalisation, this increase is explained also with the

²⁴ Federal Republic of Germany, France, Italy, the Netherlands, Belgium and Luxembourg.

²⁵ ASEAN was created in 1967 by Indonesia, Malaysia, Philippines, Singapore, and Thailand. The enlargement of the agreement involved also Brunei (1984), Vietnam (1995), Laos and Myanmar (1997) and Cambodia (1999)

²⁶ Created by Argentina, Brazil, Paraguay, Uruguay and then joined by other South American countries: Bolivia, Chile (1996), Peru (2003), Colombia, Ecuador (2004) and Venezuela (2012).

²⁷ It was agreed in 1994 by East African states, but it replaced a previous agreement in force since 1981.

²⁸ The so-called hub and spoke trading system is a pattern of trade where there is a big market (the hub), usually a North country or region that signs many bilateral agreements with less relevant countries. The latter remain marginalised. In this kind of trade pattern only the "hub" country, or region, gains benefits.

²⁹ This was also the case of Southern Africa Development Community (SADC) created in 1980s as an opposition front to the apartheid, and the case of the South Asia Free Trade Area (SAFTA) that brought to take the edge off between Pakistan and India.

³⁰ The creation of the Commonwealth of Independent States (CIS) originated from some previous Soviet Union's countries with the intent to create common institutions to carry on reconstruction after the collapse of the Soviet Union.

involvement of former socialism countries after the Soviet Union disaggregation. For the EU, RTAs became a foreign policy tools to stabilise Eastern Europe and prepare the entrance of former socialist countries into the Union. In this way, Eastern countries started to achieve tariff reduction, uniform rules of origins and respect common standards. Moreover, the EU was an active player also with its Mediterranean neighbours. Indeed, the EU built bilateral trade agreements with other countries that boarder the Mediterranean³¹. The EU also promoted some agreements with Western Balkans, Russia and Commonwealth of Independent States³² (CIS). These countries were strategically relevant because they are located at the borders with the EU. Other countries with which the EU had nurtured trade relationships during the 1990s were the African, Caribbean and Pacific Group of States (ACP) (WB 2005, 31).

The US has started to intensify their RTA in 1990, too. Frustrations with weak results obtained during the Uruguay Round were the main causes of the NAFTA. So, in a sense, this change of track of the United States mirrored their transition from been the leader of multilateral system to retreating under PTAs system. This retreatment was linked with the US reduced economic power and with the fact that the US were afraid to be left out from the emerging web of trade partnerships (Heydon and Woolcock 2009, 145-147). However, in 1990s there was still the perception that the US could carry out RTAs while pursuing multilateral negotiation.

Also developing countries followed the same trend of the EU and the US and in 1990s they started to aggressively intensified PTAs especially with Northern and developed countries. Indeed, the aim was to secure market access in major economies³³. On the other hand, reasons why Northern countries dealt such agreements with developing countries were based on diplomatic and development policies and to promote integration with regulation and standards of Northern countries.

2.4.3. 2000s

In the beginning of 2000s, PTAs started to be used to go further the only reduction of tariff barriers, for instance achieving rules in services and in the protection of intellectual property, but

³¹ The EU dealt agreements with Tunisia, Israel (1995), Marocco (1996), and Palestinian Authority (1997).

³² The CIS includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

³³ An emblematic case is the entrance of Mexico in NAFTA.

also technical standards, rules of origins and environmental standards. It seems that from the early 2000s each actor of the international landscape has been competing to obtain as many agreements as possible. The *impasse* in the WTO negotiations has increased incentives for the WTO members to create PTAs, intended as an instrument to bypass the WTO rules and design customized agreements directly with partners. Countries and regional economies started to use this kind of agreements as a way to implement the WTO measures and to obtain greater integration with specific countries or regions (WB 2005).

According to Heydon et al. (2009, 165-175), at the turn of the end of 1990s and the beginning of 2000s, the EU has been increasing the number of PTAs that involve long-distant partners for three main reasons. The first is linked with the desire to neutralise trade diversion coming from other PTAs. In 1997 the UE signed an agreement with Mexico after a loss in market share due to the NAFTA and in 2002 with Chile reckoning possible widening of the NAFTA toward South America (Heydon and Woolcock 2009, 163). The second is related with the intent to strength trade relations with countries undergoing economic growth. Indeed, the EU, as well as the US, recognised the need to strength relations with Asian countries and it hurried to start negotiations with them. Since 2007, when it started talks with India, the EU has been working to increase partnerships³⁴. The EU, in 2018, is also completing the negotiation with Singapore, the most important member of the ASEAN in terms of exchanged good and services with the EU. In many of these cases the integration is only at the beginning, but the intentions are obvious (European Commission 2018a). The third reason became evident in 2006, when the EU declared the intention to focus on both multilateral trade negotiations and PTAs. According to Heydon et al. (2009, 165), this declaration can be read also as a response to the US offensive policy on PTAs. In order to keep up with the US, as already mentioned, the EU started to look at Asian countries. For instance, it is not a coincidence that the agreement with Korea, entered into force in 2011 happened immediately after the one with the US. Consistent with the EU trend to deal agreements with long-distant partners, is also the negotiation of the mega-regional agreement with the US: the TTIP which negotiations were interrupted in 2016 by Trump's Government.

During George W. Bush administration, i.e. from 2001 to 2009, the US started to apply an offensive approach of the PTAs. As already said, the US were frustrated with the slow progress of multilateral approach policy. The relative decline in US economic power and the consequent

³⁴ India, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam and then Japan

decline in multilateral action, brought the US to promote bilateralism. PTAs have been seen also as a possibility to deepen integration, and, since the beginning of 2000s, the US have been using them to go beyond WTO provisions, indeed, frequently PTAs have been considered WTO-plus measures. Through PTAs the US encouraged partners to improve standards, for instance in terms of labour. In this sense, it seems that the US used them to delate partners' competitive advantage obtained through low standards (Heydon and Woolcock 2009, 149). Other motivations of this offensive approach in PTAs had been linked with the idea that PTAs could bring to conclude the Doha Round and the fact that PTAs have an intrinsic strategic nature. The latter consideration needs some clarification: bilateral agreements have been used as a foreign policy tool to pursue strategic goals. The US agreement with Korea, into force since 2012, is partially explained with the desire to restrain China.

More recently, under Obama's administration, bilateral trade agreements had started to be complemented by the rise of mega-regional agreements. Example of such agreements are the TPP and the TTIP. According with the workshop of the Policy Department of the European Parliament (2017, 8-22), the TPP should have been a free trade agreement between the US and Pacific countries³⁵. The first steps toward this agreement were taken in 2005 under George W. Bush's government and carried on by Barak Obama. The dispositions of the partnership go beyond a simple free trade area and rule not only the exchange in goods and services, but also other kind of issues like investments, e-commerce, intellectual property protection and labour and environmental standards. A fundamental aspect of the TPP should have been the possibility for the US to taking part in the elaboration of a framework of rules for the international trade, and more generally international economics, considering the extent of this mega-regional deal. In addition, it has been seen as a way to strengthen the US leadership in Asia following a policy of containment especially of China (Amato and Talia 2015, 171). So, the agreement should have provided both economic and geopolitical reasons, exactly as PTAs do in general, even if in this case the extent would have been huge. In 2017 the US President Donald Trump withdraw from the TPP. The agreement was renamed the CPTPP and kept the same provisions of the TPP except for the absence of the US that, obviously, deeply affects the agreement.

After the Asian financial crisis of 1997-1998, also Asian countries shifted from a multilateral approach to a PTAs approach. Other causes of the shift were the concern about trade

³⁵ Chile, Brunei, Singapore, New Zealand, Malaysia, Australia, Canada, Mexico, Vietnam, Japan and Peru

diversion after the NAFTA got in force and, as for the other countries, another factor was the *impasse* reached in the WTO negotiations (Heydon and Woolcock 2009, 187-189). Looking more carefully at the Japan case, as in the other cases, the main reasons why it started to use the PTA instrument was linked with the fear to be left out from international trade and dissatisfaction regarding multilateral trading system. It is no coincidence that Japan started to negotiate with the Republic of South Korea after the latter concluded its negotiations with the US. After the crisis broke out in later 1990s, Asian countries perceived the need to be more cooperative among themselves. Previous experience with the Asia-Pacific Economic Cooperation (APEC), in force since 1989, showed the weakness of this RTA to face regional problems, indeed it did not prevent the crisis (Heydon and Woolcock 2009, 189). Asian countries began to perceive the PTAs as a way to obtain deeper integration and cooperation, especially considering the even increasing amount of intra-Asia trade value. In 2008, Japan signed a bilateral agreement with the ASEAN. This agreement, fostering integration with trade partners in the region, was an attempt to formalise deeper cooperation and go beyond reduction in border restrictions. Indeed, the parts agreed, among other things, investment liberalisation and harmonisation of standards and procedures. PTAs also should help Japan in its foreign policy objective to reduce the influence of China. What is more, through new partnership Japan develop relationships with different suppliers for both raw materials and food.

2.5. Different frameworks in PTAs and approach to barriers to trade

Generally, the EU follows a common *modus operandi* in dealing trade agreements with other countries. In other words, EU's PTAs are similar in the way they are agreed, and they share similar frameworks. The EU prefers to negotiate with regional partners than single countries in order to obtain a leverage effect and to spread a framework regulation for trade. Indeed, PTAs are broadly considered a complementary vehicle that, together with multilateral negotiations, will increase liberalisation and so homogeneous international trade rules. Indeed, another aspect characterising the EU PTAs is that it promotes international standards rather than introducing new standards, for instance in terms of technical barriers to trade and protection of intellectual property (Heydon and Woolcock 2009, 168). In dealing PTAs, the EU basically offers a full coverage of industrial products. On the contrary, it is not very WTO-plus³⁶ as concern the access to agricultural

³⁶ WTO-plus means providing deeper-integration measures than the WTO.

market. As regard the issue of the RoO, of the utmost importance in PTAs, different countries follow different approaches because there are no agreed international rules of origins. According to Heydon et al. (2009, 34-41), the EU is trying to standardise the rules agreed in its various PTAs³⁷. Despite the complexity of the matter, the EU is committing an effort in simplifying them in particular toward developing countries. As concern TBT, the EU generally reaffirms WTO's provisions. In all the PTAs it promotes cooperation in the area of TBT between parties. Indeed, in the various PTAs the EU establish Special Committees with the role of enhance the reception of the regulations agreed. The EU also reaffirm its commitments under the WTO SPS Agreement, but provisions in PTAs are more extensive aiming at ensure that safety rules are really equivalents among contracting parties. Indeed, the EU follows a "socially rational regulatory approach", while the WTO follow a "scientific rationality trajectory". The difference between the two is that the first does not allow the use of a progress in technology or science without the proof that it is safe for human health. The second allows the use of progresses in science and technology unless and/or until it is proven that it could be dangerous for human health. In other words, the EU's approach at the risk is the zero risk, while the WTO risk approach is the minimum risk. However, despite this difference between the EU and the WTO provisions, Heydon et al. (2009) noted that in the PTAs' texts there is less evidence of the EU different approach on SPS measure.

A peculiarity aspect of the EU common approach to PTAs is the strengthening of GIs protection³⁸. EU's bilateral trade agreements provide more extended regulations regarding the protection of GIs than the WTO³⁹. According with Josling (2006), for the EU GIs represent a strategy to achieve competitiveness in trading agricultural products. In particular, the EU is using GIs as a device to counterbalance the losses coming from the reduction in agricultural sector protection. Indeed, the liberalisation obtained in agriculture through WTO rounds of negotiations decreased the allowed national level of support to agriculture. As previously mentioned, WTO brought to the elimination of export subsidies, the reduction of tariffs and the decreasing in government farmers-supporting policies. In order to counterbalance the effect of liberalisation in

³⁷ In 1997 the EU standardises the RoO with the European Economic Area (EEA) and with the Euro-Med region.

³⁸ See note 1 p. 38.

³⁹ The Uruguay Round included the protection of GIs under the TRIPS Agreement. Thus, all WTO member countries have to ensure provisions protecting GIs. During the Doha Round, the EU lobbied to obtained broader protection for GIs. Specifically, it expressed desire to obtain for agricultural products the additional protection granted to wine and spirits. Indeed, the WTO does not allow the production of wine and spirits similar to the ones bearing GIs with the lemma "type", "style" or "kind", while some foods products, that are commonly produced and sold with the same name of a GI, are not provided with the same protection.

agricultural markets, the EU is promoting the quality of EU agricultural production and in so doing it is using GIs as a protectionist tool and a marketing strategy. Indeed, GIs can provide market power, they legalise protection against competitors and shift firms producing goods bearing GI from perfect competition markets to monopolistic competition markets. In dealing PTAs, the EU is ensuring greater protection to its GIs than the protection provide to the WTO. For the EU, spreading the network of PTAs falls within the scope of achieving market space in other countries. At the same time EU products compete at a different level. Indeed, EU producers can export their agricultural and food products without the need to compete with more competitive agricultural powers like US, China and Brazil.

The US have always been inclined to WTO-plus provisions and often 100% of tariff lines have been liberalised under agreements. Nevertheless, PTAs are not exempt to rules of origins and the US showed to be able to create complex and restrictive set of rules of origin, for instance with the NAFTA (Heydon and Woolcock 2009, 152-153). The US, as regard the TBT and SPS measures, generally promote harmonisation and consistency with international standards, and compared with the EU, the US approach is less strict.

Asian countries share a common set of RoO, the so-called Asian/Indian Ocean Model. However, some countries like Japan and Singapore use different RoO for different PTAs. Generally, Japan PTAs remain defensive both in terms of agriculture and industrial goods. Indeed, Japan's RoO regard especially agricultural product (rice, beef, dairy) are protected as sensitive products. (Heydon and Woolcock 2009, 192-193). Asian countries reaffirm their obligation under WTO TBT and SPS Agreement, but PTAs has pushed Asian countries to commit to deeper cooperation than the WTO do. At the same time two forces has promoted for more sophistication of measures, especially in terms of food safety. The first has come from consumers asking for major standards, the second from PTAs and the awareness that the compliance with rules enhance access to export markets.

3. EU-ASIAN TRADE AGREEMENTS

3.1. European overview

The thesis will now turn to analyse trading agreement case studies. This Chapter presents two preferential trade agreements. Specifically: the EU- Korea FTA and the EU-Japan FTA. In order to make it easier to evaluate and compare these agreements, the thesis offers an overview on EU macroeconomic data.

Table 3.1 Macroeconomic indicators of the EU.

EU	2010	2011	2012	2013	2014	2015	2016	2017
GDP (Million US \$)	16,780,024.08	17,519,688.26	17,841,854.19	18,508,523.57	19,090,247.26	19,734,720.25	20,560,391.16	21,778,775.42
GDP growth rate % (a)	2.24	1.76	-0.4	0.26	1.78	2.35	2.04	2.46
GDP per capita (US\$)	33,311.41	34,703.57	35,257.66	36,499.14	37,557.66	38,718.02	40,220.32	42,534.24
Population	504,298,772	504,005,891	505,096,228	506,597,700	508,193,872	509,717,579	511,218,467	512,431,044
Population growth rate %	0.3	0.22	-0.06	0.22	0.3	0.32	0.3	0.29
Added value by activity %								
Agriculture	1.62	1.68	1.65	1.72	1.67	1.58	1.56	1.65
Manufacturing	15.41	15.75	15.46	15.45	15.58	16.04	16.28	16.42
Services	73.43	73.22	73.59	73.75	73.92	73.76	73.64	73.33
* Other	9.54	9.35	9.3	9.07	8.82	8.62	8.52	8.60

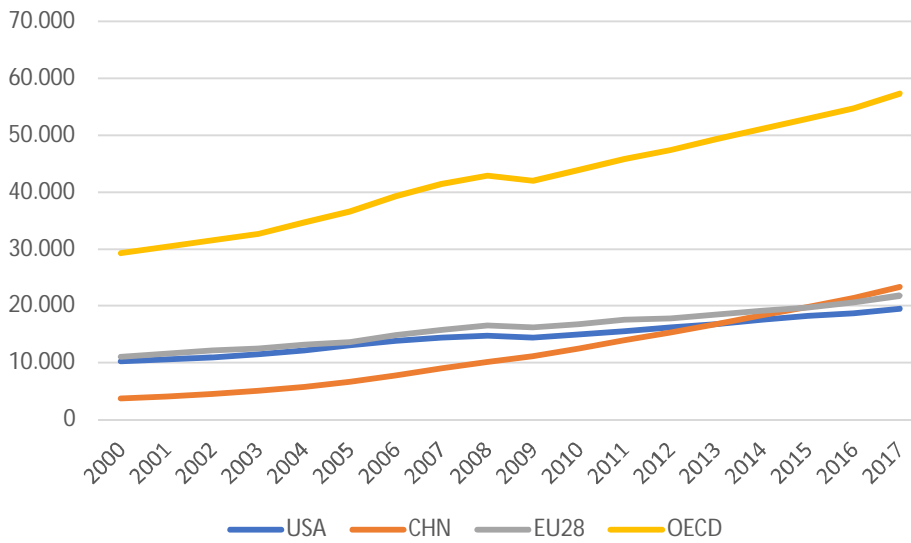
Source: our elaboration on OECD (2018b).

* *Source: our elaboration on WB (2018).*

(a) *The Real GDP growth rate has been computed using constant 2010 US\$.*

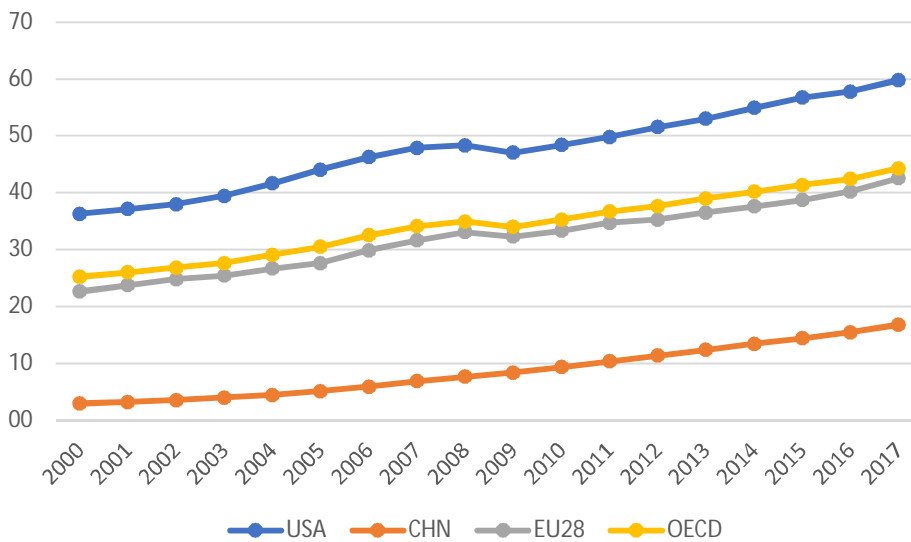
Table 3.1 gives an idea of the recent trends of the EU in its economy and population. According with the OECD database (OECD Data 2018b), the GDP of the EU has stably outweighed the one of the US since before 2000, while since 2016 the Chinese GDP has exceeding the one of the EU. As regard the GDP pro capita, the EU is slightly under the average level of the OECD countries.

Figure 3.1 GDP trend, billion of US\$, period 2000-2017.



Source: our elaboration on OECD (2018b).

Figure 3.2 GDP trend, thousands of US\$/capita, period 2000-2017.



Source: our elaboration on OECD (2018b).

Table 3.2 and **Table 3.3** show the comparison of GDP and GDP pro capita between core entities of the global scene in the period between 2000 and 2017. The two graphs confirm the position of the EU in the global economy as described above. Services are the first sector of the EU economy in terms of added value to the GDP. As one could image, the agricultural sector accounts just for a

small percentage. Same results are observable also in all the other OECD countries. The EU trend of the population growth rate is steady, and it is in line with the average population growth rate of OECD countries.

As concern the EU agriculture, according with the statistic website of the Food and Agriculture Organisation (FAO) (2018), in 2016 the EU agricultural land occupied 43% of the arable land and the main cultivated crops are wheat, maize, barley and rapeseed, while other important soft commodities produced by the EU are: milk, poultry meat and beef¹. The land occupied by the agricultural activity is decreasing. Indeed, it decreased by 5% in the period from 2000 and 2016. The ratio of its employees in agriculture is consistent with the added value provided by the agricultural sector. Indeed, in 2017 the share of workers in the agricultural sector was equal to 1.8% of the population. Nevertheless, in 2016 the EU was a net exporter of cereals. The OECD report (2018c, , 135-138) states that since 1990s the level of support to agriculture has been reducing. Some indexes that indicate how much the market is liberalised, confirm the OECD report. The *Percentage Total Support Estimate indicator* (%TSE) is an index of the support given to agriculture and it represents the value, arising from consumers and taxpayers, that government policies transfer to agricultural sector. It is expressed as a share of GDP. The *Producer Support Estimate* (%PSE) is the value of transfers from costumers and taxpayers given by government policies to agricultural producers. It is expressed as a share of gross farm receipts.

Table 3.2 EU trend of TSE as a share of GDP and trend of PSE as a share of GFR (2000-2017).

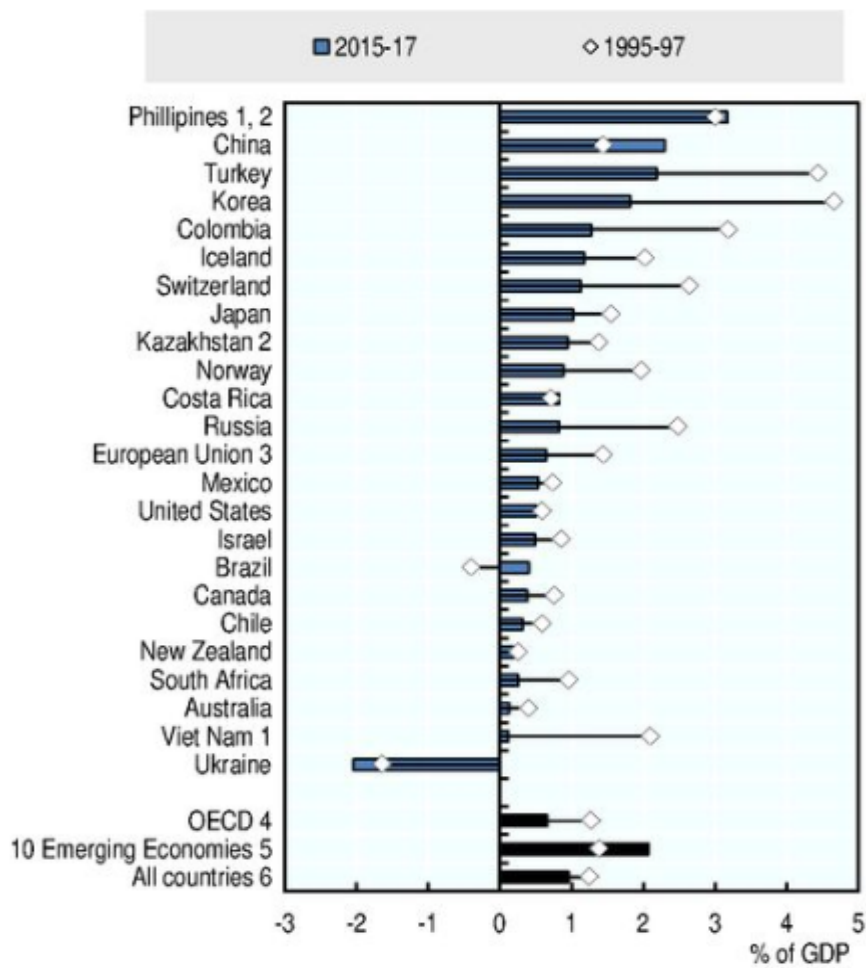
Country	Indicator	2000	2003	2006	2009	2012	2015	2017
EU	TSE % GDP	1.17	1.13	0.94	0.81	0.75	0.65	0.61
	PSE % GFR	33.19	34.16	29.45	23.72	19.46	19.00	18.32

Source: our elaboration on OECD (2018b).

Table 3.2 shows the EU trend of both the %TSE and the %PSE from 2000 to 2017. Looking at the table, it is immediately clear that the government support policies have been decreasing since the beginning of 2000. In 2017, the EU total support estimate is equal to 0.61% of GDP.

¹ In 2017 the main soft commodities in terms of millions of tonnes produced by the EU were: wheat (153), milk (164), maize (65), barley (57) and rapeseed (22), poultry meat (15), beef meat (8).

Figure 3.3 TSE (% of GDP) by countries, comparison between 1995-97 period and 2015-17.



Source: OECD (2018c)

Figure 3.3 proposes an overview of the improvement of %TSE by country during the last two decades. It is clear that the decreasing trend of the total support given to agricultural sector is spread worldwide (OECD 2018b).

A more specific index useful to evaluate the support given to agricultural activity is the *Percentage Single Commodity Transfer (%SCT)* that measures the value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm gate level, arising from policies linked to the production of a single commodity. Farmers must produce the designated commodity in order to receive the payment. It is expressed as a share of gross farm receipts for the specific commodity.

Table 3.3 EU SCT as a share of GFR (2000-2017).

EU		2000	2003	2006	2009	2012	2015	2017
Commodity	Indicator							
Beef and veal	SCT % GFR	60.60	60.94	51.53	37.61	31.52	28.69	21.47
Milk	SCT % GFR	40.88	44.85	21.03	1.53	1.41	3.98	2.29
Poultry meat	SCT % GFR	27.91	30.69	27.86	37.73	20.25	8.65	25.04
Refined sugar	SCT % GFR	55.36	64.79	32.43	17.07	1.52	22.54	7.49
Rice	SCT % GFR	16.02	26.74	34.52	24.35	0.31	28.96	32.60
Wheat	SCT % GFR	13.10	9.78	0.97	0.78	0.09	0.00	6.13

Source: our elaboration on OECD (OECD Data 2018b).

Table 3.3 highlights the commodities that in the EU present the highest %SCT in the period 2000-2017. In 2017, the average %SCT recorded for available EU soft commodities is equal to 6.26%. Rice, beef and veal, and poultry meat were the ones with highest values. However, as shown in the table, there is a decreasing trend in the policies protecting these commodities. High values that were recorded at the beginning of 2000s have been more than halved by 2017.

The other aspect that it should be considered to have the big picture of the EU agricultural sector protection is the level of most simple average duties applied by the EU. **Table 3.4** shows a steady trend of the most favourite nation (MFN) simple average duty during the highlighted period, while it is possible to notice a decline in the level of duties applied on soft commodities, even if the agricultural MFN simple average duty remain higher than the one applied on the non-agricultural products. As displayed in the table and reported by the OECD report (2018c), the EU maintains high tariffs for dairy products and sugar. In 2017 sugar production quotas were eliminated reducing EU distorting measures. On the contrary, dairy sector remain very supported: in its favour the EU provide:

[..] public intervention, support to private storage and voluntary supply management and public intervention. Additional packages were targeted to dairy and livestock producers to implement measures such as support to small scale farming, extensive production, environmental and climate friendly production, cooperation between farmers, improvement of quality and added value, training in financial instrument and risk management tools [...] (OECD 2018c, 135).

Other supported soft commodities with exceptional measures are pigs, fruit and vegetables.

Table 3.4 EU most favoured nation simple average duties during the period 2010-17.

EU	2010	2011	2012	2013	2014	2015	2016	2017
MFN Simple average duty %	5.1	5.3	5.5	5.5	5.3	5.1	5.2	5.1
MFN AG Simple average duty %	12.8	13.9	13.2	13.2	12.2	10.7	11.1	10.8
MFN NON AG Simple average duty %	4.0	4.0	4.2	4.2	4.2	4.2	4.2	4.2
MFN Simple average duty % (Commodity)	Animal products	22.2	23.0	20.4	20.0	17.7	15.0	15.5
	Dairy products	48.3	55.2	52.9	52.8	42.1	33.5	35.4
	Fruits, vegetables, plants	11.1	11.5	10.8	10.7	10.9	10.3	10.3
	Cereals and preparation	14.3	16.3	17.1	17.1	14.9	12.4	12.8
	Sugar and confectionery	21.6	29.1	32.1	29.7	25.2	20.2	23.6
	Fish and fish products	10.5	10.3	11.8	11.8	12.0	12.0	11.6

Source: our elaboration on WTO (2018b)

Chapter one has already given an idea of the most recent figures related with international trade and the collocation of the EU among the most relevant entities of the global scene. Moreover, in Chapter two, they have been already discussed the common features characterising the way the EU deals trade agreements with its partners.

Table 3.5 Top trading partners of the EU. Percentages refer to import-export average of extra-EU trade in goods.

PARTNER (%)	2010	2011	2012	2013	2014	2015	2016	2017
United States	1.80	1.85	1.80	1.70	1.75	1.80	1.85	1.85
China except Hong Kong	13.45	12.95	12.40	12.55	13.80	14.90	15.15	15.35
Switzerland	3.80	3.65	3.45	3.25	3.20	3.35	3.60	3.45
Russia	4.15	4.25	4.30	4.10	3.95	3.50	3.25	3.35
Turkey	8.50	9.30	9.65	9.60	8.45	6.00	5.55	6.20
Japan	2.35	2.10	2.15	2.20	2.40	2.60	2.45	2.75
Norway	6.90	7.25	6.90	7.65	6.95	7.15	7.60	7.00
South Korea	3.70	3.75	3.60	3.75	3.80	4.00	4.20	4.15
Canada	14.70	14.10	14.50	14.25	15.35	17.55	17.70	16.90
Total	59.35	59.20	58.75	59.05	59.65	60.85	61.35	61.00

Source: our elaboration on EUROSTAT (2018).

Now, **Table 3.5** presents the main EU trading partners in terms of import-export of goods during the period between 2010-17. As it is possible to figure out, the higher percentages of trade are recorded with the other main global entities: the US and China. South Korea, Japan and Canada full within the top nine countries.

3.2. EU and Korea FTA

3.2.1. Overview on Korean data and indexes

According to OECD (2018b), the Republic of South Korea (from now on Korea), is growing faster than the EU and the other examined countries in this thesis². Indeed, the GDP growth rate has been showing high values since 2010. However, the GDP per capita is the lowest among the countries under examination. In Korea, the services sector is the major sector in terms of added value to the GDP. Nevertheless, the manufacturing sector, as well as the agricultural one, account for a greater share of the economy in comparison with the other case studies. Indeed, the gap between the manufactured sector and the services sector is not deep as in the other cases. Certainly, this difference is due to the later development of Korea compared with the other countries.

Table 3.6 Macroeconomic indicators of Korea.

Korea	2010	2011	2012	2013	2014	2015	2016	2017
GDP (Million US \$)	1,504,724.40	1,559,446.83	1,611,272.91	1,644,777.31	1,704,457.64	1,824,331.97	1,903,410.73	1,998,129.73
GDP growth rate % (a)	6.5	3.68	2.29	2.9	3.34	2.79	2.93	3.06
GDP per capita (US\$)	30,365.35	31,228.28	32,097.07	32,615.70	33,587.36	35,760.70	37,142.62	38,839.36
Population	49,554,112	49,936,638	50,199,853	50,428,893	50,746,659	51,014,947	51,245,707	51,466,201
Population growth rate %	0.5	0.77	0.53	0.46	0.63	0.53	0.45	0.43
Added value by								
Agriculture	2.47	2.52	2.46	2.34	2.33	2.29	2.12	2.16
Manufacturing	30.72	31.37	31.00	30.97	30.15	29.76	29.49	30.41
Services	59.26	59.10	59.47	59.25	59.61	59.38	59.19	58.28
* Other	7.55	7.01	7.07	7.44	7.91	8.58	9.19	9.15

Source: our elaboration on OECD (2018b).

* Source: our elaboration on WB (2018).

(a) The Real GDP growth rate has been computed using constant 2010 US\$.

Table 3.6 shows also the trend of the Korean population. Korean population growth rate is higher than the one of the EU, even if the difference is not so relevant.

Compared with the other analysed countries, Korean agriculture contributes to the total GDP for the highest percentage, even if it is progressively decreasing. Also the share of employment in agriculture is reducing³. According with FAOSTAT (2018), in 2017 the land area used for

² Japan and Canada (see Chapter four).

³ In 2000 the percentage of employees in agriculture (as a share of the total employees) was equal to 1.3%, while in 2017 it was less than 0.7%.

agriculture was just 17.5%. The agricultural land area is characterised by a high fragmented structure (OECD 2018c) and, together with the employment, it is decreasing due to urbanisation of the country. Among crops, rice is the most cultivated. Korean level of production of rice overweight the one of the EU during all the period under consideration. However, despite the high degree of its production, Korea is not self-sufficient in terms of rice. At the same time, it is also a net importer of crops and livestock products, demonstrating that Korea is not self-sufficient in terms of soft commodities. Indeed, during the period 2010-16 Korea recorded an average negative term of trade of almost US\$ 15 billion (FAOSTAT 2018).

According with OECD (2018c), Korea has been lowering its level of support to agriculture. Since 2015 all trade barriers are in form of tariffs or TRQs. Farmers are supported by government mainly through market price support (MPS)⁴, in 2017 prices received by farmers were estimated to be twice the international price level. Since 2003 the government provide variable payment for rice (OECD 2018c, 155-157).

Table 3.7 Korean trend of TSE as a share of GDP and trend of PSE as a share of GFR (2000-2017).

Country	Indicator	2000	2003	2006	2009	2012	2015	2017
Korea	TSE % GDP	3.92	2.84	2.62	2.25	2.19	1.92	1.79
	PSE % GFR	66.13	56.66	58.47	52.46	52.62	52.30	53.55

Source: our elaboration on OECD (2018b).

Like for the EU, it is possible to observe the indexes measuring the support of government policies for the agricultural sector. Compare with the EU, Korean indexes are higher, showing a great propension in protecting the agricultural sector. Both the Korean %TSE and the %PSE recorded higher value than the other cases under consideration (**Table 3.7**). Just Japan, as it will be shown later, registered similar figures.

⁴ MPS is an indicator of the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers arising from policy measures creating a gap between domestic producer prices and reference prices of a specific agricultural commodity measured at the farm-gate level (OECD, Producer and consumer support estimates database 2018d)

Table 3.8 Korean SCT as a share of GFR (2000-2017).

Korea		2000	2003	2006	2009	2012	2015	2017
Commodity	Indicator							
Barley	SCT % GFR	80.43	78.09	78.60	56.51	47.66	65.80	73.36
Milk	SCT % GFR	67.74	60.15	62.91	53.51	52.27	62.79	57.38
Pig meat	SCT % GFR	24.28	14.83	65.27	67.52	52.32	70.20	69.66
Rice	SCT % GFR	83.93	72.38	69.12	52.92	58.04	49.66	56.16
Soybeans	SCT % GFR	90.08	88.23	89.05	77.08	87.72	86.06	89.06

Source: our elaboration on OECD (2018b)

Table 3.8 highlights the value of the SCT for selected commodities. The presented commodities are the ones that in the years between 2000 and 2016 registered the highest levels of %SCT. Unlike to all the other commodities considered, pig meat level of %SCT have been growing since 2000. This is due to the speedy growth rate of GDP and the improvement of GDP per capita that are increasing the consumption of meat.

An interesting fact underline by the OECD report (2018c) is that in 2017 Korea made an effort in improving its certification and labelling of agricultural products, but also the safety and traceability of food. This propension is consistent with the trend observed in all Asian countries of boosting food safety measures. As state in Chapter two, this is due to a growing demand from consumers and to the aim of increase export ensuring access in other countries markets.

Table 3.9 Korean most favoured nation simple average duties (2010-2017).

Korea		2010	2011	2012	2013	2014	2015	2016	2017
	MFN Simple average duty %	12.1	12.1	13.3	13.3	13.3	13.9	13.9	13.7
	MFN AG Simple average duty %	48.5	48.6	52.7	52.7	52.7	56.8	56.9	57
	MFN NON AG Simple average duty %	6.6	6.6	6.8	6.8	6.8	6.8	6.8	6.8
	Dairy products	67.5	67.5	66	66	66	66	66	66
	Fruits, vegetables, plants	57.4	57.5	58.7	58.6	58.6	58.5	58.6	59.3
	Coffee, tea	53.9	53.9	53.9	53.9	53.9	56.4	56.4	56.4
MFN Simple average duty % (Commodity)	Cereals and preparation	134.5	134.4	153.6	153.6	153.7	187.3	187.1	187.1
	Oilseeds, fats and oils	37	37	40.7	40.7	40.7	40.7	40.7	40.7
	Beverage and tobacco	31.7	31.7	32.2	32.2	32.2	32.2	32.2	31.4

Source: our elaboration on WTO (2018b).

Let's now look at the level of tariffs applied by Korea. It is already mentioned the Korean shift toward the protection of agricultural sector based just on tariffs and TRQ. The values presented in **Table 3.9** are consistent with this shift. Indeed, it is possible to notice the growth of the MFN simple average duty for soft commodities during the analysed years. However, also the MFN simple average duty applied on non-agricultural products has been rising.

Since 2009 Korea has been recording a positive balance of trade with the rest of the world⁵. In 2017 Korea registered a trade surplus of US\$ 82,702 million (2018). Its main trading partners are China, US, the EU and Japan⁶. As previously observed, manufacturing sector's added value to GDP accounts for a high percentage and, indeed, Korean export in manufactures goods represented almost the 90% in 2017 (WTO 2018b). In terms of value, Korean main exported manufactured products are electronic circuits and motor cars. On the other hand, Korea main imports are: manufactured products (electronic circuits), and fuels and mining products (basically petroleum). In 2017, 8% of its import were soft commodities, specifically maize and bovine meat, while agricultural exports accounted just for the 2%. Specifically, they are products made with tobacco. Korea is a net importer of services. In 2017, services represented 20% of the total imports value (WTO 2018b).

In 2017, Korea was the EU eighth trading partner, while the EU was Korea's third trading partner. As reported by EUROSTAT (2018), in 2017 the EU imported from Korea almost €52 billion in goods, while in the same year it accounted an export value toward Korea of €50 billion. The EU and Korea mostly exchange manufactured products, especially machinery and transport equipment.

⁵ Considering the trade both in terms of good and services.

⁶ Other trading partners are: Vietnam, Hong Kong, Taiwan, Saudi Arabia, Australia and Russia.

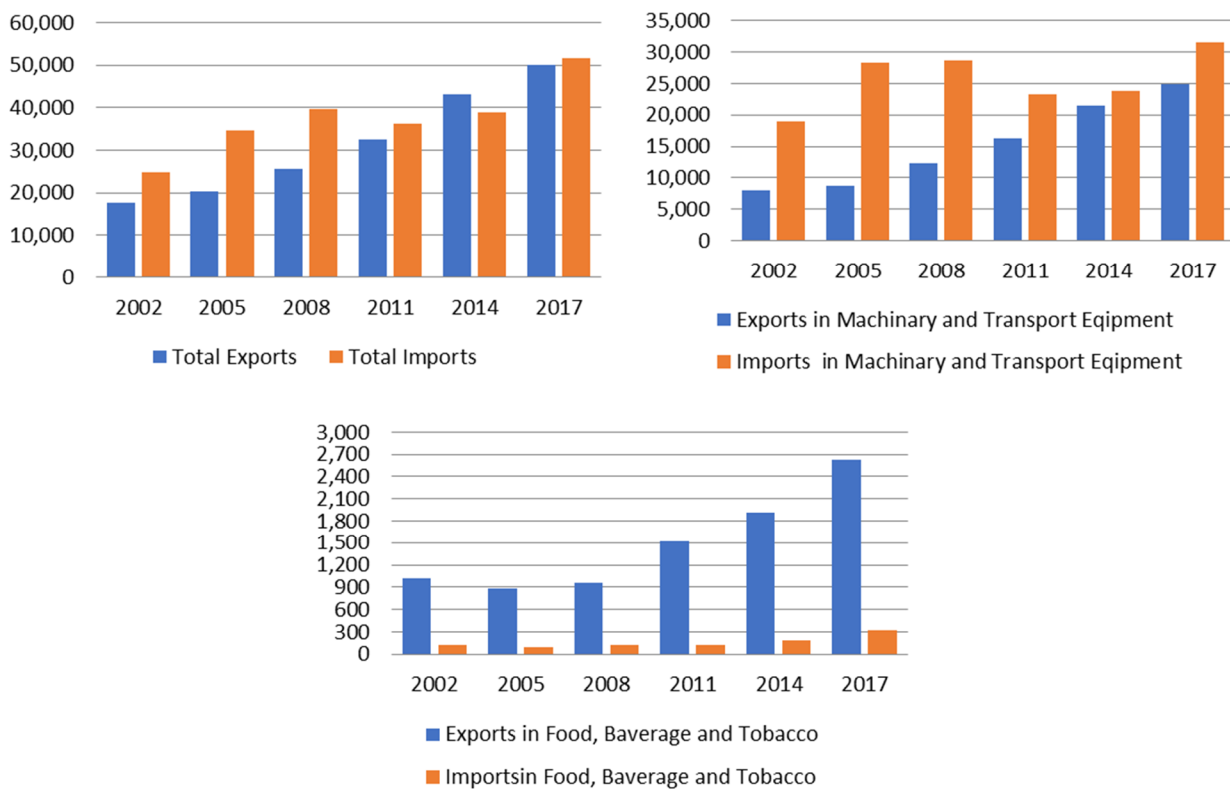
Table 3.10 EU import and export of goods with Korea (2002-2017).

	2002	2005	2008	2011	2014	2017	Var (%) exchange of goods 2002-2017
Total Trade in Goods							58.4
Trade balance in million euro	-7,019.7	-14,349.3	-14,245.5	-3,797.5	4,427.4	-1,601.7	
Exports in million of euro	17,654.3	20,239.4	25,494.8	32,514.5	43,207.6	50,131.8	
Imports in million of euro	24,674.0	34,588.7	39,740.3	36,312.0	38,780.2	51,733.6	
Trade in Machinery and Transport equipment							52.4
Trade balance in million euro	-10,924.6	-19,526.5	-16,372.5	-7,004.1	-2,178.6	-6,537.5	
Exports in million of euro	7,979.3	8,778.1	12,337.0	16,264.5	21,569.8	24,953.9	
Imports in million of euro	18,903.9	28,304.6	28,709.5	23,268.6	23,748.4	31,491.4	
Trade in Food, Beverage and Tobacco							61.3
Trade balance in million euro	891.9	791.5	833.7	1,392.1	1,731.7	2,309.1	
Exports in million of euro	1,019.0	883.6	960.3	1,518.5	1,914.1	2,635.0	
Imports in million of euro	127.0	92.0	126.6	126.4	182.5	326.0	

Source: Own elaboration. on Eurostat (EUROSTAT 2018).

Table 3.10 shows the total trade, the trade in machinery and transport equipment and the one of food, beverage and tobacco from 2002 to 2017. During the 15 years considered, the total exchange of goods between the EU and Korea has more than doubled; its trend increased stably, with a major boost registered after 2014.

Figure 3.4 EU import and export of goods with Korea, million of Euro (2002-2017).



Source: Own elaboration. on Eurostat (2018).

Figure 3.4 shows the trends of each sector during the same period. Without considering 2014, the EU has always registered a deficit in the total trade with Korea. Nevertheless, the EU's exports in food, beverage and tobacco have exceeded by far the imports from Korea. The EU export of agricultural products toward Korea amounted to 5.2% of the total EU's export toward Korea. Among the sectors under consideration, the trade in food, beverage and tobacco is the one that recorded the major increase, indeed has increased by 61.3% from 2002 to 2017.

3.2.2. What does the EU-Korea FTA promote? Expectation and evaluations

The Agreement between the EU and Korea, signed in 2010, was previously applied in 2011 and formally ratified in 2015. It establishes a FTA for trade in goods and services. The EU-Korea FTA is the first EU FTA agreed with an Asian country. The agreement is consistent with the EU desire to closely approach emerging Asian markets. According with the evaluation of the European Commission (2019, 3-8), the main aims of the Agreement are:

- To liberalise and make it easier trade in goods, services and government procurement. Indeed, it was observed a disparity between the tariffs applied by the Parties to the disadvantage of the EU.
- To promote competition in the EU and Korean economies.
- To protect intellectual property rights.
- To remove barriers to trade and developing a harmonious trade environment in order to make trade as smooth as possible. In particular, the PTA aims to iron out the differences in RoO, technical standards, regulations and labelling issues.
- To promote FDI's improving the structural framework of investments between the two Parties.
- To contribute to a sustainable development.

In dealing the Agreement, the Parties aimed at address issues beyond WTO provisions. As often stated in this thesis, this is the common stance taken in favour of bilateral trade agreements. More specifically, the Parties agreed to eliminate tariffs and other restrictive regulations of trade between them in a progressive approach for both industrial and agricultural products. According with the Trade Sustainability Impact Assessment of the EU-Korea FTA (2008, 50-57), comparing with WTO MFN tariffs, the Partnership liberalised 9,500 new Korean tariff lines: 7,500 immediately with the entrance into force of the Agreement, the others became duty free in the years after. As a result the Parties agreed to liberalise more than 98.7% of their trade in goods within 5 years from the entrance into force of the agreement.

The EU-Korea FTA was expected to have the main effect on the automotive industry. The automotive sector, as well as all the other manufacturing sectors related to it (like machinery and transport equipment), has seen as strategic in the EU-Korea FTA. Indeed, as shown in **Table 3.10**, these are the most exchanged manufactures between the EU and Korea. The Trade Sustainability Impact Assessment of the EU-Korea FTA (2008, 117-123) asserted there is still more growth room in the automotive sector for the export and the FTA was expected to be the improvement of production in both Parties automotive sector. According to Forizs et al. (2017), other sectors that were expected to gain benefits from the agreement were also electronics, chemical and plastic sectors.

On the other hand, lower results were expected in trade of soft commodities. Indeed, some agricultural products, like rice, were excluded from the agreement, while the Parties agreed to

liberalise some other soft commodities and some processed food products after a transitional period of seven years. According with Zolin et al. (2013), despite the low level of liberalisation in agricultural products provided by the agreement, the EU-Korea FTA could benefit the EU because it recognises protection for 162 EU GIs. In particular, provisions on GIs cover both wine and spirits and foodstuffs and agricultural products like ham, cheese and olive oil. As a consequence, together with the decreased level of tariffs, the recognition of GIs was expected to improve EU export in Korea. Moreover, it was observed that the complementarity in agricultural trade between the two Parties represented another beneficial factor for the exchange of products. Indeed, this feature was expected to enhance at least EU export considering the less familiarity of EU consumers with Korean products. At the same time, the possibilities for the EU to succeed in agricultural trade with Korea are held back by the US-Korea FTA⁷ because of the similarity in agricultural products exported by the EU and US. In other words, the EU has to compete with US in the Korean market.

Evaluating the effects of the Agreement during the first four years from its entrance into force, Forizs et al. (2017) observed that almost all the sectors addressed by the EU-Korea FTA recorded an increase often higher than the expectations. They found that the manufacturing sectors that have been benefiting more in both the Parties are: machinery and transport equipment, chemical and plastics. Also EU export in textiles and textile articles overweighed expectations. As concern food, beverage and tobacco, values surpassed expectations. On the contrary, EU export of animals and animal products did not meet the value projected for 2015. Overall, Forizs et al. (2017) concluded that, by 2015, the Agreement seemed to have contributed to the enhancement of trade between the EU and Korea. Because of the fact that in 2015 the EU registered a positive terms of trade with Korea, they stated that the Agreement was benefiting more the EU than Korea. As it is possible to figure out from **Table 3.10**, in 2017 the trend of the trade between the Parties was steel increasing, confirming the thesis that the FTA has been strengthening trade ties between the two Parties. However, unlike the data of 2015, in 2017 the trade balance changed in favour of Korea which recorded a trade surplus of €1.6 billion (2018).

⁷ The US-Korea FTA, also called KORUS FTA, was signed in 2007.

3.3. EU-Japan EPA

3.3.1. Overview on Japanese data and indexes

Japan is among the main actors of the global economy, as demonstrated by its membership in the G8 and G20 forums and it is the world's fourth larger economy. According to OECD (2018b), in 2017, it was ranked the fourth country after China, EU, US and India in terms of GDP value.

Table 3.11 Macroeconomic indicators of Japan.

Japan	2010	2011	2012	2013	2014	2015	2016	2017
GDP (Million US \$)	4,480,784.41	4,573,186.79	4,746,699.39	4,967,051.58	4,986,566.21	5,136,018.78	5,221,770.19	5,319,800.44
GDP growth rate % (a)	4.19	-0.12	1.50	2.00	0.37	1.35	0.94	1.73
GDP per capita (US\$)	34,994.37	35,775.26	37,213.84	39,008.36	39,183.47	40,406.10	41,138.00	41,985.39
Population	128,070,000	127,833,000	127,629,000	127,445,000	127,276,000	127,141,000	126,994,511	126,785,797
Population growth rate %	0.02	-0.19	-0.16	-0.14	-0.13	-0.11	-0.12	-0.16
Added value by Agriculture	1.10	1.08	1.15	1.11	1.06	1.12	1.16	-
Manufacturing activity %	20.88	19.76	19.84	19.56	19.88	20.9	21.21	-
Services	70.38	71.9	71.96	71.79	71.03	69.74	69.31	-
* Other	7.63	7.25	7.05	7.55	8.02	8.25	8.32	-

Source: our elaboration on OECD (2018b).

* Source: our elaboration on WB (2018).

(a) The Real GDP growth rate has been computed using constant 2010 US\$.

However, looking at **Table 3.11**, one could notice that the Japanese GDP growth rate of the last years is slowing compared to 2010 value. In 2017, Japan presented the lowest GDP growth rate among the cases under consideration. In 2017, the GDP per capita was basically in line with the one of the EU and of the OECD countries' average. Considering the extension of its land, Japan is densely populated compared with the other countries here taken into account⁸. Its economy is mainly based on the services sector. However, in 2016, the added value to GDP of the manufacturing sector still accounted for more than 20%, while Agriculture, not surprisingly, represented the smaller added value.

According to the OECD report (2018c, 147-150), in Japan the agricultural productivity, in terms of total factor productivity, has grown faster than the world average. However, it is not able to

⁸ In 2017 Japan registered a population density of 348 people per squared km of land area, almost three times the EU's population density (WB 2018).

fulfil the internal demand of agricultural products just with its domestic production. In terms of value, the main Japanese agricultural products are: rice (in the period 2000-17 the Japanese production exceeds the Korean one⁹), milk, pig meat, beef and veal, and egg¹⁰ (2018b). It was observed that, even if slowly, the support to agriculture has been reducing.

Table 3.12 Japanese trend of TSE as a share of GDP and trend of PSE as a share of GFR (2000-2017).

Country	Indicator	2000	2003	2006	2009	2012	2015	2017
Japan	TSE % GDP	1.35	1.31	1.03	1.04	1.20	0.95	1.06
	PSE % GFR	58.18	55.90	49.89	46.55	53.23	41.96	49.20

Source: our elaboration on OECD (2018b).

Nevertheless, in 2017 the %TSE was higher than the one of the EU (compare **Table 3.12** and **Table 3.2**). In addition, the government support given to producers is still particularly high, and in 2017, it was closer to the Korean %PSE than to the EU's one. In Japan, the first element of the producers' support is the MPS¹¹. Indeed, it has been estimated that in 2017 the Japanese producers' prices were 72% above the world average. The gap between Japanese prices and world's prices was evident in particular for the price of rice (OECD 2018c).

Rice is the crop that receive more protection in Japan. However, in 2018, the rice production quotas, that were managed by the government, were abolished together with the support payment guaranteed for producers that were able to meet the fixed production level (OECD 2018c, 147).

⁹ In 2017 Japan produced 8307 thousand tonnes of rice, while Korea produced 3973 thousand tonnes (FAOSTAT 2018)

¹⁰ Value of production at farm gate.

¹¹ Market Price Support (MPS) is an indicator of the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers arising from policy measures creating a gap between domestic producer prices and reference prices of a specific agricultural commodity measured at the farm-gate level (OECD 2018c).

Table 3.13 Japanese SCT as a share of GFR, (2000-2017).

Japan		2000	2003	2006	2009	2012	2015	2017
Commodity	Indicator							
Beef and veal	SCT % GFR	29.96	30.25	27.91	28.88	33.56	27.97	28.70
Grapes	SCT % GFR	64.49	67.62	65.32	63.73	62.84	58.12	59.01
Barley	SCT % GFR	80.29	78.50	71.78	66.47	70.01	67.93	69.32
Pig meat	SCT % GFR	47.20	48.91	61.80	72.47	68.33	64.92	66.98
Rice	SCT % GFR	87.01	85.30	76.25	63.26	77.56	55.62	75.74
Soybeans	SCT % GFR	28.40	45.60	44.97	15.68	49.63	37.58	51.60

Source: our elaboration on OECD (2018b).

Table 3.13 shows other soft commodities characterised by high values of %SCT. Some of them are: barley, pig meat and grapes. In Japan, %SCT values are higher than the one of the EU and are generally closer to the Korean ones.

On the contrary, the levels of Japanese tariffs are generally more similar to the ones of the EU, both in terms of agricultural products and non-agricultural products.

Table 3.14 Japanese most favoured nation simple average duties (2010-2017).

Japan		2010	2011	2012	2013	2014	2015	2016	2017
	MFN Simple average duty %	4.4	5.3	4.6	4.9	4.2	4.0	4.0	4.0
	MFN AG Simple average duty %	17.3	23.3	16.6	19.0	14.3	12.9	13.1	13.3
	MFN NON AG Simple average duty %	2.5	2.6	2.6	2.6	2.5	2.5	2.5	2.5
	Animal products	18.9	15.7	18.1	11.0	11.3	10.7	10.8	10.6
	Dairy products	93.3	178.5	89.6	135.3	76.3	69.1	65.7	63.4
	Coffee, tea	15.3	16.3	16.1	15.3	14.1	13.8	14.3	14.4
	Cereals and preparation	42.0	68.3	27.5	52.0	34.7	31.1	32.3	33.5
	Sugars and confectionery	27.2	28.4	27.5	25.2	19.7	18.9	20.6	23.0
	Beverage and tobacco	14.6	15.4	15.3	14.4	14.5	14.1	14.6	15.1

Source: our elaboration on WTO (2018b).

Table 3.14, which displays the trend of MFN simple average duties during the period 2010-2017, show a slight liberalisation of market during the period under consideration. In 2017, Japan applied a MFN simple average duty of 4%. In the same year the MFN simple average duty in agricultural

products was equal to 13.3% (2018b). Japan applied high duties especially for dairy products. Japan had always maintained a defensive approach as regards the liberalisation of agricultural products. Nevertheless, since his election in 2012, the Japanese Prime Minister Shinzo Abe has been promoting a campaign in order to reinforce competitiveness of Japanese agriculture by lowering imports tariffs (Suzuki 2017). This partly explain the decreasing trend observed in the table.

In Chapter one, discussing about international trade, it has already been mentioned the Japanese position as a main global actor. In **Figure 1.2** Japan appears as one of the top five world trader of merchandise products. In **Figure 1.3**, the graph offers an overview of the measure of countries' trade considering not only goods, but also services. In this second case Japanese value as a trader appears reduced. According with WB (2018), during the first years of 2000s Japan was recording positive terms of trade with the rest of the world¹². Thus, it was a net exporter toward the rest of the world. This trend changed after 2011, showing a deficit in the balance of trade. However, in 2017, as well as in 2016, Japan registered a trade surplus¹³. Hence, it is not clear the overall Japanese trend of trade (visible also in **Figure 1.2**). Japanese top trading partners¹⁴ are: China, EU, US and South Korea¹⁵. Considering the WTO's data (2018b), in 2017, 83% of the Japanese merchandise export consisted of manufactures (mainly motor cars, components of motor vehicles and electronic circuits), almost 4% consisted of fuels and mining products and just 1.6% of agricultural products. On the other hand, in 2017, Japan imports of manufactures accounted for 62% (radio-telephony tools), fuels and mining products for 24.1% (petroleum oil), and agricultural products for 12.2%. In terms of agricultural products and foodstuffs, Japan is a big importer because it can just partially provide by itself of the food it needs. In 2017 main Japanese agricultural imports were pig meat and maize, while it exported basically food preparation and sauces. In terms of services, Japanese imports and exports were basically the same: commercial services and, for a small percentage, transport services.

In 2017, Japan was the sixth trading partner of the EU and EU's second biggest trading partner in Asia after China. At the same time, the EU was the third trading partner for Japan (EUROSTAT 2018). As it is possible to figure out from **Table 3.15**, between 2002 and 2017 the

¹² Trade consists of both goods and services.

¹³ In 2017 Japan recorded a trade surplus of US\$ 44,435 million.

¹⁴ Taking into account both imports and exports of merchandising products.

¹⁵ Other important partners are: Taiwan, Australia, Thailand, Vietnam, Indonesia.

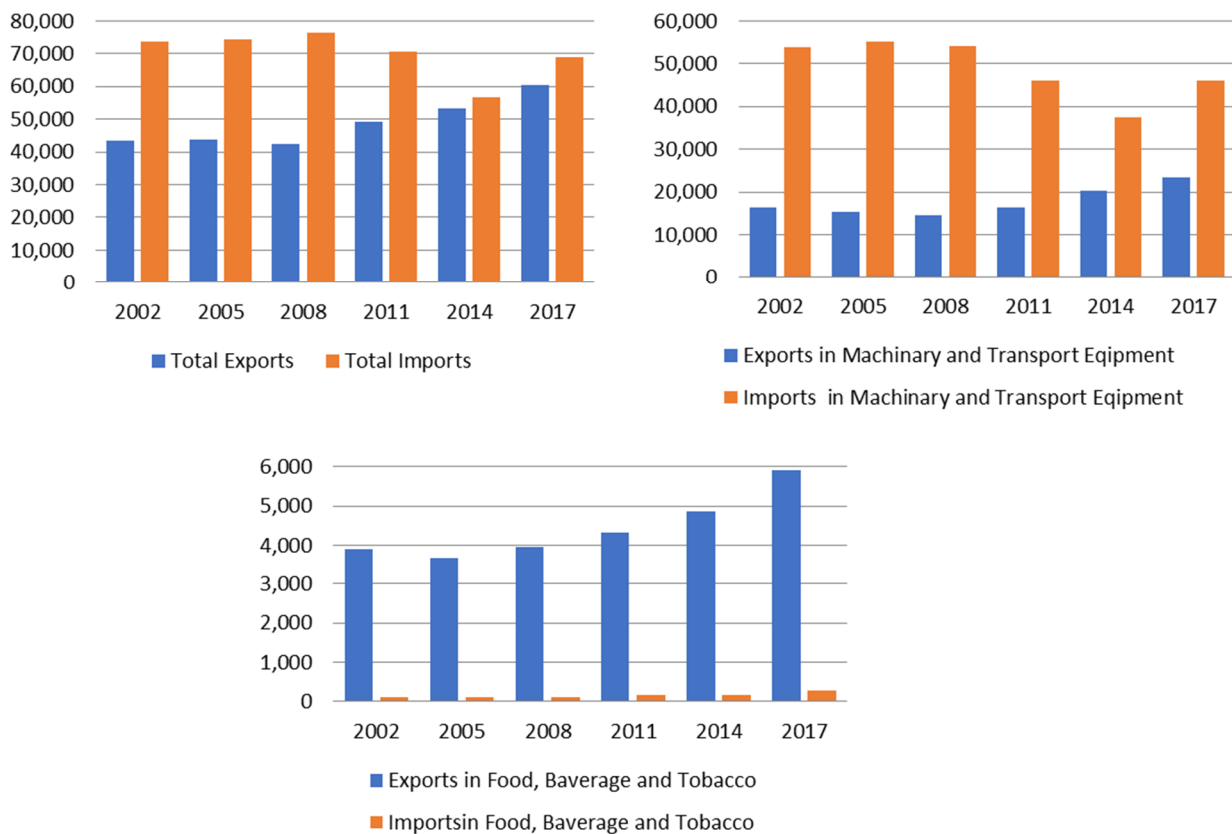
trend of the trade between the EU and Japan did not recorded a significant boost; in 15 years it remain almost unchanged with just a limited growth. The only exception has been the sector of food, beverage and tobacco, that has showed a growth of 35,2% in the 15 years under examination. As concern the total trade between the two Parties, the EU registered a deficit in every year under observation. According to EUROSTAT (2018), in 2017, the main manufactures exchanged between the two Parties were machinery and transport equipment, specifically automotive products, and chemical products. In the exanimated years, Japan resulted to be a net exporter of machinery and transport equipment.

Table 3.15 EU import and export of goods with Japan (2002-2017).

	2002	2005	2008	2011	2014	2017	Var (%) exchange of goods 2002-2017
Total Trade in Goods							9.3
Trade balance in million euro	-30,323.1	-30,622.8	-34,084.0	-21,508.1	-3,213.6	-8,367.9	
Exports in million of euro	43,500.1	43,723.2	42,390.4	49,075.4	53,322.2	60,506.4	
Imports in million of euro	73,823.2	74,345.9	76,474.5	70,583.4	56,535.8	68,874.4	
Trade in Machinery and Transport equipment							-1.3
Trade balance in million euro	-37,639.5	-39,780.4	-39,355.4	-29,769.4	-17,198.3	-22,685.0	
Exports in million of euro	16,284.6	15,320.4	14,675.2	16,349.2	20,211.5	23,316.4	
Imports in million of euro	53,924.1	55,100.8	54,030.6	46,118.6	37,409.8	46,001.4	
Trade in Food, Beverage and Tobacco							35.2
Trade balance in million euro	3,787.0	3,550.8	3,844.7	4,184.3	4,700.5	5,634.1	
Exports in million of euro	3,903.3	3,664.7	3,964.1	4,335.4	4,876.0	5,917.4	
Imports in million of euro	116.3	113.8	119.4	151.2	175.5	283.3	

Source: our elaboration on Eurostat (EUROSTAT 2018).

Figure 3.5 EU import and export of goods with Japan, million of Euro (2002-2017).



Source: our elaboration. on Eurostat (2018).

However, as it is possible to figure out from **Figure 3.5**, the Japanese exports in this sector has been showing a decreasing trend. Thus, Japanese are not exporting toward the EU the amount of machinery and transport equipment it used to do in the early 2000s. On the other hand, over the period 2002-17, the EU has been a net exporter of chemical products as well as food, beverage and tobacco toward Japan. In 2017, food, beverage and tobacco represented the 9.7% of the EU's export toward Japan and just the 0.4% of the EU's imports from Japan. Generally, from the EU Japan imports pig meat and pig meat preparation, chocolate products and wine¹⁶ (FAOSTAT, Data 2018). To conclude, as regard trade in services, in general each Part supply commercial services to the other Part. According to WTO data (2018b), the EU overweighed Japan in the value of exported services each year during the period 2014-16, recording an average surplus of US\$ 7,380 million.

¹⁶ In 2016 Japan imports respectively US\$ 1,576 million of pig meat and preparation, US\$ 1,091 million of wine and US\$ 185 million of chocolate products.

3.3.2. *What does the EU-Japan EPA promote?*

In 2013 the European Union started the negotiations with Japan to establish an EPA. In July 2017 the Parties reached a deal, and, it entered into force the 1st February 2019. The agreement does not foresee the national ratification procedures contrary to the CETA between the EU and Canada. The EU-Japan EPA is also called Japan-EU FTA (JEFTA). According to the European Commission summary of the principles of the Agreement (2017), not unlike the EU-Korea FTA, the JEFTA involves:

- The reduction of tariffs in goods, the improvement of trade in services and public procurement. The first aim of the Agreement is indeed, boosting trade and investments between the Parties, with special attention to both EU's and Japanese small and medium enterprises.
- The reduction of non-tariff measures such as TBT and SPS measures in order to enhance the predictability of trade and improve market access.
- Provisions about RoO. They will ensure that the beneficial dispositions of the Agreement will actually target the right recipients, i.e. EU's and Japanese producers.
- Intellectual property right and GIs.
- The observation of international regulations as regard labour and environment.

The JEFTA's topics of major interest for the EU and Japan are respectively agricultural and agri-food products, and cars. Because of the potential role of Japan as a destination for EU food export and the potential role of the EU as a destination for Japanese cars, often the press and the media refer to the agreement between Japan and the EU as a "cars-for-cheese trade deal"¹⁷ (Pooley and Brundsen, EU and Japan finalise 'cars-for-cheese' trade deal 2017). According to the summary elaborated by the European Commission (2017) Japan will liberalise 99% of EU's exports: 91% have been already liberalised with the entrance into force of the Agreement, while the remaining part will be liberalised in 15 years. The excluded 1% refers to agricultural products. Indeed, the Agreement maintains some duties (even if lowered) and quotas on Japanese imports of EU's agricultural products like pig meat (European Commission 2017, 2). A significant success for the EU is the elimination of tariffs on EU wine, that, before the Agreement, were equal to 15%. Indeed,

¹⁷ To give an example, have sight of the article "EU and Japan finalise 'cars-for-cheese' trade deal" in the Financial Times. <https://www.ft.com/content/b48e4f3a-dc0e-11e7-a039-c64b1c09b482>.

as state above, wine is one of the main EU's exported products to Japan together with pig meat. JEFTA also eliminated Japanese tariffs on EU's hard cheese and introduced a TRQ for the export of other kind of EU cheeses like Mozzarella, Feta, Brie and Camembert. Some foodstuffs like chocolate and related (among the main foodstuffs imported by Japan from the EU), pasta and confectionary will achieve market access over time (5 or 10 years depending on the product). Japan also agreed a reduction of import tariffs for the EU's bovine meat. Not surprisingly considering its importance for Japan, the Agreement completely exclude rice from liberalisation. Not least, in terms of SPS measures, the JEFTA eliminate Japanese barriers on EU food additive that made it difficult the EU agricultural and food export toward Japan¹⁸. The JEFTA's negotiations brought to another important result for the EU: the protection of EU GIs for 205 products with the possibility to augment their numbers over time. The Parties recognised the possible coexistence between GIs products and homonymous Japanese trade marks only for those trademarks already on the market before the entrance into force of the Agreement.

On the other hand, the EU liberalised 75% of Japanese export from the 1st February 2019, and it will liberalise almost 100% of them in 15 years from the entrance into force of the Agreement (European Commission 2017, 2). For Japan the main gain obtained with the JEFTA is the liberalisation of EU motorcar market and electronics of which tariffs reached respectively 22% and 14% before the Agreement (Sunesen, Francois and Thelle 2009, 29). However, also the EU gained access in the Japanese car market with the abolition of Japanese regulatory barriers. Indeed, the Parties agreed to harmonise their safety standards and regulations to the international ones avoiding double checks (2017).

3.4. Discussions on EU-Korea FTA and JEFTA

The JEFTA was welcome by EU institutions. According to the President of the European Commission Jean-Claude Juncker “[...] together with close partners and friends like Japan we will continue to defend open, win-win and rules-based trade. And more than words or intentions, this agreement will deliver significant and tangible benefits for companies and citizens in Europe and Japan [...]” (European Commission 2018c). Undoubtedly, considering the extent of the EU's and Japanese economies, the Agreement is significantly big. Indeed, in 2017 the EU's GDP, together with the Japanese one, represented approximately 33% of world GDP (WB 2018). The trade of

¹⁸ The JEFTA fixes common food safety standards and allows to avoid the double checks and certifications.

goods between the two Parties was not consistent with the amount of their GDP (see **Table 3.**). According with Felbermayr (2019), the trade covered by the JEFTA is relatively small accounting just for the 1.2% of world trade. As a consequence, the Agreement offers plenty of scope for the expansion of trade. Considering the gravity equation forecasts, one would say that, on the one hand, the magnitude of countries' GDP represents a good sign for the future increase of trade between the EU and Japan. On the other hand, however, the gravity equation predicts an increase of trade inversely proportional to the distance between countries. According with this theory, the distance may affects both the agreement between the EU and Korea and the one between the EU and Japan. Nevertheless, the gravity equation also states that other factors, for instance the domestic policy, could counterbalance the negative effects of the distance between countries. The case of Korea showed that the distance between the Parties did not affected the trade between the EU and Korea because, indeed, after the agreement the trade notably increased. Therefore, because JEFTA's provisions are similar to the ones of the EU-Korea FTA and because of the fact that the EU-Korea FTA brought to results greater than expectations, it is possible to image that also the JEFTA will benefits Parties. Moreover, in Japan, a series of elements have played a more important role then the distance with the EU. Suzuki (2017) argued that Japan recognise many concessions to the EU without facing the opposition of the Japanese civil society organisations. In his opinion, a network of causes and reasons explain this result. First of all, the agreements previously signed by Japan with other countries had granted, step by step, further liberalisation of the agricultural products and foodstuffs¹⁹. This led the EU to ask for more during the negotiation of JEFTA and contributed to the acceptance of the concessions agreed by Japan to the EU. Second, when the negotiations of JEFTA started in 2013, Japan was also negotiating the TPP with Asian-Pacific countries and US. These countries are more crucial for Japan than the EU²⁰. Therefore, not much attention was given to the negotiations with the EU. At the same time, also the EU were more focused on the negotiations of the TTIP. Compared with TPP and TTIP, the scope of the JEFTA appeared reduced, indeed its provisions are less cutting-edge. For this reason, in a sense, the Agreement went unnoticed and its concessions were considered less costly. Third, as observed above, Japan is highly dependent on the import of food and raw materials. Thus, it needs to pursuit more liberalisation. It

¹⁹ The agreement signed by Japan with other countries that contributed to further liberalise agricultural market are the one with Mexico (2005), Chile (2007) and Peru (2012).

²⁰ After the World War II the Japanese policy has always been focused on the US both for economic interdependency and security alliance reasons. Moreover, it demonstrates a path dependency toward US, meaning that it follows US' footsteps. On the other hand, Japanese many multinationals plants of electronics and motorcars are based in Pacific countries.

also needs to conclude bilateral trade agreements in order to avoid being cut off from the trade system. As a result, Japan is eager to conclude bilateral trade agreements. From this point of view, the Trump's decision to withdraw from the negotiations of TPP, which represented a threat for the conclusion of the TPP, could have pushed Japan closer to the EU and could have made it more passive in negotiating. Also the Brexit referendum may have worked in favour of a quick conclusion of the Agreement. Indeed, it is possible to imagine that the EU pushed Japan to accelerate negotiation of the JEFTA. The EU was aware of the fact that Japanese motorcars plants are based in the UK. In the case of a "hard Brexit", exported cars from the UK to the EU should face high tariffs. Therefore, Japanese plants could be relocated in the EU with an advantage for the EU and a disadvantage for the UK.

Taking everything into account, JEFTA potential to boost trade between the Parties is undeniable considering both the extent of the EU and Japanese economies and the previous encouraging results obtained in the EU-Korea FTA. Both Korea and Japan are among the main trading partners of the EU. Nevertheless, the EU's exchange of products with them has been considered underdeveloped compared with its potential and so the possible growth room in trade pushed the EU to approach them. Moreover, the decision to deal trade agreement with Korea and with Japan has also a political reason: the desire to get closer to Asian countries. Indeed, as stated in Chapter two, there is the well-known awareness that Asian economies are obtaining even more space in the global order, and thus it became fundamental for Western countries building relationships with them. It has been also observed that the agreement between the EU and Japan finds some rationales in the need to counterbalance the predominance of Korean products in the EU. Since 2011, year of the entrance into force of the EU-Korea FTA, Korean electronics and automotive industry have been occupying even more space among EU consumption (Faieta 2019). In this sense, the JEFTA gains a strategic role: slow the Korean products advancement in the EU.

In agricultural and agri-food trade, the EU obtained good results both in the EU-Korean agreement, as well as in the negotiations of JEFTA. Considering the similarities between Japan and Korea, the good results obtained in the EU-Korea FTA bode well also for the effects of JEFTA. Japan, as well as Korea, is not self-sufficient in terms of soft commodities, and this gives way to EU exports. As shown in **Table 3.10** and **Table 3.**, the exports in agricultural products was the only one in which the EU registered a positive terms of trade with both Korea and Japan. Considering, on the one hand, the lack in soft commodities self-sufficiency of Japan and, on the other hand, the trade surplus of the EU, the EU has the potential to obtain a growth in the trade in this sector. Japan

export of soft commodities and agri-food products is not comparable with the one of the EU in terms of value. As previously shown (**Table 3.**), the Japanese export values were negligible compared with the ones of the EU. Thus, Japanese export in soft commodities and agri-food does not represent a threat for EU producers. The only possible threat should have come from rice, indeed Japan recorded higher values of production than in the EU under the examined period (compare **Table 3.3** and **Table 3.14**). However, rice was excluded from the Agreement. In addition, the fact that Japan, as well as Korea, maintain high level of barriers in the agricultural sector indicates that the Agreement, liberalising the market, has the potentiality to really boost trade in agricultural and food products. Moreover, Japanese concessions, specifically the elimination or, for some products, the reduction of tariffs, significantly liberalised the market. What is more, between the EU's agricultural production and the one of Japan there is the same complementarity observed also between the EU and Korea. As a consequence, the two Parties are not direct competitors. However, as observed in the case of the EU-Korea FTA, the US could represent a threat for the EU's agricultural and foodstuffs export toward Japan. Indeed, after the Trump's withdrawal from the TPP, the US are now negotiating a bilateral trade agreement with Japan to ensure US farmers more access to Japanese market (Barlaam 2019). As previously mentioned, Japanese Prime Minister Shinzo Abe is promoting the liberalisation of the Japanese agricultural sector in order to make it more competitive. Thus, the government is in favour of the agreement with the US as well as it was in favour of the agreement with the EU. Therefore, it is probable that the US and Japan will actually sign the agreement and when it will happen the EU and US will compete for obtaining even more share in Japanese agricultural and food consumption. Both the EU-Korea FTA and the JEFTA well embody the trend of countries to emulate each other in dealing bilateral trade agreement in order to straighten their network of trade relations and not be left out from trading system. One important achievement for the EU coming from both the EU-Korea FTA and JAFTA was also the recognition of GIs. The efforts made in obtaining as much protection of GIs as possible is consistent with the EU strategic policy to maintain EU products protection beyond the domestic market. Indeed, as described in Chapter two, the EU is spreading the recognition of GIs through PTAs. Through these agreements the EU ensures for its products broader protection than the one granted by the WTO.

It was especially for the aspect concerning GIs protection that the Italian government ruled by the coalition between Northern League and Five Star Movement welcomed the JEFTA

(Valentini 2018). Indeed, the major number of GIs recognise under the JEFTA are Italian²¹. The JEFTA has been seen by Italy as a first step in the fight against the Italian Sounding²². In addition, the agreement with Japan could help Italy to gain market share. Indeed, Italy is behind other EU members in exporting toward Japan. For instance, French export toward Japan in 2018 was 80% more than the Italian one²³ (Faieta 2019). One of the main encouraging aspect for Italy is also the elimination of tariffs applied on wine, in fact Italy represents a supply market for the Japanese imports of wine. Moreover, as reported by Faieta (2019), gains are expected also in Italian cheeses exports.

²¹ JEFTA protects 200 GIs of which 45 are Italian GIs.

²² The term Italian sounding refers to the counterfeiting phenomena of the Made in Italy products.

²³ In 2018, Italian agricultural and agri-food export toward Japan accounted for €1.13 billion, almost the 3% of the Italian agricultural and agri-food export with the rest of the world (ISMEA 2018).

4. EU-CANADA COMPREHENSIVE AND ECONOMIC TRADE AGREEMENT

4.1. Canadian macroeconomic data and indexes

Canada is a federal state, member of the Britain Commonwealth. It is divided in ten provinces and three territories. It is ruled by a parliamentary democracy and, because of its colonial history, its languages are English and French that is the official language of the Quebec province. According to the OECD Database (2018b), in 2017, Canadian GDP accounted for approximately \$ 1,707 billion, the lowest between the case studies under examination. However, in 2017 the GDP growth rate, accounted for 3.05%, was the highest among the countries considered. Through further observations it has been found that Canadian GDP annual growth rate averaged 3.2% from 1962 until 2017. In 2017 the GDP pro capita recorded 46,510 US\$ (OECD 2018b). Canadian GDP pro capita is the highest between the case studies and over the average GDP per capita of OECD countries, even if Canadian GDP per capita presented a lower growth rate compared with them.

Table 4.1 Macroeconomic indicators of Canada.

Canada	2010	2011	2012	2013	2014	2015	2016	2017
GDP (Million US \$)	1,363,823.02	1,430,807.13	1,468,095.77	1,554,122.75	1,621,391.83	1,594,897.62	1,628,880.18	1,710,461.62
GDP growth rate % (a)	3.08	3.14	1.75	2.48	2.86	1	1.41	3.05
GDP per capita (US\$)	40,106.22	41,662.53	42,246.70	44,211.04	45,627.58	44,509.79	44,916.53	46,596.32
Population	34,005,274	34,342,780	34,750,545	35,152,370	35,535,348	35,832,513	36,264,604	36,708,083
Population growth rate %	1.11	0.99	1.18	1.15	1.08	0.83	1.2	1.22
Added value by activity %								
Agriculture	1.42	1.71	1.76	1.84	1.52	1.64	1.55	1.50
Manufacturing	11.06	10.99	11.09	10.62	10.45	10.38	10.34	10.51
Services	70.03	68.91	69.36	69.31	69.07	69.24	69.15	69.10
* Other	17.49	18.38	17.79	18.22	18.97	18.74	18.96	18.89

Source: our elaboration on OECD (2018b).

* Source: our elaboration on WB (2018).

(a) The Real GDP growth rate has been computed using constant 2010 US\$.

As shown in **Table 4.1**, Canadian population growth rate in 2017 was 1.2%, while the one of EU was equal to 0.3% and the one of OECD countries was 0.6% (WB 2018). OECD Database (2018b) shows that the total Canadian population increased from 34 million in 2010 to 36.7 million in 2017. An interesting feature of the Canadian population is its high degree of education. The national population distribution data show that Canadians live mainly in urban regions, 56% in 2014, while a smaller part of people lives in rural ones, 28% in 2014. Compare with 2000 values, the rural population is increased less than the urban population. This trend matches the Canadian added value by sector that highlights an even more increasing propension toward services, while the agricultural sector represented only the 1.5% of added value to GDP in 2017. Both the EU and Canada share almost the same framework in terms of economic sectors, indeed their economies are mainly based on services, then on manufacturing and only for a small percentage on agriculture (WB 2018) . Since 1970s Canadian growth has been focused on services production, while economy is historically natural-resources based (Anderson, 1988 p. 122). The Canadian minerals industry is very important, indeed, alone it accounted for the 3.3% of the GDP. Aluminium, coal and copper are between the most important products (Government of Canada, 2016).

As far as agriculture is concern, Canadian agriculture is characterised by mechanise and intensive farming, advantaged by the extension of the arable land. In 2017, the Canadian Agricultural Partnership became the new agricultural policy framework (OECD 2018c, 115-116). This new framework is focus in improving investment in innovation and research, trade and environmental sustainability. In 2016, the Canadian agricultural land covered 62,671 thousands of hectares, corresponding to 7% of the land area. EU's agricultural land is almost six times the one of Canada¹. As well as in the case of the EU, Canadian agricultural land has been decreasing². The level of population involved in agriculture has been lowering for two decades. In 2016 the value of employment in agriculture represented 1.9% of the population, of which more than half were women. Numbers confirm the decreasing importance of agriculture as an economic sector compared with the others. However, the trend of the agricultural export value increased by an average of 7% a year during the period 2000-2016 (FAOSTAT, FAO Statistical Yearbook 2016). In 2017, the main soft commodities produced by Canada in terms of millions of tonnes were: wheat (29.9), rapeseed (21.3), maize (14.1), milk (8.9), barley (almost 7.9), soybeans (7.7). Canadian and

¹ In 2016, the EU agricultural land occupied 181,507 thousands of hectares, corresponding to 43% of the arable land.

² In 2000 the Canadian agricultural land was 7.5%.

EU output in soft commodities is very similar; they basically produce the same. So, unlike between the EU and Japan and between the EU and Korea, there is no complementarity between the agricultural products of the EU and Canada.

According to OECD (2018c, 115), the degree of protection of the Canadian production in soft commodities has been decreasing since 1980s. Among the reason of the improvement in liberalisation there is the dismantling of the market price support to the wheat industry in the 1990s. According to data collected from OECD Database (2018b), in 2017 the TSE% was 0.4%; almost half of the one registered in 2000 and it remains under the OECD and EU level. Also the government support to farmers has been decreasing and, in 2017, was lower than both the EU and OECD countries average. Indeed, for the last five years the PSE% has been considerably decreasing compared with the early 2000s.

Table 4.2 Canadian trend of TSE as a share of GDP and trend of PSE as a share of GFR (2000-2017).

Country	Indicator	2000	2003	2006	2009	2012	2015	2017
Canada	TSE % GDP	0.75	0.86	0.65	0.63	0.53	0.37	0.37
	PSE % GFR	19.45	24.22	20.82	17.11	13.86	8.62	9.56

Source: our elaboration on OECD (2018b).

Looking at the support ensured to the single commodities (SCT%) in **Table 4.3**, it is clear that dairy product is the commodity that is more supported by government policies in Canada. Despite the improvement registered in the last years, Canada maintains high levels of protection through different governmental programs, as well as the EU. Moreover, unlikely to wheat industry, market price support in dairy and poultry industries did not registered consistent changes.

Table 4.3 Canadian SCT as a share of GFR (2000-2017).

Canada		2000	2003	2006	2009	2012	2015	2017
Commodity	Indicator							
Milk	SCT% GFR	64.00	58.63	58.09	54.12	48.29	49.72	41.95
Eggs	SCT% GFR	3.45	-0.68	31.12	16.25	27.59	-50.49	18.86
Wheat	SCT% GFR	2.95	7.86	0.84	2.41	0.59	1.68	2.90
Soybeans	SCT% GFR	10.35	5.98	1.52	1.11	0.37	0.97	2.22
Poultry meat	SCT% GFR	0.64	6.06	13.63	18.86	26.85	0.24	0.16

Source: our elaboration on OECD (2018b).

The general MFN average tariff of Canada, as well as the one of the EU, is not particularly high thanks to the multilateral negotiations that increasingly reduced it. Analysing WTO data (2018b), it was found that in 2017 the general Canadian MFN simple average duty was 4%, while Canadian exports faced a MFN simple average duty of 5.1% to enter the EU. On the contrary, the MFN simple average duty applied on soft commodities is higher. Indeed, in 2017 it was 15.7% and 10.8% respectively in Canada and in the EU. In addition, some products remain even more protected, those are: dairy, eggs and poultry. They are subject to TRQs and sharply high out of quota tariffs³. The most astonishing example is the out of quotas tariff applied for dairy products that in 2017 was close to 249% (WTO 2018b). The policy that regulates Canadian dairy industry, *the supply chain management*, allows for a quota system. That means that the domestic production is regulated by some tariffs that maintain the domestic price higher than the international one. As a result, Canadian government has to hold some barriers to the imports of dairy product from outside the domestic market (2015, , 8). Moreover, where tariffs are not unaffordable, another problem arises: other countries' firms are more competitive in the partner's market because they are advantaged by already existing PTAs (European Commission and Government of Canada 2007, 40-47).

³ Tariff rate quota is the combination of two barriers to imports: the tariff and the quota. The quota imposes a limit to the imported quantity of a product. Within the quota the tariff rate is generally affordable when it is not equal to zero. On the contrary, the out of quota tariff is generally very high to discourage, or make inconvenient, exporting the product.

Table 4.4 Canadian most favoured nation simple average duties (2010-2017).

Canada	2010	2011	2012	2013	2014	2015	2016	2017
MFN Simple average duty %	3.7	4.5	4.3	4.2	4.2	4.2	4.1	4.0
MFN AG Simple average duty %	11.3	18	16.2	15.9	15.9	16.7	15.6	15.7
MFN NON AG Simple average duty %	2.6	2.5	2.4	2.3	2.2	2.2	2.2	2.1
MFN Simple average duty % (Commodity)								
Animal products	20.4	30.5	24	24.5	24.6	24	23.5	24.2
Dairy products	126.6	246.8	228.5	248.9	248.9	248.9	248.9	248.9
Cereals and preparations	14.1	20.3	23.8	21.4	21.4	22.7	20.5	20.4
Oilseeds, fats and oils	4.1	4.8	4.1	3.9	4	3.9	3.8	3
Beverages and tobacco	4.2	4.2	3.8	3.9	3.9	3.9	3.8	3.7
Fish and fish products	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9

Source: our elaboration on WTO (2018b).

On the other hand, Canada complains that also the EU maintain high tariffs on soft commodities, for instance the EU's MFN duty on fish and seafood products (11.6%) that affect Canadians producers' exports (WTO 2018b). However, the big problem for Canadian exports is other kind of barriers applied by the EU as the SPS measures and standards.

4.2. Canada trade policy and features

From a trade and investment point of view the Canadian linkages with the rest of the world mirrors the geographical positions of its provinces. Indeed, while Ontario province is closer to the US, the Atlantic regions are more involved in relations with Europe. At the same time the Western provinces developed connections with Asia and Pacific regions (I. Anderson 1988, 15-27). Western European countries and Canada are linked by historical and cultural background, in particular with France and the UK, with which Canada has the broadest bilateral ties. Moreover, among EU's countries, France and the UK are not the only ones with links with Canada. As observed by Bellia (2004), the 5% of the Canadian population has Italian origins. Nevertheless, in twentieth century the connection with European countries were overshadowed by the growing influence of the US. This is also demonstrated by the fact that Canada is one of the few countries with which the EU had not a bilateral trade agreement in force yet. Moreover, Canada had never constituted a priority for the EU and the EU has historically been more connected with the US rather than with Canada⁴. In 1980s

⁴ The Marshall Plan after the II World War and the alliance against communism during the Cold War maintain the US and the EU connected with each other, also in economics terms.

the relation between Canada and the US was sealed by the signature of the North American Free Trade Agreement (NAFTA). The US has been the focal point for Canada since that moment.

Even if Canada gained benefits from its relationship with the US, the partnership had been too much all-encompassing for Canada. In other words, Canada resulted to be too much influenced by its relations with the US (Deblock and Rioux, From economic dialogue to CETA 2011). The economist Daniel Trefler (2001) analysed the impact of the Free Trade Agreement between Canada and United States over 1988-96 period. According with his results, even if in the short run the Canadian adjustment costs resulting from the agreement were quite high compared with the gains, in the long run the gains overweighed the losses. Indeed, he estimated that in the short run the employment was reduced by the 5%⁵. In the long run however, new jobs in other manufacturing industries offset the lost jobs. Trefler stated that the annual earnings increased just for production workers (i.e. factory workers) and did not affect earnings of non-production workers, so NAFTA, to some extent, reduced inequality. In addition, he estimated an increase in labour productivity⁶. Despite the trifier's analysis suggests positive results in the Canadian agreement with the US, in 2009 Deblock et al. (2011) emphasised the stagnant situation of Canada after almost twenty years of the agreement. In their opinion the NAFTA reached a stalemate due to the global changes in international trade landscape; in particular the rise of competitive Asian countries from which the US started to import. The fact that Canada is a net exporter of fuels and mining products, and agricultural products, representing respectively the 22.3% and 16.2% of its export in 2017 (WTO 2018b), allowed Canada to register good performance until 2008. However, between 2009 and

⁵ Usually the trade in the major industries of the developed countries is characterized by the absence of trade barriers and protections but, this is not like Canada's condition in 1989. As Trefler says, in Canada, before 1989, more than 25% of manufacturers industries of a wide range of products competed with tariffs of more than 10%. Moreover, the effective rate often overtook the average tariff, and, as a result, it discouraged even more the import of products. When the Free Trade Agreement became effective, employment was reduced by 5%, corresponding to 100,000 lost jobs.

⁶ Labour productivity raised by a compounded annual rate of 2.1% for the most impacted industries and by 0.6% for manufacturing as a whole. Another important index considered in Tefler's work is the Total Factor Productivity (TFP). TFP jumped 8% over eight years (from 1988 to 1996) in the most impacted industries and 1.6% in manufacturing as a whole over the same period⁸. This result suggests that tariff cuts brought to reallocate resources from protected, nonperforming low-end manufacturing to high-end manufacturing. The gain of FTA was rising efficiency within plants and improving operating practices. Moreover, high productivity manufactures expanded into the United States, and doing so they hired new workers offsetting job losses.

2017, Canada recorded a trade deficit with the rest of the world⁷, meaning that its resources became no longer able to offset the ongoing changes in international trade, first of all the competitiveness of China and other emerging Asian countries. Deblock et al. (2011) stressed that Canada's need to regain attractiveness and counterbalance the influence of the US. Canada is aware of these circumstances and, indeed, since 2010 it has been trying to approach other countries in order to develop a new trade network. **Table 4.5** gives an overview of the trade treaties recently agreed by Canada. The clearest and more recent example of this attempt to gain appeal in the international landscape is the CPTPP signed in March 2018. Through the CPTPP Canada would like to deepen its relations with the Pacific countries. On the other hand, Canadian major commitment is also visible looking at the RTAs for which an early announcement has been made. Compare with older agreements, signed before 2015, Canada has been targeting also Asian countries. As state in Chapter two, dealing agreement with Asian countries is also the recent path followed by the EU and US⁸. So, the commitment advocated by Deblock in 2011 is taking place and Canada is trying to not be left out from the new international trade framework.

On the other hand, as already discussed in Chapter two, because of the impasse of the multilateral system, the EU is pursuing the path of bilateral trade agreements. Thus, the EU desire to start negotiations with Canada was justified by its attempt to create a network of new partnerships. Moreover, the policy aimed at spreading as much as possible the EU's GIs is also consistent with the EU project of boost bilateral agreements. Indeed, thanks to GIs the EU can maintain a certain level of protection on its agricultural products and foodstuff while leverage the economy of scale effect. In addition, the EU, aware of the Canadian policy aimed at gain independence from the US, had more bargaining power. As a consequence, it knew that it could obtain more from Canada than how much Canada could gain in the negotiation with the EU.

⁷ The total imports and exports take into consideration both Canadian trade in goods and services. From 2009 and 2017, Canada recorded on average a trade deficit of US\$ 30 billion.

⁸ In 2015 Canada signed the agreement with Korea, that have previously deal an agreement with the EU (in force since 2011) and the US (in force since 2012). Moreover, as well as the EU, Canada is negotiating with Singapore, with which the US has an agreement since 2004.

Table 4.5 List of Canada's RTAs notified or announced to the WTO.

Canadian RTAs	Date of signature	RTAs under negotiations
CPTPP	2018	Singapore
USMCA	2018	Dominican Republic
Ukraine	2017	CARICOM
EU	2017	
Republic of Korea	2015	
Honduras	2014	
Panama	2013	
Jordan	2012	
Perù	2009	
EFTA	2009	
Colombia	2008	
Costa Rica	2002	
Chile	1997	
Israel	1996	
NAFTA	1994	
	(modified in 2018)	

Source: our elaboration on WTO (2018c)

4.2.1. Trade between Canada and the EU

According to the European Commission (2018b), in 2017 Canada was the tenth merchandise trading partner of the EU, while the EU was the second trading partner of Canada after the US. During the period under examination, the total trade between the two Parties has been lower than the one occurring between the EU and the other two examined countries: Korea and Japan (compare **Table 3.10**, **Table 3**, and **Table 4.6**). Looking at **Figure 4.1**, one could notice that the trend of trade between the EU and Canada has been increasing. In 2017, the EU's export targeted at Canada was equal to 2%, while the EU share of import coming from Canada was 1.7%. Except for 2011, the EU has always registered a positive terms of trade in the exchange of goods with Canada. In 2017, the EU exported goods toward Canada for a value of \$ 37.7 billion, while the value of imports corresponded to \$ 31.5 billion. The level of intra-industry trade between the two countries is significant. Specifically, as shown in **Table 4.6** and **Figure 4.1**, the main products exported by the EU toward Canada are machinery products and transport equipment, and chemicals products of

which predominantly pharmaceutical products. Also the Canadian exports toward the EU are mainly machinery and transport equipment, demonstrating an high degree of intra-industry trade. In addition, Canada exports toward the EU also fuels and mining products.

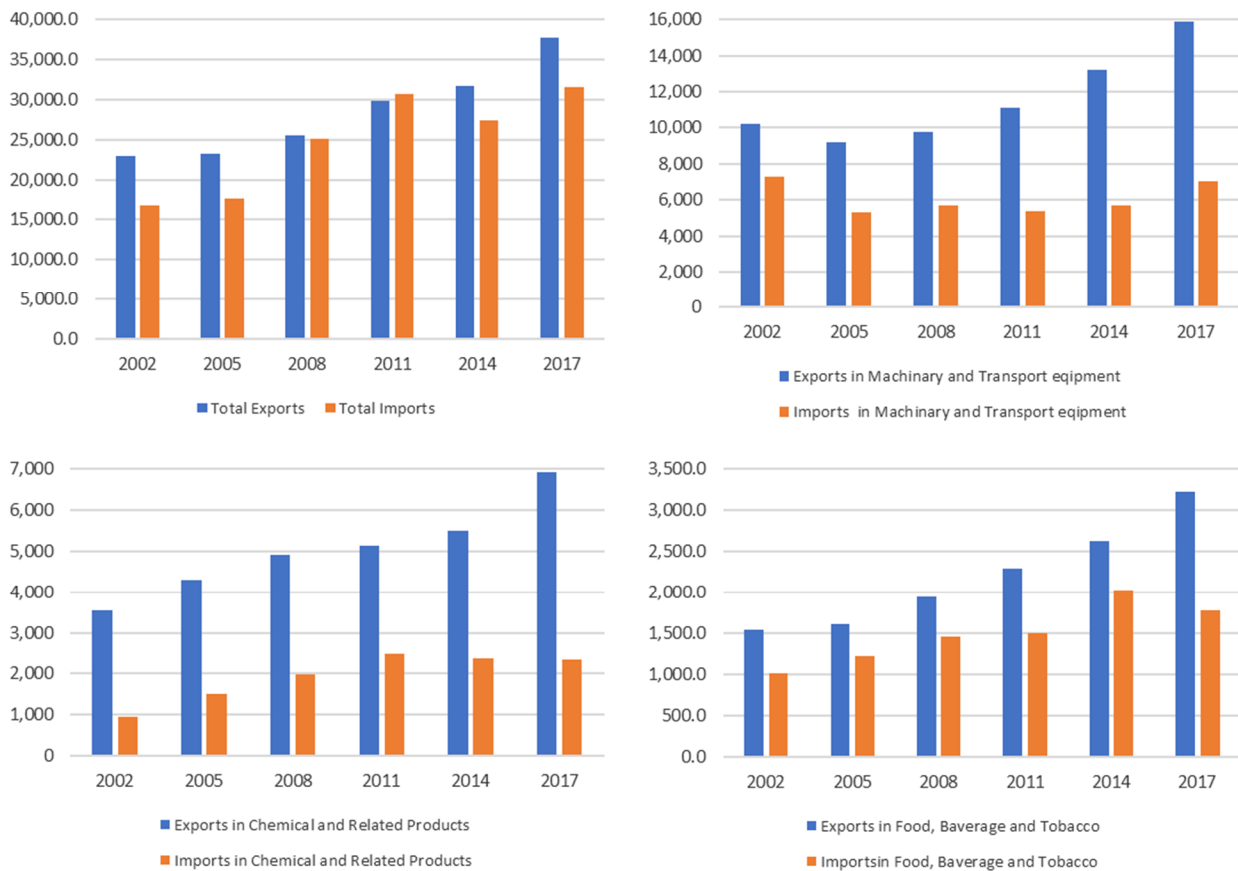
Regarding the trade in food, beverage and tobacco in 2017 it represented the 8,6% of the total EU export toward Canada and the 5.6% of EU imports from Canada (EUROSTAT 2018). Observing FAOSTAT's data on the exchange in soft commodities between EU and Canada (2018), has been found that EU's export value toward Canada is higher than the Canadian export toward the EU (in 2017 it was €3.7 billion compared with €3.2 billion) and that the EU 2017 annual growth rate of agricultural export was 4.3%, while the one of Canada was equal to 0.0%. Main commodities, exported by Canada are wheat, rapeseed and rapeseed oil (and cake), meat and pork, and soybeans. At the same time, Canada is an importer of maize, sugar raw centrifugal, food preparation, soybeans cake and beverages (specifically alcoholic ones). In terms of value however, wine and chocolate products are between the main commodities imported by Canada. So, generally, EU imports from Canada are soft commodities, while Canadian imports from the EU are processed food products.

Table 4.6 EU import and export of goods with Canada, million of Euro and % (2002-2017)

	2002	2005	2008	2011	2014	2017	Var (%) exchange of goods 2002-2017
Total Trade in goods							42.7
Trade balance	6,166.2	5,538.6	383.0	-839.5	4,223.1	6,193.3	
Exports	22,916.3	23,250.5	25,487.9	29,890.9	31,653.8	37,702.4	
Imports	16,750.2	17,711.9	25,105.0	30,730.4	27,430.7	31,509.1	
Trade in Machinery and Transport equipment							23.7
Trade balance	2,941.7	3,880.4	4,076.5	5,711.6	7,568.8	8,881.4	
Exports	10,221.2	9,218.0	9,789.9	11,094.0	13,235.6	15,910.5	
Imports	7,279.5	5,337.6	5,713.4	5,382.4	5,666.8	7,029.1	
Trade of Chemical and Related Products							51.6
Trade balance	2,587.7	2,769.4	2,952.9	2,635.5	3,116.4	4,568.0	
Exports	3,537.7	4,288.4	4,927.1	5,132.8	5,490.9	6,916.4	
Imports	950.0	1,518.9	1,974.2	2,497.2	2,374.5	2,348.4	
Trade in Food, Beverage and Tobacco							48.8
Trade balance	517.3	389.5	492.2	797.0	599.5	1,451.8	
Exports	1,540.3	1,621.2	1,950.1	2,297.9	2,632.6	3,227.3	
Imports	1,023.0	1,231.7	1,457.9	1,500.9	2,033.1	1,775.5	

Source: our elaboration on EUROSTAT (2018).

Figure 4.1 EU import and export of goods with Canada, million of Euro (2002-2017).



Source: our elaboration on EUROSTAT (2018).

4.3. Purpose of the CETA agreement: the background

As shown in Table 4.5, in 2017 Canada signed the agreement with the EU. Even if the influence of the US has always kept Canada and the EU away from creating mandatory relationships, the two parties are no strangers to negotiate trade agreements between each other. In his article Krstic (2012, 4) gives an overview of the cooperation between the two Parties before the 2012. He was writing during the first years of the negotiations of the CETA and he provides some observations about the development of the Agreement. In 1976 Canada and the EU signed a Framework Agreement for Commercial and Economic Cooperation with which they committed to cooperate to align their regulation in different sectors and issues. This agreement performed the function of a base for future sectoral agreements, as the one concerning veterinary equivalency and the one on wine and spirits both signed between the end of 1990s and the beginning of 2000s.

However, the functions of such agreements were basics or limited in their sectoral scope. Others attempt for deeper forms of cooperation were carried on in the period 2004-2006, but they failed.

The intention to elaborate a comprehensive trade agreement between Canada and the EU was announced in October 2008 by the then Canadian Prime Minister Stephen Harper and the then France President Nicholas Sarkozy during an EU-Canada summit. The negotiations for the creation of the Canada-EU Comprehensive and Economics Trade Agreement (CETA) started in May 2009. According to the joint study of the European Commission and the Government of Canada (2007), the general and final goal of the CETA is to make flows of goods, capitals, investment and labour more fluid. In fact, the agreement born from the awareness of an increasing integration of the global marketplace and the growing importance of the global supply chain. In this scenario, the agreement aims to guarantee the two Parties the maintenance of competitiveness on a global level. In the study it was estimated that the agreement would have increased the EU's GDP by 0.08% and the Canadians one by 0.77% (2007). According to Krstik (2012, , 1-6), CETA is part of the increasing number of PTAs between countries that represents an attempt to eliminate non-tariff barriers to trade that frequently governments apply in order to protect non-trade related interests. Indeed, the Parties of the Agreement recognised the desirability of the elimination of non-tariff barriers and, in order to boost the trade among themselves, wanted to break down the barriers affecting their trade. As explained by Viju et. al. (Viju and Kerr 2011, 682), main problems that they had to face were: tariff barriers and TRQs in goods, SPS measures in agriculture, custom valuation rules, RoO as well as investment rules. But other impacting elements on the EU-Canada trade are also the packaging and labelling of some products.

As the term "Comprehensive" suggests, the purpose of the Parties was very broad. Indeed, the Agreement covers an ambitious range of topics. As stressed in Chapter two, since the early 2000s, the new generation of trade deals go beyond the simple elimination of tariffs in trading goods. They cover new areas such as labour and public services. CETA is not different. Its main areas are trade in goods and services, government procurement, but also collaboration in many economic areas such as regulatory cooperation, intellectual property, science research, technology, environment and energy. The extent of the Agreement obviously did not facilitate the process of negotiation, but the complexity of the process was also given by the way the Parties decided to sign and then ratify its text. Indeed, the CETA had to be signed by both national and regional parliaments of member countries of the EU. The multi-levels policy-making system that both the EU and Canada present and the different ways EU member state and Canadian provinces implement

legislation made even more difficult the prosecution of negotiations. At this regard, the Walloon affair well illustrates the complexity related to the so-called “mixed agreements” that involve both national and regional parliaments’ vote (Tatham 2018, 683). According to Tatham (2018), in April 2016 the Parliament of the Belgian region Wallonia spoke out against the CETA. As a consequence, the Belgian federal Parliament could not sign the Agreement⁹. But why did Wallonia reject the Agreement with Canada? Wallonia feared that the Agreement would have gave too much power to multinational food companies and concerned the competition arising from both Canadian and US multinationals seat in Canada that could have gain access toward the EU through Canada with the entrance into force of the Agreement. Among the broad provisions of the CETA text there is also the institutionalisation of an investor-state dispute settlement (ISDS) that have the role to protect foreign investors from Governments’ unfair behaviour (Council of the European Union 2017). In other words, CETA provides a tribunal to solve disputes arising between companies investing in the other Party’s territory and the other Party. CETA (Chapter 29 O.J. L11/23) allows the establishment of an arbitration panel through which a company can join into proceeding the foreign Government in case it reckons that the Government behaves in a discriminatory, nationalist or abusive way against its interests. This provision, commonly supplemented in international trade agreement, had been seen as an instrument serving multinational companies at the expense of states. Walloon farmers are largely subsidies (The Economist 2016). Thus, it is easy understanding Wallonia concern related to multinational food companies. If multinational companies would consider unfair the Walloon agricultural protection, they had the possibility to sue Belgian Government.

At the end of October 2016, the Parties reached a compromise. Wallonia obtained some concessions as long as it gave up halting the ratification process any further. The first concession recognised had to do with the arbitration panel. It was granted the EU Member States the role to nominate judges in order to ensure the public interest. Then, some tariff contingencies were granted on US agricultural products entering in the Belgian region through CETA’s provisions. Finally, the Parties agreed to give the EU the possibility to operate a series of aid programmes for producers in emergency exceptional cases without the opposition of Canada (Tatham 2018, 680-681).

Therefore, immediately after the approval of the concessions, the agreement was signed and provisionally entered into force the 21th September 2017. It was ratified by Canada in May 2017,

⁹ The Walloon regional Parliament is a legislative body of the Federal Parliament. Thus, it has jurisdiction over the international treaties. As a consequence, it has the power to block the ratification of a trade agreement.

but it can fully and definitely enter into force only if and when it will be ratified by each EU member state following their countries constitutional requirements. In this regard, Chapter 30, Art. 30.7 of the Agreement states:

“This Agreement shall enter into force on the first day of the second month following the date the Parties exchange written notifications certifying that they have completed their respective internal requirements and procedures or on such other date as the Parties may agree” (Council of the European Union 2017).

“The Parties may provisionally apply this Agreement from the first day of the month following the date on which the Parties have notified each other that their respective internal requirements and procedures necessary for the provisional application of this Agreement have been completed or on such other date as the Parties may agree” (Council of the European Union 2017).

To date¹⁰ half of the EU member countries has ratified the deal, Italy is among the ones that have not already ratified it. The Italian government, composed by the anti-establishment Five Star movement and the right-wing Northern League, made it clear that it does not intend to give consent for the final ratification of the Agreement (Motta 2018). It is undoubtable the sceptical statements that conducted the process of the CETA. According to Hubner et al. (2017) the EU society resentment toward the Agreement with Canada arose when the EU started to negotiate another agreement: the TTIP. Indeed, since 2013, when the EU and the US launched the first talks for the EU-US treat, civil society organisations became critical also toward CETA because it started to associate the two agreements. The objections against TTIP were aimed at the reduction of SPS measures and at the ISDS which was seen as an instrument in favour of multinational companies. Stiglitz (2015), warned against TTIP because in his opinion it would have reduced SPS measures (as well as environmental and labour regulations) of the EU instead of enhancing the ones of the US. Moreover, he stated that the Agreement would have given multinational companies too much power in protecting their interests at the expense of citizens. On the one hand proponents of TTIP underlined the possibility for the EU and the US to boost their economic growth opening services markets. On the other hand, Stiglitz highlighted that the overall TTIP Agreement was not projected to improve trade between the Parties lowering tariffs and barriers to trade, but it was designed to allow multinational companies to override regulations for their benefits. Hubner et al. (2017) suggested that, on the wave of these protest against the TTIP, civil society organisations started to see resemblance between the TTIP and the CETA, as for instance the ISDS mechanism, and they started to oppose it.

¹⁰ January 2019.

4.4. Main chapters of the CETA text

The text of the Council Decision (EU) 2017/37 of 28 October 2016 on the signing of the Canada-EU Comprehensive and Economics Trade Agreement (CETA) was published in the Official Journal of the European Union L11/23 the 14th January 2017 (Council of the European Union 2017). It has 30 Chapters:

- The Art. 1.4 O.J. L11/23 defines CETA as a free trade area as intended by the Art. 24 of the GATT 1994¹¹. However, since the beginning, the extent of the Agreement is broader and goes beyond the simple reduction of tariff. Thus, it is reductive to call it “just” a free trade area. Indeed, it covers a broad range of issues from trade in goods to environment and labour.
- Chapter Two O.J. L11/23, just as conceived by the two country, refers to the trade in goods and how the Parties agreed to reduce tariffs, custom duties and restrictions to trade. The Agreement was expected to eliminate tariffs on 98% of good exchanged between the Parties. The elimination involved the 100% of the tariff lines in industrial goods: 99.3% immediately with its entrance into force and the totality of the tariff lines in seven years. It is noted that, before the Agreement, the tariff lines of the industrial sector were not restrictive. As shown by the MFN non-agricultural simple average duty (**Table 4.4**), the degree of liberalisation between the two Parties were quite favourable also without the Agreement¹². The Agreement is expected to boost the import-export in the industries that also without the Agreement were the most active in the exchange of products between the Parties such as machinery, transport equipment and chemical products (Kiselbach 2014, 54-55).
- Chapter Four and Five O.J. L11/23 concerns TBT and SPS measures and how the EU and Canada can cooperate to simplify their standards and regulatory systems. The Chapter confirm what has been said in Chapter two of this thesis about SPS measures. Indeed, the EU always provides more extensive indications in concluding PTAs with the aim to ensure that the sanitary and safety rules are really recognise by both the parties of the agreement (Heydon and Woolcock 2009, 63-73). Chapter Five reaffirms Parties’ obligations under the SPS Agreement (Council of the European Union 2017). At this regard, CETA replaces the 1998 Veterinary Agreement and lay the foundation for a cooperation for creating common rules and standard. The agreement has to grantee that measures ensuring food safety do not produce unjustifiable barriers to trade, so the Parties agreed

¹¹ See Chapter 1 of this thesis.

¹² Specifically: 2.2% in Canada and 4.2% in the EU 2016

on the creation of the Joint Management Committee that has to deal with inspection and certification system. In this sense the Agreement's purpose goes beyond the provisions of the WTO.

- Chapter Seven O.J. L11/23, recognise the WTO's AoA and the Parties agree to fulfil their commitments under this agreement. In the same Chapter, the Parties recognise the desirability to make more transparent the application of production subsidies and they decide to introduce a mechanism of consultation in order to verify if a subsidy negatively affect the counterpart. In the case one of the two Parties expresses concern about the introduction of a subsidy, they have to discuss on the matter and possibly eliminate the subsidy or find a solution to reduce negative effects due to the applied measure. This provision is referred to agriculture. In this part the Parties agreed also to make the effort to avoid export subsidies in agriculture. It is better to point out that the negotiation of the CETA started six years before the WTO decision to lift export subsidies in agriculture¹³. In 2009 the Doha Round was far from be completed and the impasse in the multilateral negotiations slowed down also the bilateral negotiation between Canada and the EU. According to Viju and Kerr (Agriculture in the Canada-EU Economic and Trade Agreement 2011, 679-685) if the Round had been concluded at the time of CETA's negotiations, it would have been easier to conclude the agreement on time. Indeed, the authors considered that initial tariff level would have been less high, export subsidies in agriculture would have been already lifted and the WTO would have already identified sensitive product and consequently excluded them from trade liberalisation. Moreover, the Parties had to face a collateral problem during the process toward CETA. Indeed, when an export subsidy is applied, it raises the prices for domestic producers above world prices, consequently tariffs are needed to prevent consumers to take advantage of lower world prices. Thus, the negotiations between Canada and the EU were heightened also by this obstacle, because it was difficult to negotiate not only measures on subsidies, but also on tariffs linked with those subsidies.

- Trade in services, government procurement, labour mobility, the pursuit of cooperation in different areas and investments are the factor that makes the CETA different from other PTAs. That's why CETA differs from a simple free trade area where parties just exchange merchandise. Because it encompasses other business topics. Investments are a central and contentious topic in the CETA. Canada appeals investors from the EU. The flows of billions of euros from the EU to Canada is substantial. It is demonstrated by the fact that in the last years the trend of the EU's FDI's toward Canada does not differ tremendously from the ones from the US, the first trade partner of

¹³ Export subsidies on agriculture were definitely eliminated in 2015 Nairobi Ministerial Conference.

Canada. Indeed, according with Eurostat (EUROSTAT 2018), in 2017 Canada held €293 billion in EU investment stocks, while in the same years the US investment stocks amounted to €377 billion. In 2013 the EU even exceeded the US in investing in Canada. The Agreement offers investors a mechanism to simplify and improve safe investments (Kiselbach 2014, 57). Indeed, Chapter Eight O.J. L11/23 is devoted providing investors with more regulations, protections and facilitations for investing in both sides. Basically, under CETA the country that host the foreign investor has to guarantee the same treatment guaranteed for a domestic investor. As mentioned above, in the case of a dispute, the set of rules set up for its solution is the Investor-State Dispute Settlement (Chapter 29 O.J. L11/23).

- In Chapter Nine O.J. L11/23, the Parties agreed to reciprocally recognise access to each other's service markets with some exclusion for some sensitive area such as audio-visual services, aviation services and activities related with the latter one. Canada is interested to access the EU sector of services related with the research and development, mining, energy, environmental and information and telecommunications technology. On the other side, what really interest to the EU is to have access in service market in Canadian provinces and territories. According to Paquin (Federalism and the governance of international trade negotiations in Canada: comparin CUSFTA with CETA 2013) this EU interest in Canadian provinces and Canadian sub-federal entities is reflected also in government procurement affair and the reason is as follows. Since the beginning of the negotiation of the CETA for European politicians it was of fundamental importance to make sure of Canadian provinces taking part in the negotiation. Canadian constitution establishes that just the federal government has the power to carry out international trade agreements and it is the only one that have the legislative authority over these matters. However, the federal government deals with the first stage of the international treaty process, i.e. the conclusion, but the implementation of the treaty is a prerogative of provincial government and provinces are not obliged to adopt it. Thus, without both the consensus, the EU could have only participated in Canadian federal public procurements. The EU considered usefulness the liberalisation of market in government procurements without the consensus of provinces because it wanted to enter the provincial and municipal public procurement contracts. All the disposition concerning governance procurement are described in Chapter 19.

- Other interesting aspects that distinguish the agreement of the CETA, are the provision of temporary entry permission for workers and the recognition of professional qualifications. Thus, the Treaty should make it easier for professionals to access the work market of the other country. These dispositions, highlighted in Chapter 10 and 11 O.J. L11/23, are auxiliary provisions for the CETA's

aim to reinforce collaboration and cooperation between the two Parties. The agreement encourages the free movement of labour, but dispositions were conceived to be applied only to specific kinds of qualified workers¹⁴.

- Chapter 20 O.J. L11/23 cover the issue of intellectual property rights, in which are also included the rules about geographical indications (GIs). The EU stressed long the importance of GIs, indeed, between the two Parties, it was the one with more interests related to this issue¹⁵. GIs are listed in Annex 20-A of the CETA text (Council of the European Union 2017). Among the 1,400 GIs of the EU CETA protects 179 of them. All the 179 GIs recognised by CETA belong to the EU side. In the Canadian side there are no geographical indications. Indeed, Annex 20-A is composed by two tables: the first one lists all the EU products for which a *terroir*¹⁶ is recognised. They mainly are: cheeses (for instance Feta, Parmigiano Reggiano, Grana Padano and Roquefort) and processed meat (Parma's ham, Nürnberger Bratwürste, Canards à foie gras). The second table, reserved for Canadian products, is not filled. The reason is that Canada, as well as US, does not use GIs to protect products, but it uses trademarks without linkages with territory. Despite this evident disparity in the tables, the Agreement aims also to protect Canadian trademarks holders in the way explained in the following description. Art. 20.19, Section B, Chapter 20 O.J. L11/23 states that:

“Each Party shall provide the legal means for interested parties to prevent: (a) the use of a geographical indication of the other Party listed in Annex 20-A for a product that falls within the product class specified in Annex 20 [...]” (Council of the European Union 2017).

“The protection referred to [*the previous comma*] shall be provided even where the true origin of the product is indicated, or the geographical indication is used in translation or accompanied by expressions such as ‘kind’, ‘type’, ‘style’, ‘imitation’ or the like.” (Council of the European Union 2017)

Reading just this article, one could make the mistake to think that CETA provides total protection for all EU GIs, preventing every slightest attempt to counterfeit. It is necessary, however, to pay attention also to the Art. 20.21 to see the big picture:

“Notwithstanding Articles 20.19 [...], Canada shall not be required to provide the legal means for interested parties to prevent the use of the terms listed in Part A of

¹⁴ “Independent professionals, short-terms business visitors for investment purposes and intra-corporate transferees” (Council of the European Union 2017).

¹⁵ See Chapter 3.

¹⁶ Terroir is the legal expression to identify the link between the features of a location, for instance the territory, the climate, the soil and subsoil, chemical, physical and biological factors, and the quality or attributed of a product (Josling 2006, 338).

Annex 20-A and identified by one asterisk (i) when the use of such terms is accompanied by expressions such as 'kind', 'type', 'style', 'imitation' or the like and is in combination with a legible and visible indication of the geographical origin of the product concerned." (Council of the European Union 2017)

- In addition, the Agreement allows different permits for the use of such indications for different class of products. So, for instance, a cheese producer is allowed to use the same name of a recognised GI when he has been using that since before 2013¹⁷. As stated by the Agreement, GIs, indicated with one or more asterisks, are the ones that can be used by Canadian producers, basically because some terms are consider generical and so Canadian producers can use them for commercial purpose. Some examples are *Feta* or *Nürnberger Bratwürste*. Nevertheless, under CETA, no new firms will be able to use the same name of EU IGs in the future. Indeed, newcomers in the industry will not be allowed to commercially use these terms. Of course, in the unlike case that the CETA will enter into force permanently, for some years GI products and Canadian product with similar label will coexist. According to Kerr (Kerr and Hobbs, Protectionism is "alive and well" - agriculture in the EU-Canada trade agreement 2015), if this situation will materialise, it will create confusion on consumers.
- In Chapter 22 and 24, Canada and the EU included dispositions related to trade and sustainable development, and trade and environment. These are matters of concern for the operators of the agricultural sector. Indeed, even if not directly correlated with it, trade in soft commodities and agri-food products is often affected by the introduction of new environmental standards and rules. In fact, a production process might be considered unsustainable by one Party but not by the other, creating trade barriers between them. Nevertheless, Chapter 22 of the CETA Text (trade and sustainable development), includes dispositions with the view of just promote dialogue and cooperation. Thus, the Parties did not recognise any specific rules which must be immediately implemented. Basically, Chapter 22 is just a declaration of intent that introduce nothing new, and it just recalls for fulfilling multilateral commitments already agreed in multilateral contexts. On the other hand, Chapter 24 (trade and environment), face a touchier subject. Art. 24.4 of the CETA Text, after affirmed the need to "enhance the mutual supportiveness between trade and environment policies and rules", states that:

¹⁷ The Agreement provide also other exceptions for producers using indications depending on the classes of agri-food products and depending on different conditions. For a complete overview see the page <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2017:0111:FULL&from=en>.

“Each Party reaffirms its commitment to effectively implement in its law and practices, in its whole territory, the multilateral environmental agreements to which it is party.

The Parties commit to consult and cooperate as appropriate with respect to environmental issues of mutual interest related to multilateral environmental agreements, and in particular, trade-related issues. This commitment includes exchanging information on: the implementation of multilateral environmental agreements, to which a Party is party; on-going negotiations of new multilateral environmental agreements; and each Party's respective views on becoming a party to additional multilateral environmental agreements.” (Council of the European Union 2017)

The Art. 24 names multilateral environmental agreements. They are multilateral treaty that have also to do with agricultural biotechnology. Canada intensively uses biotechnology in agricultural products, while EU policy is generally against it. The Cartagena Protocol on Biosafety is a multilateral environmental agreement¹⁸. The EU supported and accepted the regulatory system of the Cartagena Protocol on Biosafety and implemented it in its biotechnology policy (Isaac and Kerr 2003). On the contrary, Canada is not part of the Protocol and would have preferred to regulate the matter following the WTO's precepts. The reason is that the Protocol gives importing countries more room for deciding to restrict imports than the WTO. In other words, CETA takes a step backwards with regard to the WTO's liberalisation provisions. Kerr (2015, 16-20), interprets Art. 24.4 of the CETA as the multilateral environmental agreements agreed by one Party has to be respected also by the other. He argues that this aspect concerns Canada because it could happen that it will lead Canada to respect the provisions of the Cartagena Protocol rather than the ones of the WTO, even if it did not agree it.

4.5. Soft commodities and agri-food trade in the CETA

As discussed above (Chapter 1), agriculture has always been a sensitive area for negotiations of agreements aiming at liberalising international trade. Soft commodities usually represent an

¹⁸ Multilateral environmental agreements (MEAs) are multilateral agreements related with very specific topic uncovered by the WTO. The Cartagena Protocol belongs to MEAs. Unlike other MEAs, the Cartagena Protocol is not very specific, indeed it refers to all genetically modified organisms (GMOs). The Protocol belong to the Convention on Biological Diversity, in turn resulting from the Earth Summit that take place in 1992. The EU policy regarding GMOs and biotechnology is more consistent with the provisions of the Protocol. While, the US approach is more consistent with the WTO vision on this issue. The EU follows a “socially rational regulatory approach”, while the US and Canada follow a “scientific rationality trajectory” (Isaac and Kerr 2003). The difference between the two is that the first does not allow the use of a progress in technology or science without the proof that it is safe for human health. The second allows the use of progresses in science and technology unless and/or until it is proven that it could be dangerous for human health. In other words, the EU's approach at the risk is the zero risk, while the US and Canada risk approach is the minimum risk. They maintain these two different point of view also with regard of SPS measures.

obstacle for both multilateral and bilateral trade agreements. The indexes concerning the protection of agricultural sector of the EU and Canada have already proved how much certain soft commodities are protected in each of the Parties. According to Kerr et al. (2012, , 3-20), after almost eight years of negotiations of the CETA, the results in the liberalisation of soft commodities trade are not extraordinary. In particular, it seems that the Agreement maintain a high degree of protection in all the products that are considered sensitive by the Parties. This is demonstrated by the way in which sensitive soft commodities were classified in the agreement. Indeed, as reported in Annex 2-A of the CETA text (Council of the European Union 2017, 1-3), the process of reduction of tariffs was organised through different stages, also called Schedules; the Parties decided to divide goods into these Schedules. Goods of which tariffs had to be cut to zero immediately with the entrance into force of the agreement were listed in Schedule A. Tariffs that had to be reduced to zero in four years belonged to Schedule B, and so on until the last goods of which tariffs have to be completely eliminated in eight years (Schedule D). Nevertheless, some goods are excluded from reductions. Incidentally, for Canada the commodities excluded from the reduction of tariffs are exactly the most protected through high levels of tariffs. They are dairy products, poultry and eggs.

4.5.1. Dairy Products, poultry and eggs

In Canada dairy products, as well as poultry and eggs, are regulated under *the supply management system*, which regulates the supply of products through TRQs and control measures of production. As previously discussed, they are commodities of which the level of MFN simple average duty reaches more than 200%. In the EU there is an appetite for the Canadian dairy sector. One possible explanation is that cheese is considered a complement food of wine, something to taste sipping it. Canadians are developing sophisticate flavours and they are showing an increasingly interest in wine, especially premium wine. In addition, because of the fact that population is becoming even more wealthy, as confirmed by the GDP per capita, it is expected a rise in the consumption of premium food and beverage like wine and, as a consequence, of cheese (Kerr 2012, , 687), (Viju and Kerr 2011). However, dairy sector is very well protected in Canada. Protectionism manifests itself in various ways: high tariffs, quotas and subsidies and it is confirmed by the indexes previously analysed like, for instance, the out of quotas tariff, close to 250%, and the SCT% registered for milk that is the highest between the Canadian commodities. The CETA sets to

rise TRQs affecting dairy products by stages¹⁹. The Annex 2-A (Council of the European Union 2017, 16) provides a WTO-plus measure referring to cheese TRQs. Indeed, during WTO stages of market liberalisation, Canada agreed to liberalise a certain amount of duty-free cheese²⁰. Under CETA the 4% of that quota had to be reallocated to EU cheese. This is obviously an improvement for the EU export. Kerr et al. (2015, , 9), estimated that under CETA the 7% of Canadian consumption of cheese would have been EU cheese. The CETA also order to increase until 1600 tonnes²¹ the quantities of cheese that had to be duty-free by the sixth year of the Agreement. Cheeses bearing EU GIs are not included in duty free TRQs. As explained above, some geographical names are considered common also in Canada. For this reason, the CETA allows the use of them followed by words like “style” or “type”. Some famous products, which name can be used also by Canadian producers, are *Feta*, *Asiago*, *Fontina* and *Gorgonzola*.

If on the one hand the access of Canadian dairy market obtained through the CETA may appeared positive for the EU, on the other hand it is better to consider the recent increased access granted by Canada to the US farmers. Indeed, one of the major concessions in agriculture that the US should obtain thanks to the new agreement with Canada and Mexico, USMCA, when and if it will be ratified by the three countries, is the increased reduction of barriers in Canadian dairy and poultry markets. As reported by Schmitz et. al (2018), USMCA is expected to concede US special TRQs reserved just for US dairy products and additional tariff-free access increasing the US export of dairy products toward Canada of 105%. US’s milk, butter, yogurt and cheese are among the products that are supposed to obtain more access in Canada than the EU products²². Moreover, the USMCA seems to promise good results also for poultry and eggs which, on the contrary, remain nearly uncover by the CETA²³. Therefore, EU producers should compete with US ones. However, as pointed out by Schmitz et. al (2018), Canada will continue to apply its tariffs and other trade

¹⁹ Cheese TRQs was set to rise by 2667 tonnes during the first year the Agreement entrance into force, by 5333 tonnes the second year, 8000 after three years and so on until 16000 tonnes after six years.

²⁰ Precisely 20,411,866 kilograms.

²¹ This quantity refers to speciality cheese. The Agreement also recognises an increase of 1700 tonnes of cheese imported for food processing industry.

²² For instance, to the US the USMCA recognises additional 12,500 million tonnes of cheese, while the CETA allows just 3,300 tonnes of cheese that can be exported duty-free by the sixth year of the Agreement.

²³ Poultry is protected with a system of TRQs. The Parties agreed to cut to zero the within quota tariffs, but they did not increase the quota, i.e. the quantity of commodity included in the quota with the zero tariff. As a result, the Agreement does not lead to an improvement in the Canadian poultry market liberalisation.

barriers until the ratification of the USMCA will be completed, while the effects of CETA on tariffs and TRQs are in force since September 2017.

4.5.2. *Beef and Pork*

The Agreement is supposed to eliminate tariffs charged on different kind of meat in eight or four years depending on the kind of meat, but it does not include beef and pork meat. Traditionally, beef and pork are very protected in the EU and, indeed, the EU safeguards their meat through tariffs and tariff rate quotas (TRQs). Tariffs on these products remain unchanged in the CETA Agreement. Furthermore, even if the Agreement had reduced tariffs for those kinds of meat, it would not have augmented the level of liberalisation. In fact, the case of EU beef is considered a “clear example of layered barriers to trade²⁴” (Viju and Kerr 2011, 686). There is indeed, another barrier behind the EU tariff applied on beef: a ban on import of beef treated with hormones. Thus, hormones-treated-beef imports are not allowed into the EU. So, only meat produced without the use of hormones can enter the EU quotas, but Canadian producers are used to hormones and they largely use them for the production of this kind of meat. Thus, Canadian exports of beef do not fill the quota. Curiously, despite the ban on hormones-treated-beef, commonly accepted and used in Canada, the Agreement increases the annual quota of both non- hormones-treated frozen and fresh beef by 46,000 tonnes²⁵ (Kerr and Hobbs 2015, 7). It is weird that the Agreement increases the TRQ for a product that does not even fill a lower quota. Moreover, considering that the average annual production of beef in Canada and in the EU in the period between 2010 and 2017 was respectively 1.1 and 7.8 million tonnes (FAOSTAT, Faostat 2018), the improvement of the quota is not so significant. However, in order to be effective and promote an actual improvement in the trade of beef, the increased quota has to be enough to push some producers to avoid the use of hormones and produce meat that can be exported into the EU.

The case of the pork meat is not so different from the one of beef. To give an idea of the production and exports volumes of pork meat in the two Parties it is enough to say that, according to the FAOSTAT (Faostat 2018), Canadian production of pork from 2010 to 2017 averaged two million tonnes, of which almost half are exported. The EU’s average production of pig meat is

²⁴ Layered barriers to trade identify the circumstance in which removing a barrier to trade, in this case the tariffs on beef, bring to have to face with another kind of barrier hanging over the same product.

²⁵ The CETA text allows the import into the EU of almost 31,000 added tonnes of fresh beef by the sixth year and of 15,000 tonnes of frozen beef, for a total of almost 46,000 added tonnes of beef.

approximately 23 million tonnes, while the exported ones are nine million tonnes. CETA decided to increase the TRQ for pork of 75 thousand of tonnes (Council of the European Union 2017, Annex 2-A). Thus, unlike the beef increased quota, the one applied on pork by the Agreement is more relevant. Nevertheless, also in the case of pig meat, there is the “trick” of the layered barrier. Indeed, some SPS measures applied by the EU represent an obstacle for the imports of Canadian products made with pork²⁶.

4.5.3. *Crops: wheat, corn and canola*

SPS measures represent an obstacle also for Sweetcorn. The Agreement increases the quota on this commodity, cutting to zero the within quota tariff. Nevertheless, Canadian corn, as well as wheat and canola (the first commodity exported by Canada), is largely produced through biotechnology systems that are not accepted by the EU. Little success was reached also in liberalising wheat trade. As reported by the Annex 2-A of the Council Decision over the CETA (2017), before the agreement the TRQs on wheat was equal to 38,853 tonnes. The Agreement almost doubled the duty-free quantity and fixed the new TRQ at 100,000 tonnes. However, considering that every year Canada and the EU produces respectively 30 and 140 million tonnes of wheat and that Canadian annual exports of wheat are approximately 17 million tonnes²⁷ (FAOSTAT, Faostat 2018), the increased quantity allowed under the CETA it's not consistent with the volumes registered in this market. Compared with the actual figures that characterized the wheat market, the rise of the TRQ is on a different wavelength.

4.5.4. *Wine*

The way in which the trade of wine and spirits has been discussed and implemented in the Agreement gives another interesting glimpse of the CETA's backstory. As mentioned at the beginning of this Chapter, alcoholic beverages represent one of the main Canadian imports from the EU. As said above, Canadian consumption of wine is rising because of the increasing wealth of population. According to the FAOSTAT (Faostat 2018), this trend is confirmed by the data. Indeed,

²⁶ Ractopamine is a growth promotant, commonly used in Canada for pig meat, that is not accepted by the EU and on which a EU ban is imposed.

²⁷ Data refers to the annual average production and export of wheat in the period 2010-2017.

figures show that Canadian wine imports have been rising since 2000²⁸. In 2016 Canadian imports of wine reached US\$ 1,8 billion of which 51% were imported from the EU. Members Countries of the EU had the justified feeling that EU wine and spirits were discriminated in the Canadian market. In particular, they complained about mark-up practices of provincial governments. Canadian provincial governments are in charge of regulate the sales of alcoholic beverages and, in the EU members opinion, they used to apply high prices to high quality importing products taking advantage to the common opinion that see EU wine as premium wine (Kerr and Hobbs 2015, 12-14). If so, Canadian provincial behaviour would infringe the principle of non-discrimination of the GATT²⁹ The thesis of discrimination against imported wine is aggravate by the situation which occurred in the Ontario and British Columbia, where only Canadian wines were sold. Ontario and British Columbia are the area where the production of wine is more developed and where the major quantity of wine is sold (Hope-Rose 2006). As a consequence, it was not possible to sell imported wine. So the EU complains were understandable because, EU wine was actually discriminated. Having said that, it is easy to image why the EU pushed for provincial authorities to join CETA negotiations. The issue of wine represents the second important reason why the EU wanted to include Canadian provincial authorities at the table of negotiations³⁰. Indeed, following government procurement motivations, Member countries wanted provinces to take part in the process in order to ensure better market access for their wines. In particular, they wanted to make sure that the mark up, applied on imports wines, was not a percentage of the price, but rather a flat rate. In addition, the Parties agreed a maximum number of stores allowed to sell exclusively Canadian wine. The provisions of the CETA about wines and spirits reflect the EU desire related with this market. Indeed, in this sector, the Agreement seems to be customized for EU interests.

4.6. Discussion on CETA

Comparing the CETA with the two agreements previously signed by the EU, it is possible to make some considerations starting from macroeconomic data and from the framework of the agreements. Canada is the country with the lowest GDP between the cases under consideration.

²⁸ In 2000 total Canadian imported quantity of wine amounted to 236 thousand tonnes and to 416thousands tonnes in 2016.

²⁹ See page 13, Chapter 1.

³⁰ In order to access Canadian government procurement sector, the EU needed provincial authorities' consensus. Indeed, even if international trade agreements are ratified by Federal Government, this specific sector is governed by provincial entities.

From the gravity equation's point of view, this represents a disadvantage for the CETA in terms of its chances to enhance trade flows between the Parties. On the other hand, the distance that divided the EU from the other parties is quite similar; the EU does not share borders with any of them, neither they are part of a same geographical area. Obviously, lots of elements and factors may counts for more than the amount of GDP or the distance. As previously mentioned, culturally and historically the EU is closer to Canada than to the two Asian countries. According to the gravity equation, the cultural closeness may increase the probabilities that the two countries will develop major trade flows between each other. Also the similarity of tastes or the national policies could represent a bigger push toward increasing the exchange of goods and products. In the Japanese case it has been observed that the Abe's policy of liberalisation was consistent with the trade agreement with the EU and, as a consequence, it was in favour of the promotion of negotiations. In Canada, the effort to untie the domestic economy from the US's one may create the right conditions to deepen the relations with the EU despite their distance and the lower value of Canadian GDP.

As concern the agricultural sector, Canada does not present the same level of Korean and Japanese agricultural support. Canadian total support given to the agricultural sector is less than half compared with the one granted to Japanese and Korean farmers, but it is also lower than the one of the EU. Japan is known as a protectionist country and Korean values, as previously analysed, look like the Japanese ones. In this sense, the EU has taken a step forward paving the way toward the two Asian countries' markets. Instead of Japan and Korea, Canada applies a less close approach. However, despite the lower support to agriculture, Canada maintain high MFN simple average duties on some agricultural products, as in the case of dairy products. Moreover, some non-tariff barriers to trade characterised the Canadian market, like for instance the discriminated behaviour of Canadian provinces toward the sale of EU's wine. None of the three agreements negotiated by the EU promotes a significant degree of liberalisation in terms of trade in agriculture. Despite all of them offer the 98% or 99% liberalisation in goods, the remain percentage always consists of agricultural products. The frameworks of the three trade agreements are quite similar. In all the three texts the Parties repeat the same goals: make the trade between the parties smoother and increase it, eliminate barriers to trade and promote investments and cooperation. However, as previously mentioned, the CETA followed a more comprehensive approach (so that it needed to be approved by each EU members and by each region). This is where the CETA differs to the other agreement. However, as regard the CETA's provisions related with the trade liberalisation in agricultural products, it does not include big differences compared with the other two

agreements. The major part of CETA's effects were immediate with the provisional entrance into force of the agreement or after a period of six or eight years, while the JEFTA's provisions are more gradual (transitional period of fifteen years). The CETA improves the liberalisation of agricultural products basically through the enhancement of TRQs, on the contrary the JEFTA does it through the elimination or reduction of tariffs. As concern the GIs, central issue for the EU, the three agreements recognise more or less the same number of EU's GIs³¹. As highlighted by Kerr (2015), in negotiating the CETA, the Parties agreed to remain defensive as regard agricultural sector. The three cases confirm that countries continue to maintain a conservative approach in agriculture; they does not give up on agricultural support and barriers to defend domestic producers. After all they mainly opt for PTAs exactly for avoiding being forced to face the deeper liberalisation in agricultural sector through WTO's negotiations.

³¹ EU-Korea FTA: 162, JEFTA: 205 and CETA: 179.

5. ITALY AND CETA

5.1. Italian overview

Has Italy got trade relations with Canada? Could Italy take advantage from the CETA Agreement? As one of the main member country of the EU and an exporter of agri-food products, Italy deserves a bit of attention in this thesis.

According to OECD (2018b), in the EU, Italy is the fourth economy in terms of GDP after Germany, UK and France. In 2018, its GDP accounted for \$US 2.5 trillion, thus higher than the one of Canada. Nevertheless, Italian GDP is registering a lower growth rate compared with the average growth rate of the rest of the EU. The trade inside and outside the EU is a key component of the Italian economy. As shown in Figure 1.3 in Chapter 1, Italy's Trade/GDP ratio presents significant values, close to the ones of France and UK, demonstrating the importance of trade in the total economy. According to EUROSTAT (2018), Italian imports, measured as a share of the total EU import from the rest of the world, ranges between 10.6% and 8.8%¹, while Italian exports ranges between 11.2% and 10.3%. Observing WB data (2018), it is noted that Italy has been registering a positive terms of trade in goods and services since 2012. However, the value of imported goods and services is constantly increasing. The ICE Report (ICE 2018, 147) stress that the bigger part of export flows are targeted toward the other EU member countries. The main trading partners in terms of value in which Italy exports its products are Germany, France, US, Spain and UK. At the same time, its imports mainly come from Germany, France and China. The major contribution to the Italian export is given by the pharmaceutical, automotive, oil products and machinery sectors (Istat 2018).

As concern trade in soft commodities, Italy is a net importer of goods (FAOSTAT, Faostat 2018). Indeed, it is well known that the Italian production of soft commodities cannot cover the

¹ Period considered 2010-2018.

domestic demand. If on one hand, Italy exports high levels of processed food, on the other hand it needs to import a considerable quantity of soft commodities. In order to give an example of the lack of sufficient resources in the Italian market, it has been examined the production and the import of cereals. In 2016 Italy produced 18.2 million of tonnes of cereal of which 8 million were wheat. At the same time, it imported 13.3 million of tonnes of cereals of which 7.6 million of tonnes were wheat. Basically, Italy imports almost as much as it produces. Table 4.6, presented below, provides a framework of the Italian total trade in agri-food products with the rest of the world². As it is possible to observe, in 2018, Italy imports exceeds the exports. Analysing data of the years prior 2018, provided by the Institute of the Services for the Agri-food Markets (ISMEA 2018), the situation is similar to the one observed in 2018. Indeed, since 2000³ the agri-food trade between Italy and the rest of the world has been registering a negative terms of trade. Nevertheless, observing **Figure 4.1**, one could figure out that the difference between import and export value is decreasing. In export, the highest figures are observed for fruit and vegetables, wine and processed cereals. The wine sector is the one that gain more from the international trade. Also cereal sector registers good revenues. Processed products made with cereals give the major contribution to the sector. This is not surprising considering that they also include pasta. In 2018 the export of Italian pasta in the world accounted for more than € 2.4 billion (ISMEA 2018). On the other side, the highest values in imports are noted in live animals and meat, fisheries and cereals.

² Agri-food products covers both agri-food processed products (like processed vegetables) and agri-food commodities (like fresh vegetables).

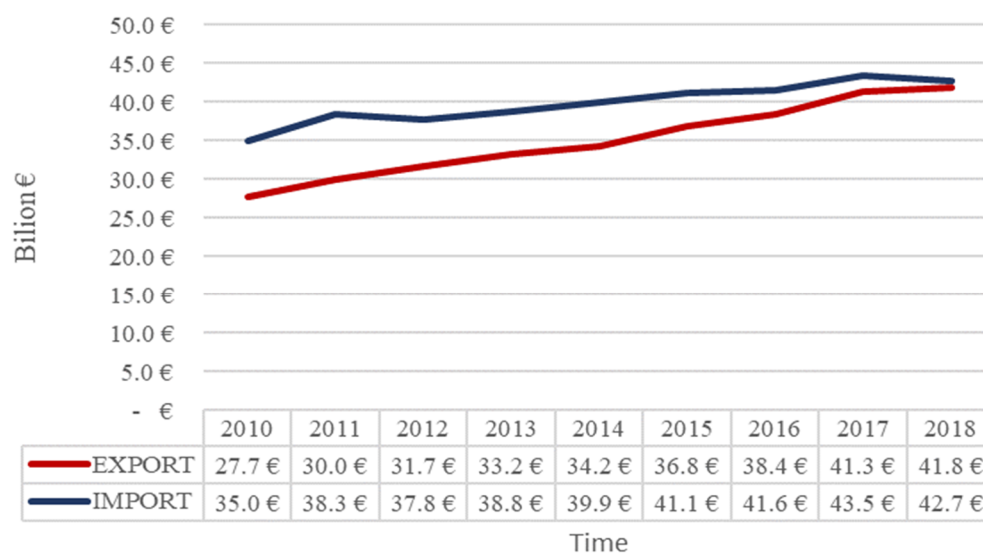
³ The analysis considers the period from 2000 to 2018.

Table 5.1 Italian import-export in agri-food products with the rest of the world in 2018.

Sectors	Export		Import		Balance	
	2018	rate of change vs. previous year	2018	rate of change vs. previous year	2018	rate of change vs. previous year
	000 €	%	000 €	%	000 €	%
Fresh and processed vegetables	3,802,250.0	0.6	2,431,374.1	-2.5	1,370,875.9	6.5
Fresh and processed fruits	4,514,699.2	-5.6	3,718,699.4	0.1	795,999.7	-25.4
Oils and fats	1,969,742.9	-4.2	3,478,641.4	-12.1	-1,508,898.5	-20.7
Wine	6,203,688.4	3.3	345,238.3	7.1	5,858,450.1	3.1
Animals and meat	3,032,377.0	-2.9	6,250,788.1	0.0	-3,218,411.1	2.9
Dairy products	3,138,349.3	2.9	3,599,402.0	-0.5	-461,052.7	-18.6
Cereals, rice and derivative	6,057,943.0	0.7	4,742,676.7	2.0	1,315,266.3	-3.7
Processed crops	1,188,332.5	-3.8	3,896,220.2	3.2	-2,707,887.8	6.6
Fodder crops	170,042.7	6.2	70,439.3	-10.3	99,603.5	22.0
Flowers	875,740.5	8.2	511,029.3	2.1	364,711.1	18.0
Fish	743,324.1	0.7	5,986,427.0	2.3	-5,243,102.9	2.6
Other beverages	2,489,506.4	14.5	1,378,699.3	11.0	1,110,807.2	19.1
Bushmeat	73,718.9	12.8	142,074.2	-12.0	-68,355.4	-28.9
Other agri-food products	7,558,955.6	3.9	6,185,497.2	-9.7	1,373,458.4	218.6
Total	41,818,670.6	1.3	42,737,206.5	-1.7	-918,536.0	-58.0

Source: ISMEA (2018).

Figure 5.1 Trend of Italian imports-exports in agri-food products with the rest of the world.



Source: our elaboration on ISMEA (2018).

Despite the deficit with the world in the terms of trade, agri-food is hailed as one of the most profitable sectors between Italian industries. For this reason, according with different authors (De

Filippis 2012, Marcati 2016, Bellia 2004) it should be exploited considering the increasing demand for its products. In particular, Italian firms can take advantages from the added value offered by the *Made in Italy* label⁴, a fortiori if the products are also protected with GIs. Indeed, it is the symbol of quality and the healthy Mediterranean diet. It is the warhorse, through which spreading the market and reach more consumers. An interesting point of view concerning the exploitation of the quality offered by Italian crops and products is given by Marcati (2016, , 798-802). He notes that nowadays agricultural and food industry is even more characterized by a deep-rooted reliance on chemical substances, like fertilizers and pesticides. This is creating damages degrading soil, producing pollution and threatening biodiversity. Peoples are becoming aware of the consequences affecting both the environment and their health. They are even more focus in conducting a healthy life and, in this sense, nutrition play a fundamental role. Therefore, the segment of consumers willing to buy healthy and environment friendly products is increasing. In this context, the Italian quality becomes strategic in obtaining an added value, gain competitiveness and improve export. Marcati underlines the advantages for Italian farmers especially in pursuing organic processes. According to the data provided in his research, the world demand in organic products is constantly increasing even if the total consumption of food is decreasing. Between Italian farmers, who produces 50% or more of organic products is able to export more than who produces a lower percentage of organic food.

5.1.1. *Italian import-export with Canada*

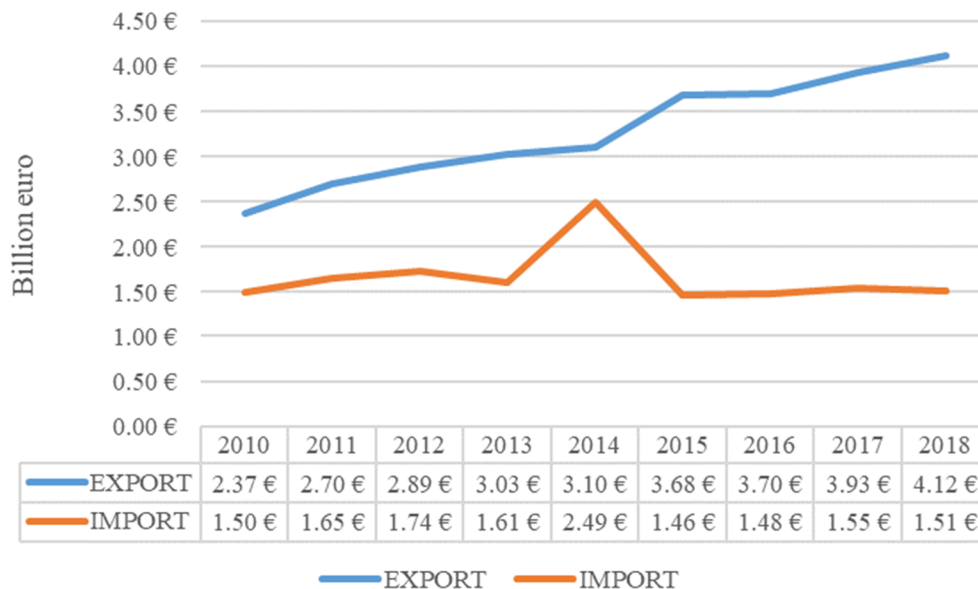
Some data have been collected from the Istat Database⁵ (2018) to inspect the trade relation between Italy and Canada. The following results raised from those observations. Canada is ranked 26th in the Italy's list of trade partners. Considering trade in goods, Italy records a positive trend in the terms of trade toward Canada. In value terms, they exchange primarily manufactured products.

⁴ The term *Made in Italy* is considered a brand recognised world wild. It could be referred specifically to four different kind of industries: fashion, furniture, *metal and mechanical industry* and precisely Italian soft commodities and food. It refers to the fact that the quality of a product is related with its origin and with the territory where it is harvested or processed. In the world, *Made in Italy* products are linked with the Mediterranean diet. In addition, it is also connected with a set of skills, related with the production process, that are recognized as unique. Under the label of the *Made in Italy* are included both processed products and fresh products. Specifically, *Made in Italy* products are classified under three different levels. In the first one are included *Made in Italy* soft commodities, in the second one all the products obtained through a single process, while products processed more times, like pasta and bakery products, are included in the third level. (De Filippis, *L'agroalimentare italiano nel commercio mondiale* 2012, 127-131).

⁵ The period under consideration is 2010 to 2018. Data for the year 2018 are provisional.

In terms of manufactured products Italy overcomes Canada. Fabrics, like silk, fur and *knitted or crocheted fabrics*, account for a significant share of these goods. On the contrary, from Canada, Italy buy a great value of mining products and soft commodities.

Figure 5.2 Italian import-export of goods with Canada (2010-2018).



Source: our elaboration on Istat (2018).

Table 5.2 shows the import-export value in agri-food products between Italy and Canada during the period 2010-2018. Considering both soft commodities and processed food, Italy records a positive terms of trade. However, Canadian export of soft commodities exceed its imports from Italy⁶ Among the main commodities exported toward Italy there are wheat, soybeans and oilseed. Not surprisingly, high values were found in imports of products of milling industry. Import of durum wheat registers the highest value among all the soft commodities imported from Canada. However, the trend of the imports of this commodity is not clear. Indeed, it was observed that since 2000 the growth is not steady. Strangely, in 2018, the first year in which the CETA Agreement provisionally entered into force, the value of imports of durum wheat was lower than the previous 15 years. Despite the higher duty-free TRQ introduced by the Agreement, data show a decreased value of imports (see **Figure 5.3**). On the other side, Italian exports toward Canada basically

⁶ In the period between 2010 and 2016 Canada average trade surplus in soft commodities with Italy was equal to 1.7 billion US\$ (FAOSTAT 2018).

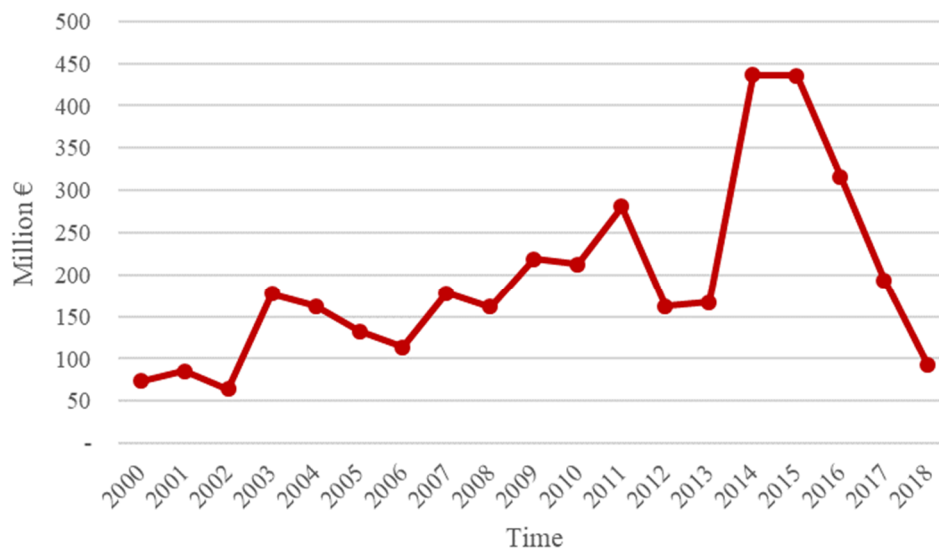
reflects Italian export toward the rest of the world. Indeed, in value term, the first product exported is wine and its sales in Canada are increasing, then significant values are gain exporting olive oil and, of course, pasta. Also dairy products, especially hard cheese, account for a big share of Italian export toward Canada. In 2018, sales in dairy products raised significantly compared with previous years. Observing the trade in Cheese has been discovered that cheese export in 2018 registered a growth rate of 27%. Also processed cereals, specifically pasta, show a significant growth rate compared with 2017. However, while the growth rate of the export in processed cereals was recording high values also before the entrance into force of the Agreement, the growth rate in the export of cheese was low before 2017, meaning that the CETA agreement is giving good results in this sector. Other interesting result are observed for fodder crops and bushmeat.

Table 5.2 Italian import-exports of agri-food products with Canada, million of Euros (2010-2018).

Sectors		2010	2011	2012	2013	2014	2015	2016	2017	2018	annual growth rate from 2010 (%)
Fresh and processed vegetables	Export	22.10	24.61	25.25	26.82	25.12	30.04	31.72	32.25	36.22	6.37
	Import	38.34	27.34	36.27	41.03	45.89	45.43	44.44	46.66	45.66	2.21
	Balance	-16.24	-2.74	-11.02	-14.20	-20.77	-15.39	-12.71	-14.40	-9.44	
Fresh and processed fruits	Export	24.24	24.29	30.43	24.11	23.01	31.07	25.79	27.30	23.57	-0.35
	Import	1.60	2.54	2.27	1.42	1.06	1.46	2.22	2.12	3.10	8.57
	Balance	22.64	21.75	28.16	22.69	21.95	29.60	23.57	25.19	20.47	
Oils and fets	Export	76.18	75.00	76.10	77.80	89.68	84.74	112.34	93.75	99.16	3.35
	Import	18.63	0.18	0.06	0.18	0.16	0.14	4.18	0.08	0.16	-45.02
	Balance	57.55	74.81	76.04	77.63	89.51	84.60	108.16	93.66	99.00	
Wine	Export	245.38	254.56	283.38	280.24	275.89	299.01	305.49	332.88	333.78	3.92
	Import	0.00	0.09	0.00	0.02	0.04	0.03	0.02	0.03	0.27	90.11
	Balance	245.38	254.47	283.37	280.22	275.85	298.98	305.47	332.85	333.51	
Animals and meat	Export	6.37	6.99	8.58	8.88	10.63	16.13	19.05	28.99	23.76	17.88
	Import	0.54	0.58	1.57	1.77	0.98	0.13	0.08	0.04	0.58	0.86
	Balance	5.83	6.40	7.01	7.10	9.65	16.00	18.97	28.94	23.18	
Dairy products	Export	38.57	42.23	43.74	43.52	39.76	39.14	45.50	51.69	65.63	6.87
	Import	-	0.00	-	-	-	-	-	-	-	
	Balance	-	42.23	-	-	-	-	-	-	-	
Cereals, rice and derivatives	Export	53.39	60.38	61.45	67.50	68.75	75.21	72.90	78.48	83.11	5.69
	Import	216.85	285.37	166.05	170.50	441.56	439.53	335.98	197.01	113.24	-7.80
	Balance	-163.46	-224.99	-104.60	-103.00	-372.82	-364.32	-263.09	-118.53	-30.13	
Processed crops	Export	0.67	0.04	0.44	0.15	0.05	0.11	0.32	0.53	0.72	0.93
	Import	6.52	9.57	36.18	50.70	51.35	57.15	72.28	89.22	96.98	40.14
	Balance	-5.85	-9.53	-35.74	-50.55	-51.30	-57.03	-71.96	-88.69	-96.26	
Fodder crops	Export	0.33	0.22	0.98	0.21	0.01	0.14	0.12	0.07	0.35	0.71
	Import	0.85	2.59	1.71	1.74	1.52	1.73	2.96	1.29	1.09	3.11
	Balance	-0.52	-2.37	-0.73	-1.53	-1.51	-1.59	-2.85	-1.22	-0.74	
Flowers	Export	0.32	0.29	0.35	0.18	0.15	0.34	0.51	0.87	1.17	17.52
	Import	0.00	-	-	-	-	0.01	0.01	-	0.01	24.00
	Balance	0.32	-	-	-	-	0.33	0.50	-	1.16	
Fish	Export	3.43	4.07	4.56	5.24	6.99	7.80	9.90	9.84	12.19	17.19
	Import	14.19	15.93	14.55	10.76	14.39	18.53	18.88	18.78	24.55	7.09
	Balance	-10.76	-11.86	-9.99	-5.52	-7.40	-10.73	-8.98	-8.94	-12.35	
Other beverages	Export	48.21	45.19	53.68	52.86	54.97	61.88	60.24	62.48	62.29	3.26
	Import	0.31	0.27	0.30	0.36	0.39	0.43	0.55	0.43	0.20	-5.12
	Balance	47.90	44.91	53.38	52.50	54.58	61.46	59.69	62.05	62.09	
Bushmeat	Export	0.01	0.01	0.13	0.26	0.60	0.50	0.89	0.72	6.56	124.98
	Import	0.15	0.29	0.19	0.09	-	0.00	0.00	0.04	-	
	Balance	-0.14	-0.28	-0.06	0.17	-	0.50	0.89	0.68	-	
Other agri-food products	Export	45.55	54.05	62.73	61.57	62.83	73.12	80.73	89.39	94.49	9.55
	Import	7.82	7.83	6.18	6.35	7.69	8.06	5.72	5.20	5.19	-5.00
	Balance	37.73	46.22	56.55	55.22	55.14	65.06	75.01	84.19	89.31	
Total	Export	564.75	591.91	651.79	649.35	658.43	719.25	765.50	809.25	843.02	5.14
	Import	305.80	352.60	265.34	284.91	565.03	572.63	487.33	360.90	291.01	-0.62
	Balance	258.94	239.31	386.45	364.45	93.40	146.62	278.17	448.35	552.00	

Source: our elaboration on ISMEA (2018)

Figure 5.3 Canadian export of wheat toward Italy (2000-2018).



Source: own elaboration on ISMEA (2018)

What can Italy gain from CETA Agreement? Bertolozzi et al. (2018) investigate the possible benefits for Italy deriving from the Agreement with Canada. They focus on the export of three main products that represent more than 50% of the Italian total export toward Canada: wine, cheese and pasta. In particular, they studied if Italy has a competitive advantage in exporting these specific products in Canada. They also investigated if Canada has a competitive advantage in targeting Italy for the export of wheat. The results of their study demonstrate that Italy could gain greater benefits from CETA than Canada. Indeed, they state that cheese, wine and pasta present a significant potential, while wheat does not seem to bring to an important improvement. Considering the first data available after the provisional entrance into force of the Agreement, it seems that the forecast offered by Bertolozzi et al. is partially consistent with data. Indeed, as previously said, in the first year of the Agreement, cheese registered encouraging growth rate. In 2018 the growth rate of pasta was not so different from the one of the previous years, and wine basically continued to register the growth it has been doing at least since 2000. It is possible to figure out that where the CETA Text extended the liberalisation of the market it actually obtained good results. However, as stated above, the liberalisation in agricultural and food sector remained limited and so did its effects. Italian agri-food products have been performed well in the export both with Canada and the rest of the world regardless of CETA. Nevertheless, the Agreement can contribute to boost export in some specific products like cheese. Also Scarci, analysing the first year of the CETA, emphasised the growth of

Italian cheeses export toward Canada (2019). In his opinion it will need some time to observe the benefits of the Agreement in the other sector, but dairy has been already showing great results⁷. It should also be considered that the CETA can help to counterbalance some losses coming from the inconvenience created by the fear of Brexit. The uncertainty linked with the future of the UK has already affected the Italian dairy sector. If the UK will be incorporated in the custom union, goods will continue to flow freely. However, in the case of an hard Brexit, even if the Parties will surely agree a trade agreement, the more sensible products, like dairy ones, will be excluded from liberalisation (Agrisole 2019). In the latter case, Canada will remain a market of outlet for Italian cheeses and the other agri-food products. According with ISMEA (2018) the Italian export in agri-food products toward the UK is on average four time the export toward Canada⁸. Even if the amount of export toward Canada is far below the export toward the UK, Canada could at less help to dampen negative effects.

5.2. Italy: against or in favour of CETA?

As previously mention, the text of the Agreement has to be ratified individually by all the EU member state to officially enter into force. Italy has not ratified the Agreement yet. In May 2017 the Italian Council of Minister, under the leadership of the then President Paolo Gentiloni, approved the Agreement. However, the text of the CETA must go through the parliamentary decision, and the Parliament has not ratified the CETA yet. In 2018, after the change in Italian government and the settlement of the new government led by the 5 Star Movement and the Northern League, the Minister for Labour and Economic Development Di Maio, together with the Minister of Agriculture Centinaio, sided against the ratification of the CETA agreement. In addition to them, other adverse opinions raised from the farming union Coldiretti. Coldiretti serves the interest of agricultural producers and it started a campaign against the Agreement during its negotiation process (2018a; 2018b). The opposing the CETA Text for three main reasons: the threat that competitive Canadian wheat represent for small Italian producers, the use of herbicides like the glyphosate in Canadian production of wheat and the small number of GIs recognised under the CETA. As it is easy to image, Coldiretti is generally against the import of products coming from more competitive foreign

⁷ Specifically they are: Mozzarella (+40%), Gorgonzola (+84%), Pecorino Romano (+63%) and Parmigiano Reggiano (+24%).

⁸ During the period 2010-2018 the Italian agri-food export toward the UK was on average €2.9 billion, while the one toward Canada was on average €694 million.

producers. Taking into consideration all have been said about the Canadian agricultural sector one could realise that Italy and Canada are on two different levels in terms of. Canada is a net exporter of cereals, in particular of wheat. Canada is characterised by high level of mechanisation. Italian agricultural land occupies almost one-fifth of the hectares occupied by agriculture in Canada. The same ratio is observed also considering the output of wheat of the parties⁹ (FAOSTAT 2018). According to monopolistic competition model, when two country, that register high level of intra-industry trade, open their market to the free trade, they expose their domestic firms to the competition with the inevitable consequence of make less competitive producers exit the market. Therefore, based on these considerations, the fear of the Italian small size farms is predictable. In addition, parties opposing the Agreement demonise the Canadian wheat arguing that it is grown using the glyphosate: a herbicide substance forbidden in the EU. Coldiretti claims that the CETA Agreement exclusively benefits multinational companies that are eager to use cheaper Canadian wheat at the expense of public health (2018a). Moreover, as concerns the GIs issue, they fear that the Text legalise the Italian sounding. Indeed, considering the number of Italian GIs identifying the originality of products, only few are recognised by the Agreement and the Text does not prevent the use of some well-known GIs' names by Canadian producers. Indeed, opponents of the CETA argue that of 299 Italian GIs just 41 were recognised by the text of the Agreement and that it legalised factitious names like, for instance, "parmesan", or the coexistence of a double name, like in the case of the Parma ham¹⁰ (Scarci 2019). Moreover, the recognised GIs are the ones more representative and important in terms of value and volume, while the less "popular" ones are forgotten. For instance, Coldiretti noticed that Italian GIs coming from the South of Italy are penalised because just a few are recognised under CETA (Scarci 2019).

As shown in **Figure 5.3** the feared growth of imports of Canadian wheat did not happen until now. Indeed, Canada's export of wheat notably decreased in 2018. Probably, this result has something to do with the concerted campaign led by Coldiretti that leverage people fear of unsafe substances in the imported wheat. As regard the GIs issue, from a point of view, it seems that parties complaining about the small number of GIs recognised are actually trying to obtain more from the Agreement. In other words, one might expects that Italy is procrastinating the moment of ratification in order to gain more benefits from the CETA. Italy is at the forefront in acting to

⁹ In 2017 Italy produced almost seven million of tonnes of wheat, while Canada almost reach 30 million.

¹⁰ In Canada the Parma brand was registered by the Canadian company Maple Leaf before the registration of the true Italian brand. The CETA allows and recognise the coexistence of the two brands.

protect the so-called *terroirs*. As explained in Chapter two, the EU is promoting a new kind of protectionism in agriculture using GIs and it is creating a network of agreements to spread its field of action (Josling 2006). In this sense, Italy is among the first EU countries interested in this campaign. They feel that Italy is trying to get benefits in procrastinating the ratification of CETA is consistent with what has been said by the Italian Minister of Agriculture Centinaio during an interview to “Il Mondo del Latte” (Hribal 2019). Indeed, speaking about the CETA he stated that “[...] bilateral trade agreements represent the priority for the Italian export because they guarantee the protection of Made in Italy products avoiding the Italian sounding phenomenon. The EU are at work to negotiate the best deal with Canada for the dairy sector”.

CONCLUSIONS

As often stressed in this thesis, what is certain about international trade is the failure of multilateralism to satisfy the needs of the various involved players. Initially, the liberalisation of markets was encouraged exactly in response to the protectionist behaviour of countries during the 1929 Great Depression. In 1929, countries applied a very high level of protectionism, that damaged the international trade provoking even more recession. Because of that, in the post-war period the need arose to use a different approach in trade practices. Establishing the GATT, Allies countries started following the way of trade liberalisation through the reduction of tariffs. At the same time, this change of direction toward more liberalisation was strictly related with the growth of globalisation. Since the end of XIX century, globalisation has been characterising international trade taking a variety of shapes and developing in different steps. The need to establish common regulation in the international trade appeared even more essential. Trade rules were needed to regulate the high level of intra-firm trade, making it easier for multinational companies to move raw materials, semi-finished products and goods inside the supply chain. But a common framework was also essential to regulate the flow of investments that were exchanged across borders. Therefore, a series of Round followed the establishment of the GATT, with the aim to regulate even more aspects related with international trade. The sequences of Rounds led to the creation of the WTO in 1994. The WTO became the institutional framework to manage trade relationships between countries. It brought multilateral agreements to a new level. After the establishment of the WTO, other Rounds were carried on by member states. However, the negotiations became even more difficult and, by the end of the first decade of 2000s, the work of WTO reached an impasse. Literarily the WTO was not able to proceed in its work. The interruption of the Doha Round's negotiations represented the event that marked WTO's deadlock. However, its failure was due to a series of factors, some of which were already present even before the establishment of WTO.

The origins of the causes that started to undermine multilateral system must be sought in the last decades of XX century. Scholars like Krugman (1991), but also Baldwin (2011) stressed the inability of the GATT and then of the WTO to regulate the increasing complexity of trade-related issues. Also the thorny issue of agriculture has always been recognised as one of the main friction

points in multilateral agreements (Bagnato and Camanzi 1987), and of the WTO's impasse. Some scholars argued that it was exactly because of agriculture that WTO's negotiations reach a deadlock (Lambert and McRoy 2009). The third, and maybe most important cause of the failure of multilateral negotiations was the downsizing of US's role in the end of the XX century, and the increasing space occupied by Asian countries, in particular by China. A fourth cause can be identified with the increasing hostility toward globalisation in general. Globalisation has been often blamed for provoking stagnation and crisis.

So, these were the four factors that undermined multilateral system. However, they not only halted the advance of multilateralism, but were also at the basis of the boost of regionalism after the 1990s. Scholars like Krugman (1995, 1991), Levy (1997), Frankel et al. (1997), Amato et al. (2015), and Fossati (2015), generally agreed that the loss of confidence in the multilateral trade agreements brought countries to follow the path of regionalism. Regionalism is not a new entry phenomenon of the global scene. It is not something new coming up after the slowdown of multilateralism or the failure of the Doha Round. The relationships between the UK and the countries belonging to the Commonwealth far preceded the idea of multilateralism. As well as globalisation, regionalism took many shapes during different historical moments because it addressed, and continues to address, different problems. Since 2000, countries started to negotiate RTAs, especially in the form of bilateral and PTAs, directly with selected countries expanding the WTO's provisions. From that moment, regionalism has not been representing just a political device or a way to reach new markets but also a way to bypass WTO's rules and design customised agreements. The efforts of promoting mega-regional agreements (the TPP and the TTIP) can be thought of as the last effort to pursuit a fictitious multi-speed multilateralism and an attempt to counterbalance the rise of China. The eager for PTAs looks even more like a race between countries; a contest to win as much preferential agreements as possible. If the EU agreed a PTA with a country, one could be sure that soon the US will start to negotiate with the same country, and vice-versa. A couple of examples are the EU-Korea FTA that followed the KORUS, and the agreement between US and Japan (today under negotiation) that follows the entrance into force of the JEFTA. Countries compete in the race toward PTAs in order to not been left out from international trade. At the same time, these kinds of trade agreements marginalise countries not taking part to them and are likely to create trade diversion especially if they involve long-distant partners. Moreover, the main actors of the international trade can impose their terms relying on their bargaining power. Thus, regionalism ends up creating winners and losers of international trade. In

this sense, regionalism results to be the opposite of multilateralism. Not least, the spread use of bilateral agreement makes the system of regulations and standards even more complex. As a consequence, every country has to deal with an intricate network of regulations like SPS measures, RoO and TBT.

The context already described represents the background of the CETA. The CETA came as the litmus test of the changes affecting the international trade. It fits into the escalation of RTAs. Therefore, it is fair to say that also CETA is an outcome of the process described above. One wanders which were the specific reasons of the CETA. Why did the EU and Canada start negotiate this agreement in 2009? Canadian reasons have to do with Canada's dependency on the US. Canada relied almost completely on US economy. When Asian markets started to rise, this dependency became a problem for Canada. Indeed, as confirmed by Deblock et al. (2011), when US companies started to deal with Asian manufactures, Canada was penalised by Asian competitiveness. This brought Canada to a stagnant situation. As a result, Canada recognised the need to differentiate its trade relations because it was aware that the one with the US was too much all-encompassing. Therefore, trying to counterbalance US's influence, Canada signed the CETA with the EU. There are also other examples of the Canadian efforts to regain attractiveness, like for instance the agreement with the Pacific countries, the CPTPP, and the agreement with Singapore (today under negotiation). Taking everything into account, the Canada's case well explains how the rise of China is linked with the regionalism phenomenon. Indeed, the growing competitiveness of China overshadowed the Canadian role of US's partner. To counterbalance these events, Canada looked for PTAs with other partners. In this sense, the Canadian participation on the CPTPP is emblematic. Indeed, it is acknowledged that the CPTPP was born as a way to curb China.

The reasons of the EU in dealing with Canada matched with the race toward PTAs described above. As one of the main actors of the international trade, the EU is at the forefront in this race. This EU's behaviour has also to do with the issue of agriculture. Based on what has been reported by Bagnato et al. (1987), it is possible to affirm that the decreasing share of agricultural added value to the domestic economy and the reduction of government farmers-supporting policies (resulting from multilateral agreements) push countries to rely on exports for keeping alive their domestic agricultural activities. However, the competitiveness of the main agricultural powers (US, China and Brazil) is always more cutthroat in the international markets. Through PTAs, the EU aims to achieve competitiveness in the trade of agricultural products. To do that, the EU is pursuing a specific strategy. This strategy consists in spreading the recognition of EU's GIs through trade

agreements. Through GIs the EU is providing a protectionist device able to ensure market powers to its products. In fact, UE products bearing GIs shift from the perfect competition market to monopolistic competition market. In other words, in this way, EU's products are considered premium and unique products all around the world, and they are placed at a different level compared with the others. This theory is consistent with Josling's observations on the different approaches of the EU and US in GIs and trademarks (2006). Moreover, the trend in the use of GIs was also confirmed by the EU-Korea FTA and the JEFTA. Indeed, the same EU's behaviour was found examining the EU-Korea and the JEFTA cases. As well as in the CETA case, during the negotiation of the EU-Korea FTA and the JEFTA, the EU largely promoted the protection of GIs. In dealing the agreement with Japan, the EU stressed the importance of GIs so much that the agreement was recalled the "cars-for-cheese trade deal" (Pooley and Brundsen 2017). The name means that the two Parties basically negotiate for removing barriers applied on one hand on cars, on the other on agricultural and agri-food products. In all the three cases taken into consideration, aspects concerning trade in agricultural products were of main importance even if, as demonstrated by data, this sector represents the smallest part of goods exchanged between the Parties. It has been found that, despite the general purpose of FTAs to liberalise all trade, agriculture remains protected through TRQs, tariffs and non-tariff barriers like SPS measures and TBT. The few results obtained in the EU-Korea, JEFTA and CETA as regard the liberalisation of agricultural trade were presented as goods achievements, even if the degree of liberalisation is low compared with the one applied on industrial products. As regards the CETA, on one hand, the Agreement did not significantly improve the Canadian TRQs on EU's cheeses (the concessions made under the USMCA are much wider), neither the Canadian system that regulate the selling of imported wine. On the other hand, EU remains very strict about the imports of hormone-treated meat and GMOs crops coming from Canada. Similar considerations have been made also by Kerr et al. (2015) who stressed the cautious approach to agricultural trade liberalisation followed during the negotiations.

In the CETA case, the role of agriculture was such as to affect the process of signature and ratification. Compared with the other two agreement exanimated, the one between the EU and Canada provoked more discontent. The reasons had to do with the agricultural sector. Why was agriculture involved in the process of CETA and why was it more difficult and contentious compared to the ones of EU-Korea FTA and of JEFTA? One explanation may be that while the EU's agricultural products and the ones of Korea and Japan are complementary, the EU's and Canadian soft commodities are almost the same (wheat, maize, rapeseed and milk). Furthermore,

Canadian agricultural sector is more competitive than the one of Korea and Japan. This is evident comparing the difference between import and export values of the countries and the level of protection applied on agriculture by them. Canadian production and export value of soft commodities overweight the ones of both Korea and Japan. On the contrary, the two Asian countries must import great quantities of soft commodities to satisfy domestic demand at the advantage of the EU. The protection of agriculture is higher in the two Asian countries than in Canada. This is an indicator that the agricultural production of the Asian countries is less competitive than the Canadian one. Finally, because of the fact that the degree of agriculture protection is so high in the two Asian countries, the level of liberalisation achieved through the agreements was perceived as a bigger gain compared with the CETA's gains. Despite these general observations based on collected data, it should be stressed that the CETA agreement has often be associate with the TTIP, which has caused great dissatisfaction. It was reckoned that the TTIP would have given multinational companies too much power in protecting their interest at the expense of citizens through the ISDS mechanism. Because of the fact that also the CETA provides a similar mechanism (as well as the other trade agreements) civil society organisations started to see resemblances between the TTIP and the CETA. It was exactly for this reason that the Walloon region blocked the process of signature of the Agreement. Wallonia recorded high level of farmers government support and feared the most competitive Canadian and US multinational food companies based in Canada. Wallonia was concerned that the multinational companies would use ISDS to accuse Walloon government to apply unfair protectionist practices. At the end, the Parties reached a compromise and Belgium signed the CETA which provisionally entered into force. However, after the change of Italian government in 2018, the Minister for Labour and Economic Development Di Maio, together with the Minister of Agriculture Centinaio and the farming union Coldiretti, sided against the ratification of the Agreement. In Italy, the causes of the dissatisfaction toward the CETA are three: the threat that competitive Canadian wheat represents for smaller Italian producers, the use of glyphosate in the Canadian production of wheat and the small number of GIs recognised by the Agreement. It seems that the campaign promoted by Coldiretti against Canadian wheat has been able to reduce the imports from Canada already during the years before the entrance into force of the Agreement. As concern the issue of GIs, it is not easy to see the point of the voices against CETA. Italy is among the first countries that gain benefits from the EU's strategy of GIs. Many stressed that Italy could gain a lot exploiting the *Made in Italy* label and the recognised quality of the healthy Mediterranean diet (De Filippis 2012, Bellia 2004, Marcati 2016). Opponents challenge that the recognised GIs are only a small part of the Italian GIs and that the

Agreement legalise factitious name like “parmesan” and allow Canadian producers to use popular GIs’ name when they have been used them before the entrance into force of the Agreement. However, without the Agreement neither one GI would have been recognised by Canada. In addition, the EU-Korea and the JEFTA offered almost the same provisions in terms of GIs, and the number of GIs recognised by Korea and Japan is very similar to the number recognised by Canada, but, contrary to the CETA, the agreements with the two Asian countries did not provoke such disagreement. What is more, the Italian government welcomed the JEFTA. So why is CETA so denigrated? Probably, the major fear of the CETA is the possibility given to multinationals to claims against States and its resemblance with the TTIP. However, it comes to mind that the non-ratification of the Agreement can bring some benefits without the need to face disadvantages. Indeed, since 2017 EU companies have been taking advantages from the liberalisation of markets. However, at the same time, until the formal ratification of the Agreement, the more annoying provisions (like the ISDS) will not be applied. Moreover, the procrastination of the ratification may bring to more concessions, for instance in terms of GIs recognised. Indeed, if Wallonia was able to negotiate its conditions for the signature of the CETA, Italian government should reckon to use the same approach in order to obtain more.

What will be the future of the CETA remains unclear. Just the further developments will give a broad picture of the evolution of the two phenomena of multilateralism and regionalism, as well as the CETA affair. What is clear however, is that it is becoming even more difficult to build relationships between countries if these relationships aim to go behind the simple reduction of tariffs for the exchange of goods. The WTO has not been able to reconcile the players of international trade on how to manage the complex new issues arising in the international trade landscape. However, also the regionalism falters due to the increase of populist policies. Therefore, the only practicable way, for now, remains a mild kind of regionalism, i.e. bilateral partnerships. With the inevitable consequence that countries with more bargaining powers customise the agreement based on their interests at the disadvantage of weaker countries, but also at the expense of multilateral regulations achieved so far.

This thesis has covered a broad set of topics. However, further studies should be included to better explain the international trade background and other affairs related with the CETA. Indeed, the evolution of the CETA and the thorny issues linked give way to broader investigations. The last facts concerning both the EU policy and the increasing escalation of the trade wars gives lot of interesting cues that were just mentioned in this thesis. Current happenings, like the Brexit, is

increasing the EU political tensions and some questions remain to be answered. For example, how the threat of Brexit has changed the EU approach in negotiating with Canada. On the other hand, the strict link between Canada and US may suggest a deeper analysis of the effects of the USMCA on the CETA, especially as concern the trade in agriculture. Indeed, also in the agreement between US and Canada the agricultural sector has been playing an important role. Moreover, a deepening of the use of agricultural imports restrictions as a weapon in the trade war should enrich this thesis. In general, it could be interesting to observe more closely how Trump's administration and the spread of populist policies changed the way of international trade and consider how they have been impacting trade partnerships between countries as well as the networks of the agricultural supply chain.

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