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Regional Trade Agreements: An Analysis of Trade-Related Impacts

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Summary

The 107th Congress is currently debating regional trade agreements (RTAs) from two important perspectives—directly and in connection with granting the Administration trade negotiating authority. The Congress is directly addressing RTAs via the U.S.-Jordan Free Trade agreement, which has been approved in the House and is under consideration in the Senate. Also, the Bush Administration is negotiating agreements with Chile and Singapore that may be sent to Congress for consideration. In addition, Congress is weighing whether to grant the Administration trade promotion authority (TPA), also known as fast-track authority. The Administration has indicated it would use TPA to negotiate trade agreements at the multilateral level through the World Trade Organization and RTAs at the regional and bilateral level.

While economic analysts are in general agreement that multilateral trade agreements yield improved social welfare, the picture is more clouded for RTAs. This report considers numerous factors employed in judging RTAs. These factors include: distinctions between multilateral and regional trade agreements, the gains the United States can expect from entering regional trade agreements, and the impact of the recent flurry of RTA activity on U.S. interests.

By allowing production to shift from domestic producers to lower cost foreign producers, RTAs and multilateral agreements may result in trade creation, but RTAs may also cause trade diversion as trade shifts from lower cost non-RTA members to higher cost members because of the tariff preference extended to members. The potential for trade diversion is greater when the trade barriers facing non-RTA members are high. RTA opponents also argue that RTAs tend to exclude poor nations and distract attention from multilateral negotiations.

Empirical analyses of RTA formation generally find the immediate economic impact on the United States to be small whether the United States is in the RTA or not. At the same time, the gains for U.S. RTA partners are considerably larger. However, numerous analysts believe that the United States solidifies foreign relationships and extends its influence over the trade agenda by forming RTAs, and the gains over an extended period are potentially much larger as the trade-restraining impacts of national borders are reduced.

Separate sets of RTAs involving the EU and Mexico appear to be causing the most concern for the United States. EU trade with its RTA members (including intra-EU trade) is over three times U.S. trade with its RTA members, opening the possibility that it will become dominant in setting the trade agenda. Mexico's trade agreements with the EU and numerous Latin American countries raise a different concern. Mexico may be positioning itself as a trade hub with agreement members as spokes. This hub-and-spoke setup may encourage firms to locate in Mexico in order to have tariff-free access to member countries. Additionally, U.S. firms have to compete with firms from the other Mexican RTA countries for a share of the Mexican market.

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Regional Trade Agreements: An Analysis of Trade-Related Impacts

Introduction

Since the end of World War II, the United States has championed multilateral trade agreements. However, as witnessed by the failure of the November 1999 World Trade Organization (WTO) Ministerial in Seattle, multilateral trade negotiations have become extremely difficult to start, and if started, they likely will be increasingly difficult to complete due to the expanded scope and complexity of the issues under negotiation.

In the face of these difficulties, numerous countries have turned to regional trade agreements (RTAs) as substitutes for or as prods to encourage multilateral trade talks.¹ Typically, regional trade agreements may come before the Congress in two basic fashions—directly or through a request for trade promotion authority. Individual RTAs may be brought before the Congress for approval consideration. For example, the U.S.-Jordan Free Trade Agreement negotiated during the Clinton Administration is currently before the Congress. The House voted to approve the agreement. In the Senate, it was approved by the Finance Committee, but a floor vote has not yet been taken. In addition, the Bush Administration is currently negotiating bilateral free trade agreements with Chile and Singapore and a multilateral Free Trade Area of the Americas (FTAA).² Depending on the progress of negotiations, proposed agreements may be presented to the 107th Congress for consideration. Regarding trade promotion authority (TPA)—or, as it has historically been called, fast-track legislative authority—the Bush Administration has asked that the Congress grant this authority. By extending TPA to the Administration, Congress agrees to limit debate on qualifying trade agreements and to vote on the pending legislation within a given time frame without amendments. Fast track or TPA expired in 1994 and attempts to renew the authority have not been successful. The Bush Administration reportedly desires to use TPA to negotiate a wide range of RTAs as well as a possible multilateral trade agreement via the World Trade Organization (WTO). Opponents of

¹ The terms free trade area/agreement and regional trade agreement are oftentimes used interchangeably. However, there are two basic types of RTAs—free trade agreements and customs unions. These agreement types will be discussed below.

²For information on these negotiations see *Singapore-U.S. Free Trade Agreement* by (name redacted). CRS Report RS20755.

U.S.-Jordan Free Trade Agreement by (name redacted). CRS Report RL30652.

A Free Trade Area of the Americas: Status of Negotiations and Major Policy Issues by (name redacted). CRS Report RS20864.

granting TPA assert that the Administration can negotiate trade agreements without fast track. They cite the U.S.-Jordan Free Trade Agreement as an example.³

This report examines economic factors employed in assessing whether the United States is falling behind by not negotiating multilateral and/or regional trade agreements. First, trade-related strengths and weaknesses of multilateral and regional agreements will be presented. Second, potential gains from the United States negotiating trade agreements will be addressed. Finally, the significance of the United States not being involved in the current flurry of trade agreements will be assessed. This report will concentrate on the trade aspects of RTAs. As a consequence, two important aspects of the current regional trade agreement and TPA debates—inclusion of environmental and labor standards—will not be explored.⁴

Multilateral versus Regional Trade Agreements—Strengths and Weaknesses

In the context of this discussion, a multilateral agreement would be negotiated within the framework of the World Trade Organization (WTO) and involve all WTO members (currently 142), whereas regional trade agreements (RTAs) would involve a limited number of countries (two or more).⁵

RTA requirements are spelled out in Article XXIV of the updated General Agreement on Tariffs and Trade (GATT) (now a part of the World Trade Organization (WTO)), or Article V of GATT's sister agreement which covers services (the WTO's General Agreement on Trade in Services (GATS)). The essential requirement of Articles

³ For information see *Trade Promotion Authority (Fast-Track Authority for Trade Agreements): Background and Developments in the 107th Congress* by (name redacted) (CRS Issue Brief IB10084). This report also discusses H.R. 2149 and S. 1104, TPA proposals before the House and Senate.

⁴For information on these issues see *Jordan-U.S. Free Trade Agreement: Labor Issues* by (name redacted). CRS Report RS20968.

Trade Agreements: A Pro/Con Analysis of Including Core Labor Standards by Gary J. Wells. CRS Report RS20909.

Environment in the WTO, by (name redacted). CRS Briefing Book on Trade [<http://www.congress.gov/brbk/html/ebtra20.html>]. Updated periodically.

Environment in Fast Track, by (name redacted). CRS Briefing Book on Trade [<http://www.congress.gov/brbk/html/ebtra23.html>]. Updated periodically.

Environment Issues in Trade Disputes, by (name redacted). CRS Briefing Book on Trade [<http://www.congress.gov/brbk/html/ebtra22.html>]. Updated periodically.

⁵The upcoming WTO Ministerial meeting this November in Doha, Qatar will be aimed at starting a new round of multilateral trade negotiations.

XXIV and V is that RTAs drop substantially all trade barriers between the negotiating partners.⁶

There are two basic types of agreements that qualify for notification under these articles. They are free trade areas (FTA) and customs unions. Members of FTAs eliminate trade barriers on substantially all trade among members, but the members are free to maintain their existing trade policies against non-members. However, the articles require that the trade restrictions against non-members not become more restrictive. Members of customs unions must also substantially reduce barriers among members, but they adopt a common trade policy regarding non-members.⁷ NAFTA is an example of an FTA, while the European Union (EU) and MERCOSUR (Argentina, Brazil, Paraguay, and Uruguay) are customs unions. The U.S.-Jordan Free Trade Agreement negotiated by the Clinton Administration that is pending before Congress is also an FTA as are the Chile, Singapore, and FTAA agreements currently being negotiated by the Bush Administration. The U.S.-Jordan agreement was negotiated without the benefit of TPA, and thus far the Chile, Singapore, and FTAA agreements are also being negotiated without TPA.⁸

Trade Creation. Both multilateral and regional trade agreements may improve the overall economic welfare of society through **trade creation**. Upon implementation of a trade agreement, productive activities begin to realign themselves around the most efficient pattern the new agreement allows. For example, if a trade agreement lowers trade barriers on an item, then production may shift from domestic producers to lower cost foreign

⁶ There is a third type of trade agreement authorized under WTO rules. It is described in the GATT's Enabling Clause and typically involves developed countries extending special, favorable treatment to developing countries. The General System of Preferences (GSP) is an example. While the developing countries are not asked to reciprocate by lowering their trade barriers, qualifying requirements such as meeting internationally accepted core labor standards might be required. The Enabling Clause may also be used between developing countries. The United States' participation in the GSP program is set to expire this September. As a result, this issue will be before the 107th Congress. (For details of the U.S. program see *Generalized System of Preferences* by (name redacted) (CRS Report 97-389.)

⁷ The exception to this occurs when a customs union forms a trade agreement with a third party. The European Union-Mexico free trade area which became effective July 1, 2000 is an example.

⁸The proposed U.S.-Vietnam Bilateral Trade Agreement is an example of a trade agreement that does not qualify under either GATT's Article XXIV or GATS' Article V. It is not an FTA or customs union. It is authorized under GATT's Enabling Clause. With this agreement the United States and Vietnam would agree, among other things, to extend temporary most favored nation status (MFN also known as normal trade relations) to each other. MFN reduces tariffs to the current applicable WTO levels. In this respect, the United States is extending to Vietnam, a non-WTO member, the benefits of WTO membership, but tariffs between the United States and Vietnam are not substantially eliminated as is required of regional trade agreements in GATT's Article XXIV. For a description of the Vietnam-U.S. Bilateral Trade Agreement and the procedures under which it is being considered in Congress (similar to TPA) see *The Vietnam-U.S. Bilateral Trade Agreement* by (name redacted) (CRS Report RL30416).

producers resulting in substituting the traded item for domestic production. This is termed trade creation. Through this move, domestic consumers benefit by being able to acquire the item at a lower price, or by wider choice, or enhanced quality, or a combination of these. At the same time, domestic resources are freed for use in other endeavors. That latter process often draws opposition from displaced workers and the owners of displaced resources. Balancing those issues in ways that enhance public welfare is an ongoing challenge to policymakers.

The full impact of trade creation may take an extended period of time to be realized because the increased trade that accompanies trade liberalization is correlated with income growth over time. Empirical estimates of the relationship predict that a one percent increase in trade relative to gross domestic product (i.e., trade divided by GDP) results in national income growing an additional one-half to 2 percent per year.⁹

Trade diversion. In addition to trade creation, RTAs have a potential drawback. Because RTAs are not fully inclusive they may result in **trade diversion**. Trade diversion is best described by an example. If prior to formation of NAFTA the United States purchased a product from China but subsequently shifted purchases to Mexico solely as the result of NAFTA even though China remained the lower-cost producer, then the regional trade agreement would be responsible for trade diversion. In this case, the United States shifted product sources not because Mexico improved its ability to produce or China lost some of its ability, but instead because the United States began giving Mexico preferential treatment over China.

Over time the growth factors involved in trade creation may help to offset the adverse impacts of trade diversion. Additionally, the prospect for trade diversion declines as the size of an RTA grows and as the trade barriers applied against non-members decline. Extreme situations illustrate these points. First, if an RTA grows to encompass all countries, then no country is excluded. Hence, there is no chance of diverting trade. Second, if trade barriers against non-members are eliminated, then being an RTA member may be little different from being a non-member.

Additionally, most proponents of RTAs argue that the gains from trade creation are very likely to exceed the costs of trade diversion.¹⁰ Hence, proponents conclude RTAs should be undertaken based on simple benefit-cost analysis. However, a recent IMF Staff Paper compared the impact on the growth of nations that either entered into RTAs or liberalized trade in a nondiscriminatory manner (e.g., within the GATT/WTO framework

⁹ See the World Bank Briefing Paper entitled "Assessing Globalization: Does More International Trade Openness Increase World Poverty?" [<http://www.worldbank.org/html/extdr/pb/globalization/paper2.htm> 2000]. Also see, the *WTO. Annual Report: 1998* World Trade Organization. P. 42-46. "One such study found that open economies grow 2 to 2.5 percentage points a year faster than closed economies, after controlling for other factors." (P. 45) Other similar studies found a more modest impact.

¹⁰ See Bergsten, C. Fred. "Open Regionalism." in *Whither APEC? The Progress to Date and Agenda for the Future*. Ed. C. Fred Bergsten. Special Report 9, Institute for International Economics. October 1997. Pp 83-105.

of reciprocal trade liberalization or unilaterally) between 1960 and 1980. Broad, nondiscriminatory trade liberalization was found to enhance growth in both the short- and long-term. On the other hand, according to the study, participation in RTAs resulted in slowed growth.¹¹ The author was not able to determine if the poor results for regional trade agreement formation was due to trade diversion, and the results do not directly apply to many of the type of agreements that are being considered today because the RTAs the IMF study considered did not include a mixture of developed and developing countries. Nonetheless, the issue remains open until stronger evidence one way or the other can be presented.

Beyond trade diversion. Numerous economists believe developing countries are ill-equipped to navigate the maze of rules that accompany many RTAs, putting these nations at a disadvantage that may perpetuate poverty. Other concerns regarding RTAs center on the treatment of non-members. Of course, trade diversion is one concern, but there is a potential that the problem will go beyond trade diversion. As an RTA becomes larger, membership becomes more desirable. To gain a competitive edge, firms in non-member countries lobby their governments to seek membership. However, at the same time, competing firms already in the RTA may have an incentive to lobby their governments to bar new members in order to keep competition out. This raises the concern that regional trade agreements may be "prone to capture by protectionist lobbying."¹² Furthermore, many contend that the countries that are easiest to keep out are those with a high percentage of poor residents, thereby slowing their chances of escaping poverty.

Also, RTAs tend to raise regulatory requirements that may otherwise be unnecessary. Rules of origin serve as an example. To prevent an item produced by a firm located in a non-member country from receiving the preference accorded to products produced within the RTA, a system of determining product origin may need to be formulated. In NAFTA, for example, if a product is imported into Mexico and then transshipped to the United States it would not be eligible for preferential tariff treatment as it crossed into the United States; but without a system to track its origin this would not be known.¹³

Proponents of regional trade agreements generally concede that a multilateral trade agreement is superior to a comparable RTA because of the concerns raised above.

¹¹ See Vamvakidis, Athanasios. "Regional Trade Agreements or Broad Liberalization: Which Path Leads to Faster Growth?" *IMF Staff Papers*, Vol. 46, No. 1 (March 1999), pp. 42-68.

¹² See "A question of preference." *The Economist*. August 20, 1998, pp. 1-2. [<http://www.economist.com>] p. 2. This aspect can be seen in the debate regarding EU expansion. Some member countries are not anxious for new members to join the EU. Some analysts also believe Mexico is less than enthusiastic regarding formation of FTAA because of its special relationship with the United States and Canada.

¹³ Typically, the entire product does not have to originate from within the RTA. For example, 50 percent RTA content is a typical requirement. Rules of origin, and all the complexities and costs of their implementation, are necessary for free trade agreements, but customs unions with their common external tariff can avoid this problem.

Hence, their line of argument tends to follow two tracks. First, they argue that RTAs should be pursued because the benefits exceed the costs since RTAs can go beyond what is feasible with a multilateral agreement, and/or RTAs will make multilateral agreements more feasible in the future. Second, proponents provide a set of characteristics which will allow an RTA to avoid some of its inherent pitfalls.

To overcome the problems inherent with RTAs, proponents typically recommend they have certain characteristics. These include leaving the door open for new members. This reduces the chance of trade diversion. With open RTA membership, if a nation falls victim to trade diversion, it can avoid this problem by joining, provided, of course, that the RTAs open door commitment does not meet internal road blocks.

Many economic researchers also suggest that steps need to be taken to avoid building an inefficient regulatory environment into an RTA agreement. The Common Agricultural Policy (CAP) of the European Union is oftentimes cited as an example of regulatory failure. The CAP protects European farmers through a system of policy measures that requires a significant percentage of the EU budget to administer. Some RTA proponents believe the regulatory environment is the most important aspect that RTA framers should keep in mind. According to that view, the regulatory environment sets the stage and ultimately determines the success or failure of an agreement. Additionally, some proponents of regional trade agreements suggest that they contribute to enhancing economic liberty.¹⁴

Another argument in favor of regional trade agreements is that they can go further in reducing non-tariff barriers than WTO-negotiated multilateral agreements. This is the case because the limited membership focuses attention on the discriminatory actions of fellow members.

Politically, RTAs are also seen as a way to prod countries to liberalize trade in a multilateral setting. Proponents see two avenues to reach multilateral trade liberalization. The first is a direct route via the World Trade Organization, the second, an indirect route, is via expansion of the influence of RTAs. The RTA route is sometimes viewed as a way to pressure reluctant participants to join in multilateral trade talks. In particular, developing countries, via the implied threat of being left out of RTA agreements, may be influenced to view multilateral trade agreements in a more favorable light. Pascal Lamy, EU commissioner for trade, and U.S. Trade Representative Robert Zoellick in a jointly written Washington Post editorial explained this view by stating, "Developing countries cannot expect to fare as well as the United States and the EU in a system of unbridled bilateralism. They would do much better under a multilateral trade round."¹⁵

¹⁴ For example, see Hudgins, Edward L. *Regional and Multilateral Trade Agreements: Complementary Means to Open Markets* (The Cato Journal. Vol. 15 No. 2-3 (Fall/Winter 1995/96) (www.cato.org)). He further suggests that enhancing economic liberty should be a priority in judging RTAs.

¹⁵ See *In the Next Round* by Pascal Lamy and Robert B. Zoellick (Washington Post. July (continued...))

The United States and RTAs

Typically, empirical studies of U.S. participation in RTAs find only modest immediate or up front economic gains for the United States from trade in goods. At the same time, the gains for our agreement partners are typically found to be considerably larger. For example, an Institute of International Economics (IIE) study estimated the static welfare impact of formation of the proposed FTAA to be over four times greater for Mexico and Argentina than the gain estimated for the United States, and for Brazil the gain was estimated to be two and a half times greater than for the United States.¹⁶ The United States' dominance as a trading power going into the agreement is probably responsible for this result.

The impact of NAFTA on U.S.-Mexico trade to date illustrates the modest impact on the United States resulting from RTA formation. Between the 1994 beginning of NAFTA and 2000 U.S. exports to Mexico increased almost 124 percent. However, at the same time, Mexican imports from non-U.S. sources increased almost 109 percent, and the lower growth from non-U.S. trade sources can be attributed to the first years of NAFTA when Mexico had an economic crisis. Figure 1 presents the U.S. share of Mexican imports from 1985 through 2000. From 1994 until 1996 the share grew from just under 72 percent to just over 75 percent, but from 1996 onward the U.S. share steadily fell to about 73 percent in 2000. That is to say, since the inception of NAFTA the United States' share of the Mexican market has grown only about 1 percent, and this growth resulted because of rapid U.S. market share growth during Mexico's economic crisis. This suggests that much of the increased exports the United States experienced may be the result of increased international economic activity by Mexico and not NAFTA.¹⁷

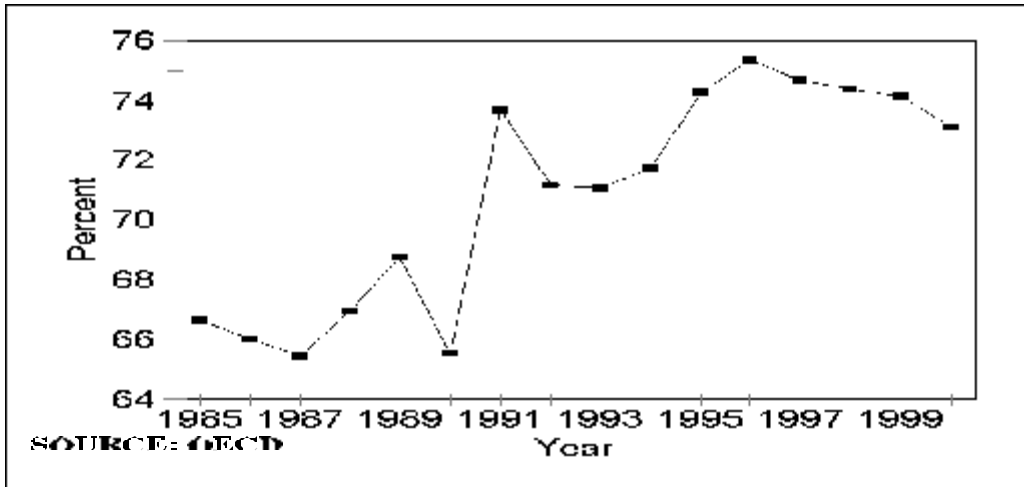
¹⁵(...continued)

17, 2001, Page A17).

¹⁶See *New Regional Trading Arrangements in the Asia Pacific?* By Robert Scollay and John P. Gilbert (Institute for International Economics, Policy Analyses in International Economics Number 63, May, 2001.) Welfare was measured as a percent of gross domestic product for each of the countries involved. With regards to the impact of RTA formation on the United States, empirical studies potentially suffer several modeling shortcomings that may make estimates of the gains experienced by the United States lower bounds. That is to say, the actual levels are likely to be equal to or greater than the estimates. First, adequate incorporation of the services sector in trade models is difficult. For example, the authors of the IIE study point out that their study was unable "to satisfactorily model services trade liberalization." As a result, the modest welfare gains found for the United States are likely to be augmented by gains in the service sector. Given the growing importance of the service sector to U.S. trade, these gains may be substantial.

¹⁷Figure 1 also shows that U.S. market share grew fastest prior to NAFTA formation (from just over 65 percent in 1987 to about 71 percent in 1993). This growth is likely a result of Mexico's unilateral reduction in trade barriers. Mexico's Maquiladora program is an example. Under this program, Mexico provided tariff preference to imported parts which were either further manufactured or assembled and then exported. Under the Maquiladora program, the Mexican government did not place tariffs on imported parts and the United

(continued...)

Figure 1 U.S. Share of Mexican Imports

On the other hand, looking beyond the short-term trade impacts of RTAs, some analysts believe that the closer trade ties that result from participation in trade agreements (particularly RTAs) will provide a spirit of cooperation among members that may foster closer bilateral ties and cooperation on a range of issues. It is also felt that U.S. participation in trade negotiations will enhance U.S. ability to set or influence the international trade agenda.

The immediate gains discussed above do not allow for adjustments in the underlying economic structures that are likely to be encouraged by formation of an RTA. Models that have attempted to incorporate these dynamic aspects of trade by allowing for capital investment and changes in productivity tend to predict larger, ongoing gains than estimates from static models.

One consequence of RTA formation is reducing the impact of members' borders. For example, the tariff-free access that NAFTA affords its members reduces the economic impact of the borders that separate Mexico, the United States, and Canada. Part of this impact is captured in the up-front gains, but an extended amount of time may be required to take full advantage of the reduced trade barriers. The ultimate impact an RTA could be expected to have is complete elimination of the border's economic impact. While it is

¹⁷(...continued)

States, via our harmonized tariff schedule, levied tariffs only on the value added in Mexico. For U.S.-Mexican trade, NAFTA provisions have replaced this program. For information on the Maquiladora program see *Maquiladoras and NAFTA: The Economics of U.S.-Mexico Production Sharing and Trade* by (name redacted) (CRS Report 98-66 E, January 27, 1998). A result of the Maquiladora program was an increase in the within-industry trade between the United States and Mexico. Between 1990 and 1994 a measure of the within-industry trade between the two countries almost doubled.

unlikely that any RTA will achieve this ultimate level of economic integration, one would expect RTA formation to move in this direction. However, the change may take decades to reach its full potential. One reason for this is that infrastructure systems have to adjust from the pre-RTA to post-RTA environment. For example, prior to NAFTA (and its forerunner the Canada-U.S. Free Trade Agreement) much of Canada's distribution system (e.g., roads, distribution centers, and communication systems) was geared toward east-west trade within Canada. As time passes and infrastructure changes are made, it is reasonable to expect that the impact of U.S.-Canadian trade resulting from NAFTA will increase.¹⁸

Is The United States Being Left Behind?

Recently, concern has been expressed that the United States is being left behind because of the proliferation of RTAs that do not include the United States. Some have argued that United States non-participation in trade agreements places U.S. exporters at a competitive disadvantage. These proponents point out that there are over 130 regional trade agreements in force around the world today, and the United States is party to only two—the U.S.-Israel Free Trade Agreement and the North American Free Trade Agreement (NAFTA). They further point out that there has been a recent flurry of regional trade agreement formation. Since 1990, more than 100 agreements have entered into force. NAFTA falls into this group having entered into force in 1994, but the Israel agreement dates to 1985.¹⁹ Others point out that many of these agreements involve small, perhaps inconsequential, amounts of trade, and therefore their numbers alone do not measure their impact.

Economic analyses generally find that the aggregate lost U.S. welfare that results from the formation of RTAs not involving the United States is very small. In many individual cases the welfare change is estimated to be lower than one hundredth of one percent of GDP. Nonetheless, in selected instances, the cost to individual U.S. firms from the discrimination that results when the United States is excluded from trade agreements can be significant. The nature of an RTA is that firms from non-member countries face trade

¹⁸For a discussion see *The Future Course of Trade Liberalization* by Gary C. Hufbauer (Institute for International Economics, 1998). Studies of U.S.-Canadian trade patterns suggest that if all economic border impacts were eliminated, trade between the two countries could hypothetically increase by a factor of about 18. Of course, this is an upper bound of the potential trade impact between Canada and the United States resulting from NAFTA formation, and analysts do not predict this extreme will be realized.

¹⁹Appendix table A1 lists the trade agreements that are still in force and have been notified to the WTO under GATT Article XXIV and/or GATS Article V. One hundred and thirty three agreements are listed. In a general sense, some of the agreements are duplicated in that they are listed as both GATT and GATS agreements. NAFTA is an example. Appendix table A2 lists additional trade agreements that are not on the WTO list. It is unlikely that these lists are exhaustive.

barriers that member firms do not. The end result may be reduced or eliminated sales for individual U.S. firms in countries with an RTA to which the United States is not a party.²⁰

RTA activity by our major trading partners is of concern to analysts. In particular, the trade agreement activities of the European Union (EU) and Mexico (and to a lesser extent Canada) have received scrutiny. The EU has reported 30 RTAs to the WTO (most of them since 1990), Mexico 4 (with many more not reported), and Canada 3. Additionally, in a continuing push to negotiate RTAs, these trading partners are reaching out to other countries. The EU, for example, is negotiating a trade agreement with MERCOSUR (although the pace of negotiation is quite slow), and Mexico and Japan have explored the possibility of beginning talks aiming at a bilateral agreement.

To give some sense of the size of agreements involving the European Union, trade flows for 1999 are presented in Table 1. The total intra-EU exports are also provided.²¹ It can be argued that consideration of intra-EU trade is appropriate if the concern is that the United States is being left behind by the accelerating trend toward RTA formation. The EU is an RTA with an agenda of expansion. While many EU agreements cover relatively small amounts of trade, several encompass multi-billions of dollars worth of trade, and intra-EU trade (exports) is approximately \$1.4 trillion. Total trade between countries with which the EU has RTAs (including intra-EU trade) was over three times U.S. trade with its RTA partners (i.e., within NAFTA and the U.S.-Israel Free Trade Agreement). These numbers tend to support the argument some analysts make that the EU's growing participation in RTAs is allowing it to gain more control over the international trade agenda.

²⁰For further information see Jeffrey J. Schott's testimony before the Subcommittee on Trade of the House Committee on Ways and Means, March 29, 2001.

²¹Only exports are provided to avoid double counting (i.e., one EU country's exports to another EU country is that country's imports). In this case, exports are a measure of total intra-EU trade.

Table 1. European Union Trade With Selected Trading Partners—1999 (Billions of U.S. Dollars or percent)

	Agreement	Total Trade
1	Intra-EC Exports	\$1,399.3
2	EC — OCTs (Defined in the Appendix)	N/A
3	EC — Malta	\$3.0
4	EC — Switzerland and Liechtenstein	\$120.0
5	EC — Iceland	\$2.6
6	EC — Cyprus	\$2.8
7	EC — Norway	\$58.2
8	EC — Algeria	\$13.9
9	EC — Egypt	\$10.4
10	EC — Jordan	\$1.3
11	EC — Lebanon	\$2.8
12	EC — Syria	\$3.9
13	EC — Andorra	\$1.0
14	EC — Czech Republic	\$37.7
15	EC — Hungary	\$38.9
16	EC — Poland	\$50.2
17	EC — Slovak Republic	\$12.0
18	EC — Romania	\$12.5
19	EC — Bulgaria	\$5.0
20	EC — Estonia	\$4.6
21	EC — Latvia	\$3.2
22	EC — Lithuania	\$3.8
23	EC — Turkey	\$37.7
24	EC — Faroe Islands	\$0.6
25	EC — Slovenia	\$12.7
26	EC — Palestinian Authority	\$0.0
27	EC — Tunisia	\$11.2
28	EC — South Africa	\$21.9
29	EC — Morocco	\$11.9
30	EC — Israel	\$22.3
31	EC — Mexico	\$15.3
32	Total of Rows 2-31	\$521.5
	% of Intra-EU Trade	37.3
	% of U.S. Trade	30.3
33	Rows 1-31 as a % of U.S. Trade	111.7
34	Rows 1-31 as a % of U.S. intra-RTA trade	331.5

Source: OECD

That is to say, some analysts see the EU, via its RTA activity, as extending its sphere of influence over trade policy and trading rules/standards. This would give it more control over key international trade agenda items. For example, some analysts argue that the EU is becoming more dominant in setting international standards. As a result, U.S. firms may

be placed at a competitive disadvantage if international standards differ from U.S. standards. By blocking the proposed merger of two American companies, General Electric and Honeywell, after U.S. approval the EU has also exerted its influence over another portion of the international trade agenda—competition policy.

Because Mexico is a member of NAFTA its RTA activity raises another potentially serious concern—the hub-and-spoke trading bloc. In a New York Times editorial, economist Robert M. Dunn, Jr. describes Mexico as our biggest trading problem. He states, “It has aggressively pursued agreements with three big markets—North America, the European Union and Latin America (through individual agreements with many countries, including Chile, Colombia, Venezuela, Bolivia, Costa Rica, Uruguay and Nicaragua). These agreements have allowed Mexico to construct a unique hub-and-spoke trading bloc, with itself as the hub and its partners as spokes.”²² The RTAs Mexico has signed give it preferential access to numerous markets that do not have the same level of access with each other. For example, most Mexican products have tariff-free access to the U.S. market and they will have similar access to the EU market as the EU-Mexico FTA is phased in, but U.S. products do not have tariff-free access to the EU market and likewise EU products do not have tariff-free access to the U.S. market. This creates an incentive to locate production facilities in Mexico in order to take advantage of Mexico’s special position as a trading hub. In addition to this incentive to divert investment to Mexico, the hub-and-spoke phenomenon creates an even more direct problem for U.S. producers, according to Dunn. When U.S. firms try to ship products to Mexico they face added competition from the EU and Latin American countries that have the same tariff-free access to the Mexican market accorded U.S. firms. To a lesser extent Canada is creating the same problem with its FTA with Chile.

Conclusion

Economists generally believe that multilateral trade agreements yield a net contribution to social welfare, but experience has shown that multilateral trade negotiation within the context of the World Trade Organization is difficult. As a result, many countries have turned to regional trade agreements. Because RTAs involve fewer countries, presumably with similar interests, completing an agreement seems more plausible.

Multilateral and regional trade agreements may have one aspect in common. They may increase society’s overall welfare via trade creation. With trade creation domestic production is replaced by lower cost foreign production. This frees up domestic resources to be utilized for other activities. Economically, the end result is a more cost effective utilization of resources, and consumers reap the benefits via reduced prices, wider choice, increased quality, or a combination of all these.

²²See *Mexico’s Growing Trade Advantage* by Robert M. Dunn Jr. (*The New York Times*, Thursday, July 5, 2001)

However, regional trade agreements differ from their multilateral counterparts. The differences hinge on the fact that some nations, by definition, are excluded from RTAs. Hence, RTA members may conclude that they gain by the arrangement, but non-members may not fare as well. The end result may be that, while RTAs may introduce trade creation, they may also cause trade diversion. In this case, production is switched from a non-RTA member to a member not because of a change in ability by the member or non-member to produce the item but because of the preference accorded members over non-members.

Because of the possibility of welfare reducing trade diversion, many analysts recommend that RTAs have certain characteristics. The possibility of trade diversion is reduced when an RTA is large (not as many non-members to discriminate against) or the trade barriers against non-members are low (a lower level of discrimination). As a result, proponents of RTA formation oftentimes recommend that RTAs remain open to new members. This reduces the chance of trade diversion because if it exists, the non-members facing significant discrimination will seek to join to avoid the economic pain of trade diversion. Of course, openness of this sort is a political decision and there is no guarantee that it will occur.

RTAs also differ from multilateral agreements in that they sometimes require intricate rules to differentiate member country products from non-member country products. These rules are necessary to determine if a product is eligible for the preferential treatment an RTA affords. If the United States is not a party to an RTA, then it not only faces these rules, but it also has no say in their formulation. RTA rules may also cover topics such as the application of anti-dumping and countervailing duties. Again, if the United States is not a party to the negotiations, then the resulting rules may be inconsistent with current U.S. policy. This is a particular concern resulting from the EU's RTA activity. It is also a concern in that it often runs counter to free trade principles governing organizations such as WTO.

Despite a long list of potential costs for not participating in RTAs, the up-front economic benefits to the United States of participating appear to be quite small. However, the potential for longer term substantial benefits is present. If RTA formation encourages international, cross-border activity to approach domestic activity (i.e., reduce the economic importance of the international border), then the increase in U.S. international activity could exceed ten fold. While this ambitious level may never be attained, empirical estimates typically suggest that the impact of RTA formation grows with time.

A less than tangible potential benefit for the United States of RTA formation is the possible increased economic stability of members, and this benefit exists whether or not the United States is a party to the agreements although it may be enhanced by U.S. participation. On the other hand, RTAs also have the potential for promoting friction by creating competitive trading blocs. For example, as Mexico forms trade agreements with numerous of our largest trading partners the incentive exists for investment to shift from the United States to Mexico where exported products have tariff-free access to a growing number of markets. Additionally, U.S. firms are losing the benefit of zero tariffs in the

Mexican market as our major competitors gain this same preference. Friction can be reduced by the United States joining the agreement, but again, there is no guarantee.

With the complexity of assessing the benefits and costs of regional trade agreements, the success of their implementation may hinge on the political determination of participating nations. An article from the *Economist* sums it up as follows, “So the success of global efforts to liberalise trade depends mainly on whether governments wish to move in that direction, not on whether they eschew regional deals or seek them.”²³ Hence, RTA formation requires a commitment by policy makers to find ways to enhance the benefits of participation while at the same time seeking ways to avoid the pitfalls RTA formation may introduce.

Because of the potential problems associated with regional trade agreements, many analysts believe they should be viewed as second best alternatives to multilateral agreements. According to this view, RTA use should be restricted to situations where they accomplish more trade liberalization than is feasible with a multilateral agreement, and if used, RTAs should be formulated to minimize possible adverse effects. In particular, trade barriers facing non-members should be low, and non-members should have the opportunity to join an existing RTA to avoid the adverse impact of non-membership.

²³ See “A question of preference.” *The Economist*. August 20, 1998, www.economist.com.

Appendix

**Table A1. Regional Trade Agreements Notified to the GATT/WTO
and in Force**
(As of March 2001)

	Agreement	Date of entry into force	Related provisions	Type of agreement
1	EC (Treaty of Rome)	01-Jan-58	GATS Art V	Services agreement
2	EC (Treaty of Rome)	01-Jan-58	GATTArt. XXIV	Customs union
3	EFTA (Stockholm Convention)	03-May-60	GATTArt. XXIV	Free trade agreement
4	CACM	12-Oct-61	GATTArt. XXIV	Customs union
5	EFTA accession of Iceland	01-Mar-70	GATTArt. XXIV	Accession to free trade agreement
6	EC — OCTs	01-Jan-71	GATTArt. XXIV	Free trade agreement
7	EC — Malta	01-Apr-71	GATTArt. XXIV	Customs union
8	EC — Switzerland and Liechtenstein	01-Jan-73	GATTArt. XXIV	Free trade agreement
9	EC accession of Denmark, Ireland and United Kingdom	01-Jan-73	GATTArt. XXIV	Accession to customs union
10	EC — Iceland	01-Apr-73	GATTArt. XXIV	Free trade agreement
11	EC — Cyprus	01-Jun-73	GATTArt. XXIV	Customs union
12	EC — Norway	01-Jul-73	GATTArt. XXIV	Free trade agreement
13	CARICOM	01-Aug-73	GATTArt. XXIV	Customs union
14	EC — Algeria	01-Jul-76	GATTArt. XXIV	Free trade agreement
15	PATCRA	01-Feb-77	GATTArt. XXIV	Free trade agreement
16	EC — Egypt	01-Jul-77	GATTArt. XXIV	Free trade agreement
17	EC — Jordan	01-Jul-77	GATTArt. XXIV	Free trade agreement
18	EC — Lebanon	01-Jul-77	GATTArt. XXIV	Free trade agreement
19	EC — Syria	01-Jul-77	GATTArt. XXIV	Free trade agreement
20	EC accession of Greece	01-Jan-81	GATTArt. XXIV	Accession to customs union
21	CER	01-Jan-83	GATTArt. XXIV	Free trade agreement
22	United States — Israel	19-Aug-85	GATTArt. XXIV	Free trade agreement
23	EC accession of Portugal and Spain	01-Jan-86	GATTArt. XXIV	Accession to customs union
24	CER	01-Jan-89	GATS Art V	Services agreement
25	EC — Andorra	01-Jul-91	GATTArt. XXIV	Customs union
26	EC — Czech Republic	01-Mar-92	GATTArt. XXIV	Free trade agreement
27	EC — Hungary	01-Mar-92	GATTArt. XXIV	Free trade agreement
28	EC — Poland	01-Mar-92	GATTArt. XXIV	Free trade agreement
29	EC — Slovak Republic	01-Mar-92	GATTArt. XXIV	Free trade agreement
30	EFTA — Turkey	01-Apr-92	GATTArt. XXIV	Free trade agreement
31	EFTA — Czech Republic	01-Jul-92	GATTArt. XXIV	Free trade agreement
32	EFTA — Slovak Republic	01-Jul-92	GATTArt. XXIV	Free trade agreement
33	Czech Republic — Slovak Republic	01-Jan-93	GATTArt. XXIV	Customs union
34	EFTA — Israel	01-Jan-93	GATTArt. XXIV	Free trade agreement

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35	CEFTA	01-Mar-93	GATTArt. XXIV	Free trade agreement
36	Kyrgyz Republic — Russian Federation	24-Apr-93	GATTArt. XXIV	Free trade agreement
37	EC — Romania	01-May-93	GATTArt. XXIV	Free trade agreement
38	EFTA — Romania	01-May-93	GATTArt. XXIV	Free trade agreement
39	EFTA — Bulgaria	01-Jul-93	GATTArt. XXIV	Free trade agreement
40	Faroe Islands — Iceland	01-Jul-93	GATTArt. XXIV	Free trade agreement
41	Faroe Islands — Norway	01-Jul-93	GATTArt. XXIV	Free trade agreement
42	EFTA — Hungary	01-Oct-93	GATTArt. XXIV	Free trade agreement
43	EFTA — Poland	15-Nov-93	GATTArt. XXIV	Free trade agreement
44	EC — Bulgaria	31-Dec-93	GATTArt. XXIV	Free trade agreement
45	EEA	01-Jan-94	GATS Art V	Services agreement
46	NAFTA	01-Jan-94	GATTArt. XXIV	Free trade agreement
47	EC — Hungary	01-Feb-94	GATS Art V	Services agreement
48	EC — Poland	01-Feb-94	GATS Art V	Services agreement
49	BAFTA	01-Apr-94	GATTArt. XXIV	Free trade agreement
50	NAFTA	01-Apr-94	GATS Art V	Services agreement
51	Georgia — Russian Federation	10-May-94	GATTArt. XXIV	Free trade agreement
52	CIS	30-Dec-94	GATTArt. XXIV	Free trade agreement
53	EC — Estonia	01-Jan-95	GATTArt. XXIV	Free trade agreement
54	EC — Latvia	01-Jan-95	GATTArt. XXIV	Free trade agreement
55	EC — Lithuania	01-Jan-95	GATTArt. XXIV	Free trade agreement
56	EC accession of Austria, Finland and Sweden	01-Jan-95	GATTArt. XXIV	Accession to customs union
57	EC accession of Austria, Finland and Sweden	01-Jan-95	GATS Art V	Accession to services agreement
58	Romania — Moldova	01-Jan-95	GATTArt. XXIV	Free trade agreement
59	EC — Bulgaria	01-Feb-95	GATS Art V	Services agreement
60	EC — Czech Republic	01-Feb-95	GATS Art V	Services agreement
61	EC — Romania	01-Feb-95	GATS Art V	Services agreement
62	EC — Slovak Republic	01-Feb-95	GATS Art V	Services agreement
63	Faroe Islands — Switzerland	01-Mar-95	GATTArt. XXIV	Free trade agreement
64	EFTA — Slovenia	01-Jul-95	GATTArt. XXIV	Free trade agreement
65	Kyrgyz Republic — Armenia	27-Oct-95	GATTArt. XXIV	Free trade agreement
66	CEFTA accession of Slovenia	01-Jan-96	GATTArt. XXIV	Accession to free trade agreement
67	EC — Turkey	01-Jan-96	GATTArt. XXIV	Customs union
68	Estonia — Ukraine	14-Mar-96	GATTArt. XXIV	Free trade agreement
69	EFTA — Estonia	01-Jun-96	GATTArt. XXIV	Free trade agreement
70	EFTA — Latvia	01-Jun-96	GATTArt. XXIV	Free trade agreement
71	Georgia — Ukraine	04-Jun-96	GATTArt. XXIV	Free trade agreement
72	Georgia — Azerbaijan	10-Jul-96	GATTArt. XXIV	Free trade agreement
73	EFTA — Lithuania	01-Aug-96	GATTArt. XXIV	Free trade agreement
74	Slovenia — Latvia	01-Aug-96	GATTArt. XXIV	Free trade agreement

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75	Slovenia — Former Yugoslav Republic of Macedonia	01-Sep-96	GATTArt. XXIV	Free trade agreement
76	Kyrgyz Republic — Moldova	21-Nov-96	GATTArt. XXIV	Free trade agreement
77	Canada — Israel	01-Jan-97	GATTArt. XXIV	Free trade agreement
78	EC — Faroe Islands	01-Jan-97	GATTArt. XXIV	Free trade agreement
79	EC — Slovenia	01-Jan-97	GATTArt. XXIV	Free trade agreement
80	Poland — Lithuania	01-Jan-97	GATTArt. XXIV	Free trade agreement
81	Slovak Republic — Israel	01-Jan-97	GATTArt. XXIV	Free trade agreement
82	Slovenia — Estonia	01-Jan-97	GATTArt. XXIV	Free trade agreement
83	Slovenia — Lithuania	01-Mar-97	GATTArt. XXIV	Free trade agreement
84	Israel — Turkey	01-May-97	GATTArt. XXIV	Free trade agreement
85	CEFTA accession of Romania	01-Jul-97	GATTArt. XXIV	Accession to free trade agreement
86	Czech Republic — Latvia	01-Jul-97	GATTArt. XXIV	Free trade agreement
87	EC — Palestinian Authority	01-Jul-97	GATTArt. XXIV	Free trade agreement
88	Slovak Republic — Latvia	01-Jul-97	GATTArt. XXIV	Free trade agreement
89	Slovak Republic — Lithuania	01-Jul-97	GATTArt. XXIV	Free trade agreement
90	Canada — Chile	05-Jul-97	GATS Art V	Services agreement
91	Canada — Chile	05-Jul-97	GATTArt. XXIV	Free trade agreement
92	Czech Republic — Lithuania	01-Sep-97	GATTArt. XXIV	Free trade agreement
93	EAEC	08-Oct-97	GATTArt. XXIV	Customs union
94	Czech Republic — Israel	01-Dec-97	GATTArt. XXIV	Free trade agreement
95	Slovenia — Croatia	01-Jan-98	GATTArt. XXIV	Free trade agreement
96	Kyrgyz Republic — Ukraine	19-Jan-98	GATTArt. XXIV	Free trade agreement
97	Hungary — Israel	01-Feb-98	GATTArt. XXIV	Free trade agreement
98	Romania — Turkey	01-Feb-98	GATTArt. XXIV	Free trade agreement
99	Czech Republic — Estonia	12-Feb-98	GATTArt. XXIV	Free trade agreement
100	Slovak Republic — Estonia	12-Feb-98	GATTArt. XXIV	Free trade agreement
101	EC — Tunisia	01-Mar-98	GATTArt. XXIV	Free trade agreement
102	Lithuania — Turkey	01-Mar-98	GATTArt. XXIV	Free trade agreement
103	Poland — Israel	01-Mar-98	GATTArt. XXIV	Free trade agreement
104	Kyrgyz Republic — Uzbekistan	20-Mar-98	GATTArt. XXIV	Free trade agreement
105	Hungary — Turkey	01-Apr-98	GATTArt. XXIV	Free trade agreement
106	Estonia — Turkey	01-Jun-98	GATTArt. XXIV	Free trade agreement
107	Czech Republic — Turkey	01-Sep-98	GATTArt. XXIV	Free trade agreement
108	Slovak Republic — Turkey	01-Sep-98	GATTArt. XXIV	Free trade agreement
109	Slovenia — Israel	01-Sep-98	GATTArt. XXIV	Free trade agreement
110	Georgia — Armenia	11-Nov-98	GATTArt. XXIV	Free trade agreement
111	Estonia — Faroe Islands	01-Dec-98	GATTArt. XXIV	Free trade agreement
112	Bulgaria — Turkey	01-Jan-99	GATTArt. XXIV	Free trade agreement

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113	CEFTA accession of Bulgaria	01-Jan-99	GATTArt. XXIV	Accession to free trade agreement
114	Poland — Faroe Islands	01-Jun-99	GATTArt. XXIV	Free trade agreement
115	Poland — Latvia	01-Jun-99	GATTArt. XXIV	Free trade agreement
116	EFTA — Palestinian Authority	01-Jul-99	GATTArt. XXIV	Free trade agreement
117	Georgia — Kazakhstan	16-Jul-99	GATTArt. XXIV	Free trade agreement
118	Chile — Mexico	01-Aug-99	GATTArt. XXIV	Free trade agreement
119	EFTA — Morocco	01-Dec-99	GATTArt. XXIV	Free trade agreement
120	Bulgaria — Former Yugoslav Republic of Macedonia	01-Jan-00	GATTArt. XXIV	Free trade agreement
121	EC — South Africa	01-Jan-00	GATTArt. XXIV	Free trade agreement
122	Georgia — Turkmenistan	01-Jan-00	GATTArt. XXIV	Free trade agreement
123	Hungary — Latvia	01-Jan-00	GATTArt. XXIV	Free trade agreement
124	EC — Morocco	01-Mar-00	GATTArt. XXIV	Free trade agreement
125	Hungary — Lithuania	01-Mar-00	GATTArt. XXIV	Free trade agreement
126	Poland — Turkey	01-May-00	GATTArt. XXIV	Free trade agreement
127	EC — Israel	01-Jun-00	GATTArt. XXIV	Free trade agreement
128	EC — Mexico	01-Jul-00	GATTArt. XXIV	Free trade agreement
129	Latvia — Turkey	01-Jul-00	GATTArt. XXIV	Free trade agreement
130	Mexico — Israel	01-Jul-00	GATTArt. XXIV	Free trade agreement
131	Turkey — Former Yugoslav Republic of Macedonia	01-Sep-00	GATTArt. XXIV	Free trade agreement
132	EFTA — Former Yugoslav Republic of Macedonia	01-Jan-01	GATTArt. XXIV	Free trade agreement
133	Kyrgyz Republic — Kazakhstan	not available	GATTArt. XXIV	Free trade agreement

Abbreviations:

BAFTA	Baltic Free-Trade Area	Estonia Latvia Lithuania
CARICOM	Caribbean Community and Common Market	Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Trinidad & Tobago, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Surinam
CACM	Central American Common Market	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua
CEFTA	Central European Free Trade Agreement	Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovak Republic, Slovenia
CER	Closer Trade Relations Trade Agreement	Australia, New Zealand
CIS	Commonwealth of Independent States	Azerbaijan, Armenia, Belarus, Georgia, Moldova, Kazakhstan, Russian Federation, Ukraine, Uzbekistan, Tajikistan, Kyrgyz Republic
EAEC	Eurasian Economic Community	Belarus, Kazakhstan, Kyrgyz Republic, Russian Federation, Tajikistan
EC	European Communities	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy,

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		Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom
EEA	European Economic Area	EC, Iceland, Liechtenstein, Norway
EFTA	European Free Trade Association	Iceland, Liechtenstein, Norway, Switzerland
NAFTA	North American Free Trade Agreement	Canada, Mexico, United States
OCT	Overseas Countries and Territories	Greenland, New Caledonia, French Polynesia, French Southern and Antarctic Territories, Wallis and Futuna Islands, Mayotte, Saint Pierre and Miquelon, Aruba, Netherlands Antilles, Anguilla, Cayman Islands, Falkland Islands, South Georgia and South Sandwich Islands, Montserrat, Pitcairn, Saint Helena, Ascension Island, Tristan da Cunha, Turks and Caicos Islands, British Antarctic Territory, British Indian Ocean Territory, British Virgin Islands
PATCRA	Papua New Guinea-Australia Trade and Commercial Relations Agreement	Papua New Guinea, Australia

Table A2. Regional Trade Agreements not Listed by the WTO

	Agreement	Date of Entry into force	Type of Agreement
1	Andean Community	Jun-98	Customs Union
2	Chile-Venezuela	Jul-93	Free trade agreement
3	Chile-Colombia	Jan-94	Free trade agreement
4	Costa Rica-Mexico	Jan-95	Free trade agreement
5	Bolivia-Mexico	Jan-95	Free trade agreement
6	Chile-Ecuador	Jan-95	Free trade agreement
7	Colombia, Mexico, Venezuela	Jan-95	Free trade agreement
8	MERCOSUR	Jan-95	Customs Union
9	Chile-MERCOSUR	Oct-96	Free trade agreement
10	Bolivia-MERCOSUR	Mar-97	Free trade agreement
11	Mexico-Nicaragua	Jul-98	Free trade agreement
12	Central America-Dominican Republic	Jan-99	Free trade agreement
13	Chile-Mexico	Sep-99	Free trade agreement
14	El Salvador, Guatemala, Honduras, Mexico	Jan-01	Free trade agreement

Abbreviations:

Andean Community		Colombia, Bolivia, Ecuador, Peru, and Venezuela
MERCOSUR	Southern Common Market	Argentina, Brazil, Paraguay, Uruguay

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