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ABSTRACT

In 2006 the European Union (EU) decided to abandon its moratorium on negotiating new free trade agreements. Since then, numerous negotiations have been started. In particular, the EU joined in the scramble for preferential market access starting bilateral negotiations both with individual countries, as in the case of India, Canada, Ukraina and Russia, and with regional sub-groupings, such as the Association of Southeast Asian Nations (ASEAN) and Mercosur.
The discriminatory character of these agreements is controversial in economics, not simply because of the classic (so-called 'Vinerian') view that they can sometimes reduce trade by diverting it, rather than creating it, but also because of the unresolved disagreements over when a regional trade agreement is likely to precede, rather than preclude, more global agreements. In this paper, we use a computable general equilibrium (CGE) model to assess the effects of the possible agreements between the EU and different partners. We evaluate the impact of the free trade agreements by themselves, assess their mutual compatibility, and compare them with a benchmark free trade scenario.

Keywords: Protection, Commercial policy, GTAP model, International trade,

JEL classification: F13, Q17, F17

1. Introduction

From 1948 to 1994 124 Regional trade agreements (RTAs) have been notified, but only 65 are still in force. In the last 15 years there have been 278 notifications at the WTO[1]. Since the 1990s, regional liberalization has appeared as the easy route to integration and trade liberalization. In particular, the slowness of the Doha Round, teamed with booming regionalism world-wide, has brought discussion of the causes of regionalism to the forefront of trade policy discussions.

What can explain the recent growth of regionalism, and why govern aments do choose to pursue their policy objectives trough RTAs? The main explanations provided in the literature are:

1) that regionalism is spreading because multilateral talks are progressing so slowly (Krugman 1991b, Bhagwati 1992, 1997),
2) the so-called bandwagon or emulation arguments that posit a link between RTAs signed by the 'trade giants' (US, EU and Japan) and the attitudes of other nations (Bhagwati 1992, Solis, Stallings and Katada 2009),
3) the domino theory of regionalism formalized in Baldwin (1993) arguing that the signing or deepening of one RTA can induce excluded nations to sign new RTAs that were previously shunned,
4) political-economy-theory where trade diversion is an important motive leading to RTAs (Grossman and Helpman, 1995)

The proliferation of RTAs over the past two decades has highlighted the need to look closely at the debate between those who view RTAs as discriminatory instruments hostage to protectionist interests and those who see them as conducive to multilateral trade opening (Antimiani et al., 2007; Bhagwati, 1996). These developments suggest that RTAs have become a major and strategic part of commercial policy for many countries, including the EU.

The European Union (EU) signed a "motley assortment" (Baldwin, 2007) of unilateral, bilateral, preferential and plurilateral deals. In particular, the EU joined in the scramble for preferential market access starting bilateral negotiations both with individual countries, as in

[1] WTO members have a general obligation to notify their adoption of trade measures affecting the operation of the multilateral trade agreement. A central registry of notifications is established under the responsibility of the WTO Secretariat.

the case of India, Canada, Ukraina and Russia, and with regional sub-groupings, such as the Association of Southeast Asian Nations (ASEAN) and Mercosur.

The literature on regionalism versus multilateralism is growing as economists and political scientists grapple with the question of whether regional integration arrangements are good or bad for the multilateral system: 'building' or 'stumbling blocks' using the famous words introduced by Bhagwati (1992). The goal of this paper is not to add new arguments to this large debate, rather to bear evidence about the empirical relevance of some of those that have been already suggested. We focus on the EU trade policy comparing the effects of several RTAs signed or possibly to be signed by the EU. The main goal is to use a consistent theoretical framework in order to compare different arguments put forward in the building/stumbling bloc debate. To this end several counterfactual scenarios are simulated, including a multilateral free-trade scenario that provides the necessary benchmark for the assessment of second-best effects.[2]

The rest of the paper is organized as follows. After reviewing the most recent developments of the EU trade policy stance (section 2), the third section follows Baldwin (2009) critical review of the building bloc-stumbling bloc debate literature in order to describe various economic mechanisms that help determine whether preferential trade arrangements help or hinder multilateral trade liberalization. The main conclusion is that one can build models that suggest either conclusion, but these models are still so abstract that they should be viewed as parables providing useful insights for assessing the potential effects of RTAs on the global trading system. In this paper, we consider them as sources of testable predictions, and we attempt to move the literature from high theory to empirically grounded research which has more policy relevance. In our analysis, we use a global computable general equilibrium (CGE) , specifically the Global Trade Analysis Project (GTAP) one, as the framework in which several RTAs concerning the EU are simulated. We want to evaluate the impact of the free trade agreements by themselves, their mutual compatibility as well as their relations with the larger agenda of global free trade multilateral trade liberalization (Section 4). In section 5, we discuss the results of the simulations, while Section 6 presents our concluding remarks.

[2] In the words of Winters: "If one could determine the perfectly multilateral volume and pattern of trade, one could then easily define the index of actual multilateralism by any of several distance measures between actual and "perfect" trade" (1996, p.5).

2. The prospect of EU RTAs

Among the OECD countries, the EU has long been involved in regional trade and integration initiatives, beginning with the formation of the European Community itself in 1958, and by becoming party to a large number of bilateral trade agreements with the Mediterranean countries in the 1970s, the formation of the General System of Preferences (GSP) for developing countries in 1971, the association agreements with the Eastern European countries in the 1990s, and more recently, the Cotonou Agreement with the ACPs and the Everything But Arms initiative for the LDCs (OECD, 1995; WTO, 1997).

The growth of preferential market access into the EU has been the subject of discussion in Brussels since the mid 1990s. In the last European Commission's Communication on its external trade policy, significant shifts are discernible in the Commission's Position (European Commission, 2006), significant shifts are discernible in the European Union's external trade policy, in particular as they relate to the prominence given to market access objectives and to bilateral and regional trade agreements (Evenett, 2007). The targets of the EU's new external trade policy are the large emerging markets and the shift away from an almost exclusive focus on multilateral rule-making (which has been the norm in recent years). In summarizing the next steps to be taken, the Communication identifies the proposals for a new generation of carefully selected and prioritised RTAs as a priority of its external trade policy.

Among the ongoing bilateral negotiations, in the following we provide some background information about those that will be included in the simulations.

- ✓ ASEAN covers a predominant key position in the Asia-Pacific region and due to its economic role in the world trading system. In 2009, the ASEAN[3] region accounted for around 4% of total EU import and export of EU, while, for ASEAN countries, the EU accounts for around 11% of their imports and exports. On April 23rd 2007 the European Commission adopted official negotiating mandates for new Free Trade Agreements (FTA) with the ASEAN[4] countries and India. The EU had been planning on a bilateral trade agreement with the Association of South East Asian Nations (ASEAN) for many years. On 4 May 2007, the two sides agreed to start negotiations and on 26 may 2010, during the 18th EU-ASEAN Ministerial Meeting, EU fully

[3] Relatively to our regional aggregation, which include all ASEAN members excluded the ones involved in other EU agreements such EBA or EPAs .

[4] The ASEAN group of countries are: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Burma/Myanmar, Philippines, Singapore, Thailand and Vietnam.

supported ASEAN's renewed efforts to build a closer relationship amongst its member states, which it still appears as one of the main obstacles to the FTA.

- ✓ EU is the India's largest trading partner, accounting for almost 19% on total export and 12% for imports. Even if India remains a rather small trade partner for the EU, around 2% of both import and export, the combination of rapid economic growth and relatively high market protection makes India an obvious partner for one of the new generation of EU FTA. In 2005, the EU and India adopted a Joint Action Plan which is considered as a first step toward a more liberalized environment with the aim of increasing bilateral trade and economic cooperation. The Council adopted a negotiating Directive for a Free Trade Agreement (FTA) with India on 23 April 2007 and negotiations were launched on 28/29 June 2007. The FTA would cover trade in goods and services but will also pay attention to other issues: non-tariff barriers, intellectual property rights, competition problems, intellectual property rights, rules and regulations. Since 2009 several meetings between EU and India took place to enhance dialogue and cooperation on issues including the agreement for a bilateral FTA.
- ✓ In March 2007 the EU and Ukraine launched bilateral negotiations of a new Association Agreement that will replace the previous Partnership and Cooperation Agreement. In 2008, an agreement was reached to start negotiations for the EU-Ukraine FTA. Ukraina is a small trade partner for the EU, less than 1% for import and by 1,3% for export flows, and this agreement is part of the broader "European Neighbourhood Policy (ENP)"[5].
- ✓ EU-Mercosur negotiations have been ongoing since 1995, when the Interregional Framework Cooperation Agreement was signed. For these countries, EU is the second most relevant trade partner; while, for the EU, the Mercosur area accounts for around 2-3% of EU trade flows. Negotiations got hung up between 2004 and 2008, but restarted since then aiming at an Association Agreement based on three pillars: political dialogue, cooperation and a free trade area.
- ✓ Canada is currently the EU's 11th most important trading partner, accounting for 1.8% of the EU's total external trade in 2009; while, for Canada, EU is the second most important trading partner, after the U.S., with a 10.5% share of its total external trade.

[5] The ENP was launched in 2004 to promote closer relations with the countries adjacent to the EU. Prosperity, stability and security in these areas are in the mutual interest of the EU and its neighbours.

In 2009, EU and Canada launched a negotiation for a comprehensive economic and trade agreement (CETA) with the objective of FTA between them.

3. Bilateralism *vs* multilateralism: Trick or Treat?

The literature that is relevant to this paper is too vast to review in any detail. One of the most contentious aspects of the debate about preferential trade agreements concerns the relationship between regionalism and multilateralism. Hence, in this section we refer to some selected contributions specifically related to how preferential trade agreements may act as building blocks or stumbling blocks on the path to global free trade.

The insightful thinking and writing of Richard Baldwin are both influential in shaping the thinking in this paper and too numerous to cite, in particular the stocktaking essay Baldwin (2009) entitled "Big-think regionalism: a critical survey". In this paper, studies are divided into two types: Small-Think Regionalism and Big-Think Regionalism.

In the 1950s, the debate about regionalism straightened out the economics and established the intellectual paradigm around Viner's(1950) key finding: discriminatory tariff liberalization has ambiguous welfare effects since (preferential liberalisation induces new distortions while removing others. This literature – what could be called Small-Think Regionalism – focused on the concepts of trade creation, trade diversion and terms-of-trade effects ignoring systemic implications.

In the 1990s, Bhagwati (1992) and Krugman (1991a) among other scholars, and laid out lines of analysis of what might be called Big-Think Regionalism. While Small-Think Regionalism focused on the FTA-related changes in trade flows, prices, production structures, sectoral allocation of factors of production, and welfare of the individual nation, Big-Think Regionalism focuses on the systemic implications such as the impact on the world welfare or the consequences for the multilateral system.

While many trade policy scholars – such as Paul Krugman and Jagdish Bhagwati – worried that regionalism was a stumbling block to global free trade, others – such as Bergsten (1996) – viewed regionalism as a largely benign or even as a constructive force in the world trade system. We discusss here briefly some conjectures offered in the theoretical literature: they are summarized in Table 1.

TABLE 1: Arguments in the debate on regionalism vs. multilateralism

Building blocks	**Stumbling blocks**
Juggernaut (Export flows)	*Bag of goodies*: • Trade flows (trade diversion)
Policy complementarity (tariff substitutability) • Contraction effect • Hub-and-spoke	*Policy substitutability (tariff complementarity)* • Magnification effect
	Preference exploitation (Welfare)
	Cherry picking: • Adjustment costs • Structural congruence

We note that the literature has proposed multiple (and often contrary) possible linkages between preferential and multilateral tariff cutting. The main goal of this paper is to provide a quantitative assessment of the quantitative significance and robustness of these linkages.

- *Stumbling bloc #1: Preference exploitation*

Unless the governments' objective function includes some political payoffs, RTAs are expected to bring some gains in terms of welfare. This is not necessarily bad news for the multilateral agenda, since trade liberalization is a positive-sum game and free-trade may guarantee a(n even) better performance to the RTA participants. However, if benefits do not (monotonically) increase with the number of countries involved in the trade agreement, governments may decide to opt for the agreements providing better results.

According to Baldwin (2009), starting from a world where all nations have MFN tariffs, the question is: can some group of nations raise their collective welfare above the free trade level by forming a trade bloc and thus exploiting other nations? If the answer is "yes," then that bloc is a stumbling bloc on the road to multilateral free trade because the bloc members would veto global free trade as undermining their exploitation of third nations.

- *Stumbling bloc #2: Bag of goodies*

RTA exporters gain from two distinct features of their improved market acces: cheaper imports facilitated by the agreement replaces domestic production (trade creation) or crowds out imports from the rest of the world (trade diversion). The latter generates rents that can be thought of as a 'bag of goodies'. Accordingly, another stumbling-bloc labelled by Baldwin (2009) the 'goodies bag'. Since the richness of the 'goodies bag' is linked to the margin of

preferences, RTA members have an extra incentive to maintain high margins of preference by avoiding multilateral liberalization.

This mechanism follows closely the fundamental economic logic of the preference-erosion stumbling bloc. The ‘preference rent’, as a matter of fact, would not be gained if the tariff cutting were multilateral instead of preferential. Accordingly, it is vulnerable to so-called preference erosion and as such, it plays a leading role in the stumbling bloc logic.

- *Stumbling bloc #3: Cherry picking*

An entirely distinct mechanism is at work in the third type of stumbling bloc identified by Baldwin (2009): the cherry-picking one. Moving to global free trade will typically involve some pluses and some minuses from the national perspective. Starting from the bloc situation, a move to global free trade involves many more minuses and fewer pluses for bloc members, so bloc members may veto global free trade even if it brought larger gains (and this would avoid the first stumbling block) if the 'adjustment costs' implied by the free-trade are much larger.

In the same vein, bilateral agreements may raise the issue of their structural compatibility with the larger agenda of global trade liberalization. For this reason, in the following we compare the different liberalization scenarios in terms of a concept Roland-Holst and van der Mensbrugghe (2001) call ‘structural congruence’, reflecting the similarity in patterns of real output adjustment ensuing from different agreements. As a matter of fact, if the RTA moves the economy away from its 'true' comparative advantage, this will raise the cost of achieving the global free trade. Conversely, if the changes in the production structure are consistent with those that would take place under global liberalization, the RTA helps to reveal the nation’s true comparative advantage and workers now know whether they will win or lose from free trade.

- *Stumbling bloc #4: Policy substitutability (tariff complementarity)*

As a consequence of the establishment of an RTA, the impact of the tariffs imposed on third nations could be either augmented (tariff substitutability) or decreased (tariff complementarity). In such a case, the welfare impact of bilateral liberalization turns out to be larger than the impact of the same policy when it is undertaken within a larger liberalization reform: this is what we call the 'magnification effect'.If we assume that the original bilateral tariffs were chosen "optimally", RTA members will have the incentive to adjust their tariff

profile : accordingly, they may raise they duties, if they are not subject to WTO bindings, or at least be less incline to lower them on a multilateral basis.

- *Building bloc #1: Juggernaut*

The assertion that RTAs could foster multilateral liberalization, acting as building blocs on the road to global duty-free trade, is firstly based on the notion that preferential liberalization creates a political-economy momentum that makes multilateral liberalization easier: this is the Juggernaut building bloc logic (Baldwin, 2009). Thus a country that enters into an RTA will expand the political and economic strength of its pro-liberalization constituency ('juggernaut' effect), making it possible for its government to cut a multilateral deal (Baldwin, 2009).

Such an outcome could be explained by two lines of reasoning. Firstly, RTAs re-landscape members' economies – making export sectors larger and import-competing sectors smaller. Of course, in the sectors where the RTA results in lower exports, then the agreement can start the juggernaut rolling backward. Secondly, if workers are uncertain as to whether they will win or lose from global free trade, an intermediate form of liberalization, such as the RTA, could help to make global free trade politically feasible over time.

- *Building bloc #2: Policy complementarity (tariff substitutability)*

Since the RTA automatically makes the import tax structure more uneven, there is some presumption that the RTA makes the third nation tariffs more distortionary. Accordingly, the welfare impact of bilateral liberalization turns out to be smaller than the impact of the same policy when it is undertaken within a larger liberalization reform: this is what we call the 'compression effect'. In such a scenario, following the same logic expressed in the Stumbling bloc #4 we may expect nations to lower third-nation tariffs when they re-optimises their trade tax structure, i.e. RTAs encourage nations to lower applied MFN tariffs.

Still in the same logic – i.e., if there are welfare losses from trade diversion in Home import market –, incentives for hub-and-spoke RTAs may eventually eliminate all tariffs globally. As a matter of fact, after a second RTA the importing country gains the same preferential market access as it did from the first RTA and it undoes the potentially harmful trade diversion by fully liberalising its import market.

4. Model, database and scenarios

As a consequence of the ambiguity concerning the impact of RTAs per se, economic theory provides very few clear-cut conclusions as to whether regionalism reinforces or hinders the

move toward global free trade. The bottom line is that theory cannot provide us with clear-cut conclusions, and therefore it is ultimately an empirical issue to determine the impact of a given RTA, and there is a decisive role for quantitative models to assess the impact of RTA and shed some light on this complex issue.

Since we are interested in "what if" questions, i.e. if the EU signed new RTAs what would then be the consequences for trade, production, employment, income, etc. we are going to use a (global) CGE model allowing us to test some of the arguments presented above. Most ex ante studies of regional trade agreements use global, or multi-country, computable general equilibrium (CGE) models. CGE framework builds on general equilibrium theory and rests on consistent microeconomic foundation, in which intersectoral linkages, resource constraints, and policy distortions are in focus. CGE models are thus economy-wide and capture explicitly the linkages between all sectors of the economy through demands for intermediate inputs and factors of production. The focus in these models is on sectoral resource allocation, production, consumption, and bilateral trade. The main advantages of a global CGE approach are of course the solid micro-theoretical underpinning, the economy-wide scope, as well as the complete and consistent coverage of all bilateral trade flows. Furthermore, changes in welfare can be traced back to the different sectors by performing a welfare decomposition exercise to identify what is generating the gains and losses. A CGE model is an appropriate tool when the policy changes being analysed simultaneously affect many countries and many sectors, and have effects on terms-of-trade, factor prices, and income.

Simulations have been carried out using the Global Trade Analysis Project (GTAP) model and its database providing a baseline with reference to the year 2004. In our version the database is aggregated in order to include 25 regions/countries and 33 sectors (Table 2). The product aggregation is as detailed as possible, taking into account the latest release of the database (version 7.1) (https://www.gtap.agecon.purdue.edu/databases/v7/default.asp#InterimReleases; Narayanan and Walmsley, 2008; Bouët et al., 2005).

Several changes have been introduced in order to update the baseline to 2009 using World Bank data for population, labour force and GDP, and including all the policies already agreed upon even if yet to be implemented. Accordingly, as far as the Common Agricultural Policy is concerned we model the decoupling, where direct payments are modelled as ad valorem subsidies to land use, as well as the sugar, rice and dairy reforms, where the intervention prices decrease was approximated through changes in the corresponding import taxes.

Regarding the trade policies, in addition to the 2007 enlargement we introduced the Economic Partnership Agreements (European Commission, 2001) as well as the FTAs with EUROMED, Korea, Chile, Mexico and South Africa.

TABLE 2: GTAP database aggregation

Commodities and Activities	**Factors**
Beverage & tobacco	Land
Wheat	Labour: *Skilled*
Other cereals	Labour: *Unskilled*
Cereal seeds	Capital
Chemical products	Natural Resources
Dairy products	**Regions***
Eletronic equipment	**Asean** (*Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam*)
Fibers	China
Fishing	**India**
Forestry	Korea
Leather products	Japan
Machinery	Eu27
Live animals	Euromed
Meat	**Mercosur** (*Argentina, Brazil, Paraguay, Uruguay and Venezuela*)
Ferrous products	No WTO countries
Metal products	**Canada**
Minerals	USA
Motorvehicle	Mexico
Oil fats	Australia and New Zelaand
Other crops	Rest of asian countries
Other food	EFTA
Coal products	Rest of american countries
Other manufacture	Rest of the World
Petrol	EBA countries
Paddy rice	EPA countries
Rice	South Africa
Sugar	**Ukraina**
Textile	Colombia and Perù
Vegetables & Fruit	Chile
Wearing	Russian Federation
Wood products	Central America
Electricity	

*In bold country/region included in the scenarios

We define seven simulation scenarios:

S1: global free trade;

S2: joint implementation of FTAs with Asean, Canada, India, Mercosur and Ukraine;

S3: FTA EU-ASEAN;

S4: FTA EU-Canada;

S5: FTA EU-India;

S6: FTA EU-Mercosur;

S7: FTA EU-Ukraine.

Finally, it is worth recalling that we use a rather 'standard' (i.e., statind and perfect competition) model. Such a model is by construction unable to take into account several effects (possibly even larger than the ones considered here) such as economies of scale; "learning by doing" from expanded trade; information, technology and knowledge transfers that increase productivity; increased investment opportunities in a larger and perhaps more stable trading environment that carries with it advanced technologies and increased productivity.

5. Results

In this section we analyse the outcome of the simulations in order to check if and to what extent the theoretical arguments laid down in the previous section are empirically confirmed.

In Table 3 we compare the welfare impact of each bilateral agreement with the contribution of each bilateral partner to the simultaneous liberalization scenarios S1 and S2.

TABLE 3: EU welfare impact (million US$)

SCENARIOS \ AGREEMENTS	BILATERAL	ALL BILATERAL	FREE TRADE
ASEAN	2,280 (461)	2,473	2,354
Canada	795 (161)	852	798
India	3,032 (613)	3,075	2,619
Mercosur	10,472 (2,102)	10,648	10,774
Ukraine	871 (176)	928	917
Total		17,978 (3,607)	32,754* (6,506)

*It includes the contribution of all the regions in the model

Values in brackets are obtained dividing the welfare impact by $\sum_i \sum_j |x^j_{i,t} - x^j_{i,t-1}|$ where $x_{i,t}$ and $x_{i,t-1}$ represent each industry's *i* share of factor *j* after and before the trade shock under consideration (respectively, *t* and *t-1*).

EU would benefit in all cases, though the order of magnitudes are quite different. As it may have been expected, global free trade brings much larger gains than the bilateral agreements even if the EU pursued all of them at the same time. At first glance, then, the first stumbling block (i.e., preference exploitation) is not a problem and the EU would increase its gains adding new RTAs up to global free trade.

Among the bilateral agreements, the most beneficial by far is the one with Mercosur, followed by India, and ASEAN, while Ukraine and Canada present much smaller values. This ranking results from the interaction between the relevance of bilateral trade flows and the height of bilateral tariffs.

Welfare gains are conditional to the adjustments induced by trade liberalization in each scenario and it may be expected that they entail shocks of very different size. In order to assess the structural change resulting from each scenario, we add the changes in the shares of the factors used in each sector of the economy. This is the percentage of productive resources reallocated within each economy as a result of adjustment to the analysed trade shock, and we use this value to normalize the welfare impacts.

Looking at the benefits obtained in relative terms (Table 3; values in brackets) does not change the ranking of the scenarios. Economic restructuring would be most productive in the case of global free trade, while the already quite low benefits resulting from the Ukraine and Canada agreements come at the highest cost in terms of adjustment. Overall, the *cherry picking* hypothesis does not seem to represent a serious stumbling block on the road to free trade.

Table3 also allows to verify the *tariff substitutability/complementarity* hypothesis. With respect to the simultaneous FTAs scenario all bilateral agreements register lower gains (contraction effects), while in the case of global free trade only the India FTA registers larger gains (magnification effect). Since removing the protection toward the candidate countries for bilateral agreements makes the remaining tariffs in almost all cases more distortionary, this would be consistent with a building block logic, though the contraction effects are always rather small. On the other hand, EU tariffs toward India appear to be complementary to the other tariffs (but not to the tariffs concerned by the other FTAs), and this would be consistent with the stumbling block logic.

In order to verify the *bag of goodies* hypothesis we compute the preference rents as the difference between FTAs and free trade EU export flows (Table 4).

TABLE 4 - EU preference rents (million US$)

	Bilateral agreements					
Products	All agreements	Asean countries	Canada	India	Mercosur	Ukraina
Beverage & tobacco	**983**	**632**	**49**	**169**	**48**	**83**
Wheat	**3**	-1	0	0	0	**3**
Other cereals	**2**	0	0	**0**	**0**	**2**
Cereal seeds	**10**	**0**	0	**0**	0	**9**
Chemical products	**7.422**	**1.764**	**139**	**1.981**	**3.635**	**248**
Dairy products	**1.218**	-47	**1.117**	**14**	**103**	**20**
Eletronic equipment	**1.462**	-476	-43	**100**	**1.787**	**256**
Fibers	**29**	**9**	0	**14**	**2**	**0**
Fishing	**1**	**0**	0	**0**	**0**	**0**
Forestry	**17**	**0**	0	**3**	**2**	**13**
Leather products	**663**	**186**	**126**	**65**	**118**	**164**
Machinery	**12.150**	**2.198**	-1	**3.510**	**6.290**	**653**
Live animals	**10**	-2	**4**	**3**	**5**	**3**
Meat	**506**	-3	**15**	**11**	**22**	**406**
Ferrous products	**1.317**	**420**	-10	**736**	**193**	**5**
Metal products	**2.555**	**472**	**28**	**1.251**	**893**	**13**
Minerals	**9.139**	**32**	**31**	**9.320**	**9**	**52**
Motorvehicle	**7.063**	**4.035**	**134**	**381**	**2.381**	**278**
Oil fats	**474**	0	**6**	**283**	**58**	**108**
Other crops	**271**	**88**	-10	**24**	**15**	**135**
Other food	**975**	**412**	**191**	**56**	**109**	**201**
Coal products	**1.374**	**532**	**4**	**325**	**310**	**251**
Other manufacture	**3.433**	**1.024**	**86**	**977**	**1.118**	**391**
Petrol	**109**	**89**	**5**	**30**	0	**12**
Paddy rice	0	0	0	**0**	-1	0
Rice	**3**	**0**	0	**1**	0	**0**
Sugar	**33**	**5**	0	**3**	**0**	**24**
Textile	**2.021**	**917**	**227**	**199**	**494**	**210**
Vegetables & Fruit	**44**	**2**	-6	**28**	**2**	**17**
Wearing	**718**	**166**	**233**	**20**	**186**	**118**
Wood products	**375**	**115**	**10**	**52**	**105**	**103**
Electricity	**10**	-5	**0**	**1**	**47**	-15
TOTAL	**54.394**	**13.098**	**2.406**	**19.559**	**17.933**	**3.778**
Rent/Export flows /%)	24	18	5	31	61	23

The largest rents are created by the All FTAs scenario, while among the single FTAs scenarios there is a large difference between India, Mercosur, and ASEAN on one side, and Ukraine and Canada on the other. However, the ranking is quite different if we normalize the rents by the value of exports. Rents, as a matter of fact, amounts to over 60% of EU exports to Mercosur under the corresponding FTAs scenario, and are over 30% in the case of India FTA. This percentage is around 20% in the other scenarios, with the exception of Canada FTA where it amounts to only 5%. As far as the sectors are concerned, motorvehicle, machinery and chemical products are in most scenarios among those generating the largest rents, while agricultural products are usually at the bottom of the list: for the latter products, then, the structure of exports generated by the bilateral agreements is the most similar to the free trade one. Overall, though, the "bag" seems to be quite full, and the "goodies" generated by the FTAs could represent a significant stumbling block.

Table 5 compares the output changes in each EU sector under the different scenarios to verify the *structural congruence* hypothesis.

TABLE 5 - EU output changes (%)

Products	Free Trade	Bilateral agreements					
		All agreements	Asean countries	Canada	India	Mercosur	Ukraina
Beverage & tobacco	0.40	2.21	1.28	0.04	0.08	0.08	0.1
Wheat	-12.86	-4.18	-0.06	-3.16	-0.20	-2.12	-2.5
Other cereals	-8.22	-10.33	-0.30	0.15	-0.07	-6.11	-1.0
Cereal seeds	7.67	17.35	-0.26	0.01	0.60	7.04	0.6
Chemical products	1.48	2.00	0.39	-0.02	0.01	1.08	0.0
Dairy products	-3.76	5.86	-0.41	1.31	-0.06	-0.72	0.0
Eletronic equipment	3.45	1.41	0.15	-0.16	-0.37	1.45	0.1
Fibers	10.78	8.71	0.85	-0.03	0.85	3.72	0.1
Fishing	-0.76	-1.97	-0.14	0.00	-0.02	-0.60	0.0
Forestry	1.00	0.93	0.09	-0.01	-0.06	0.35	0.0
Leather products	-9.17	-1.36	-3.77	0.20	-0.43	1.01	0.2
Machinery	2.09	2.96	0.35	-0.06	0.19	1.35	0.0
Live animals	-18.97	-14.58	-0.41	-0.09	-0.12	-21.03	0.3
Meat	-30.63	-56.10	-2.90	-0.16	-0.13	-33.04	0.4
Ferrous products	3.11	3.10	0.70	-0.06	0.47	1.36	0.0
Metal products	1.71	3.06	0.43	-0.05	0.12	0.98	0.0
Minerals	-5.98	25.49	-0.08	-0.06	3.11	0.42	-0.1
Motorvehicle	0.06	2.23	0.98	0.05	-0.04	0.91	0.0
Oil fats	-0.29	12.97	-0.33	-0.01	1.28	2.72	0.6
Other crops	-6.43	-1.26	1.07	0.10	-0.18	-2.57	0.1
Other food	-1.71	-0.50	-0.27	0.11	-0.05	-1.03	0.1
Coal products	0.34	2.03	0.71	0.00	0.05	0.29	0.0
Other manufacture	1.05	1.46	0.28	-0.04	-0.05	0.48	0.0
Petrol	3.53	0.09	0.16	0.02	-0.25	0.15	0.0
Paddy rice	-50.69	-14.51	-23.74	-0.14	-46.68	-2.66	0.1
Rice	-33.65	-21.42	-25.76	-0.06	-1.39	0.42	0.0
Sugar	-16.71	4.96	-1.34	-0.01	-0.34	-8.06	-0.1
Textile	-19.58	0.08	-0.36	0.11	-1.33	1.07	0.0
Vegetables & Fruit	-10.40	0.43	-0.10	0.01	-0.01	0.63	0.1
Wearing	-25.18	-2.10	-2.24	0.16	-0.98	0.50	-0.2
Wood products	1.06	1.08	0.31	0.00	-0.11	0.52	0.0
Electricity	0.49	0.83	-0.08	0.00	0.00	0.16	0.0
Correlation (free-trade to FTA)		**0.63**	**0.76**	**0.63**	**0.49**	**0.11**	**0.08**
FTA respect to free-trade: sectors overshooting (% on total sectors)		*41*	*13*	*0*	*9*	*0*	*3*
FTA respect to free-trade: sign change (% on total sectors)		*19*	*9*	*25*	*22*	*50*	*47*

The correlation of the output structure under each FTA with the one resulting from global free trade is very different. The ASEAN FTA reaches the highest degree of similarity, with a correlation index even higher than the All FTAs scenario. The lowest correlation values are registered by the Ukraine and, perhaps more surprisingly, Mercour FTAs. Looking at the signs of the output changes, we register opposite movements in many cases: even in an FTA presenting an high correlation, such as the Canada one, half of the sectors' outputs movements are inconsistent with those resulting from global free trade. Even when output changes are consistent, the size of the sector may turn to be larger or smaller than would be implied by global free trade. These overshooting cases are less frequent, but they still concern more than 40% of the sectors in the All FTAs scenarios. In conclusion, the structural congruence between the bilateral agreements considered and global free trade seems questionable and in

several cases the FTAs move the EU production structure away from its 'true' comparative advantages.

Table 6 compares the EU export shares in total production under different scenarios to verify the *juggernaut* hypothesis.

TABLE 6 - Comparison of EU export shares in total production under different scenarios (% of sectors)

	All agreements	Asean countries	Canada	India	Mercosur	Ukraina
FTAs > Baseline	91	69	38	53	97	78
Free Trade > FTAs	100	100	100	100	100	100

The percentage of sectors with an higher share of exports than in the baseline is high not only in the case of the All FTAs scenario, but mostly in the case of the Mercosur FTA. High percentages obtain also in the case of Ukraine and ASEAN FTAs, while India and Canada present much lower figures. The juggernaut effect is then quite strong, and will keep working also if the EU moved on from partial to global trade liberalization. Since the total share of exports in production increases in each scenario, we conclude that in this perspective all the FTAs could be considered as building blocks (of different sizes, though).

However, it does not only matter how much is exported, but also what is exported- In this perspective, Table 7 compares the export changes in each EU sector under the different scenarios.

TABLE 7 - EU export changes (%)

Products	Free Trade	Bilateral agreements					
		All agreements	Asean countries	Canada	India	Mercosur	Ukraina
Beverage & tobacco	-0.58	2.62	1.27	0.15	0.42	0.10	0.3
Wheat	-22.32	-1.62	0.01	-5.75	-0.45	4.61	-4.4
Other cereals	-17.42	-7.73	-0.19	0.03	-0.11	-7.58	-3.0
Cereal seeds	17.42	18.10	-0.23	0.02	0.28	15.50	1.9
Chemical products	0.65	2.06	0.36	0.02	0.17	1.42	0.1
Dairy products	-9.00	6.17	-0.51	7.31	-0.15	-0.96	0.1
Eletronic equipment	3.03	1.53	0.15	-0.17	-0.39	1.75	0.2
Fibers	23.22	9.46	0.84	-0.08	2.78	5.28	0.0
Fishing	-4.31	-0.65	-0.06	-0.09	-0.02	-1.81	0.0
Forestry	1.50	0.88	0.02	-0.04	0.11	0.46	0.3
Leather products	-12.23	-1.03	-3.66	0.60	-0.37	1.60	0.6
Machinery	2.39	3.03	0.32	-0.05	0.52	2.18	0.0
Live animals	-11.74	-13.22	-0.36	-0.09	-0.17	-14.61	0.3
Meat	-46.80	-55.73	-2.89	-0.46	-0.38	-57.98	2.0
Ferrous products	2.08	3.11	0.67	-0.05	1.02	1.48	0.0
Metal products	3.69	3.10	0.39	-0.03	0.67	2.06	0.0
Minerals	-4.38	22.97	-0.09	-0.21	25.35	0.60	-0.1
Motorvehicle	-1.26	2.32	0.96	0.12	0.02	1.12	0.0
Oil fats	0.00	12.48	-0.33	-0.04	4.29	7.48	1.6
Other crops	-10.82	-0.35	1.07	0.06	-0.07	-2.58	0.5
Other food	-3.13	0.02	-0.26	0.49	-0.08	-0.92	0.2
Coal products	0.00	2.08	0.67	0.00	0.35	0.90	0.1
Other manufacture	1.66	1.51	0.25	-0.01	0.10	1.06	0.1
Petrol	2.59	-0.11	0.17	0.13	-0.51	0.30	0.0
Paddy rice	-14.31	-10.21	-21.59	-0.31	-34.76	6.66	0.2
Rice	-26.87	-16.38	-22.86	-0.13	0.91	1.35	0.2
Sugar	-29.65	3.75	-2.02	-0.18	-0.35	4.12	2.8
Textile	-25.82	0.34	-0.33	0.28	-1.48	1.54	0.1
Vegetables & Fruit	-17.50	1.20	-0.10	0.02	0.13	0.29	0.2
Wearing	-40.47	-1.80	-2.17	0.70	-1.63	1.03	-0.1
Wood products	0.89	1.14	0.27	0.09	-0.10	0.70	0.1
Electricity	3.02	0.79	-0.13	-0.03	-0.29	1.24	0.0
Correlation (free-trade to FTA)		0.64	0.35	0.09	0.15	0.53	0.03
FTA respect to free-trade: sign change (% on total sectors)		28	16	53	25	34	44

The correlation of the different scenarios export performances with the changes under global free trade is rather low, though it is positively related, as expected, with the number of agreements. The ranking of the agreements is fully consistent with the welfare impacts: the highest correlation is registered in the case of Mercosur FTA while the lowest similarity is presented by Canada and especially Ukraine FTAs. In the case of the latter agreements, roughly half of the sectors have an export dynamics just opposite of what would happen under free trade, but the same would happen for a third of the sectors in the other scenarios with the exception of the ASEAN FTA. In this respect, then, the *juggernaut effect* is (at least) ambiguous, since in several cases producers will get the wrong signal from partial liberalization

6. Conclusions

In recent years, the proliferation of these agreements has been interpreted as a possible threat to the process of multilateral trade liberalization promoted under the GATT/WTO, leading to

a large debate centred on "regionalism toward multilateralism". In this paper we take up Richard Baldwin's recommendation to move the economic's profession discussion from high theory to one which is more empirically grounded and policy-relevant. We switched the focus from the immediate consequences of regionalism for the economic welfare of the integrating partners to the question of whether it sets up forces that encourage or discourage evolution toward globally freer trade.

The main conclusions of this paper relates to building bloc-stumbling bloc debate. We use Baldwin's typology that identifies four distinct types of stumbling blocs in the literature – preference exploitation, cherry-picking, policy substitutability, and goodies' bag. The building-bloc effects include the juggernaut effect, policy complementarity, and the hub-and-spoke mechanism.

The relationship between regionalism and multilateralism has been framed as one where RTAs are either a stumbling bloc or a building bloc to multilateralism. Winters (1996, p.30), for instance, argues “Trade diversion is good politics even if it is bad economics. I find quite convincing the view that multilateral liberalism could stall because producers get most of what they seek from regional arrangements”. But, having assessed several possible EU RTAs in different continents, we believe this is not as black and white. RTAs may deliver important gains for their participants, but often they may also be a source of trade diversion and hamper movements towards greater trade liberalization.

The second goal of this paper was to assess certain important elements of the European Union's external trade policy.

The path to regionalism by the EU has been laid out, largely paved with agreements in fact or in principle and, in many places, is already well-trodden. It is clear from our results that the apparent desire of the EU to join the scramble for bilateral market access is probably unstoppable, but it is likely to yield less than some might think, and it should not be taken for granted that it is likely to facilitate an eventual transition to more liberal global trade. Empirical simulation models of the kind presented here can support this evolving regional policies in essential ways, identifying both the opportunities and challenges that lie ahead for more open multilateralism.

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