



PECC Trade Forum

Trade and Cooperation: A Regional Public Good Approach

**Robert Devlin
Antoni Estevadeordal**

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4 Nassim Road Singapore 258372 Tel: +65 67379822 Fax: +65 67379824 Email: info@pecc.org

www.pecc.org

***Trade and Cooperation:
A Regional Public Goods Approach***

**Robert Devlin and Antoni Estevadeordal
Integration and Regional Programs Department
Inter-American Development Bank**

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1. Introduction

A process of regionalization around the world has paralleled the process of globalization in recent years. We have witnessed a spectacular rise of regional and bilateral trade agreements in most parts of the globe. In the Americas, a myriad of new trade agreements have blanketed the whole region including all countries and almost all possible combinations among them. This trend is true for Europe as well, with the consolidation of the monetary union and the rapid expansion to incorporate Eastern European countries. In Asia and Africa there has also been a renewed interest in pursuing policies to promote regional integration. At the same time, there has been a growing interest in the developing world and between developed and developing countries to cooperate in the provision of regional cooperation projects in areas such as preserving the environment, building transnational infrastructure networks, providing for the eradication of cross-border diseases, promoting research networks and establishing regional regulatory frameworks or standards in different areas of economic policy-making.

In this paper we attempt to provide a framework to account for this increasing interest in regionalism at a time when some important global initiatives are in a stand-by mode, or face important challenges in terms of their goals in the immediate future. The United Nations Millennium Goals, the WTO Doha Agenda, the New Financial Architecture and Global Bankruptcy laws, the Global Climate initiatives and even the war against international terrorism are just a few examples of global approaches to a wide range of problems. We do this by studying the relationship between trade and integration agreements and other cooperation agreements, and by connecting at least three important bodies of literature: (1) recent economic and trade literature on the new regionalism; (2) political theories of international cooperation; and (3) public choice literature related to the provision of public goods on a regional scale (regional public goods).

By building on these different approaches, this paper provides a new enriched framework for understanding the explosion of interest in regional issues. This report goes beyond the traditional textbook explanations of economic integration, highly influenced by the development of the European model of integration in the postwar period as well as the initiatives that followed this model in the developing world. The traditional thinking on regional integration has been mostly restricted to a linear-stages approach where a group of countries form a simple free trade agreement and then progressively move towards deeper forms of economic integration: forming a customs union, establishing a common market and finally moving towards a full-fledged economic union, including monetary unification. In this context, other forms of cooperation are for the most part ancillary aspects to this process. However, in recent times regional integration agreements (RIAs) are becoming a key instrument for responding to and managing the increasingly autonomous globalization process and technological changes, by including other forms of cooperation as an integral part of this process. Globalization, and even more importantly, technological changes have increased cross-border interactions enormously. This increase in turn, has created a demand for the provision of regional public goods in a variety of areas (RPGs). An optimal provision of RPGs, due to its public goods characteristics, requires formal frameworks for regional cooperation, such as through a formal regional cooperation agreement (RCAs). We will argue in this paper, however, that incentives for cooperation in the provision of RPGs are greater when there are economic incentives and commercial interests in place, for example through the implementation of trade and integration agreements (RIAs). In this framework, trade integration and cooperation are endogenous components and integral parts of the same process.

2. The “T” and “C” Technologies

In this section we examine RIAs (or “T” for Trade) and RCAs (or “C” for Cooperation) separately as two different sets of agreement “technologies.” The underlying logic for the creation of RIAs comes primarily from the economics literature, while for the RCAs we have to borrow from the political science or international relations literature. Both have

been examined in depth in their respective fields of research, but there have been very few attempts to connect the two (Devlin, Estevadeordal and Krivonos, 2002).

(a) The “T” Technology

A new type of regionalism has emerged in the 1990s around the world, but with particular intensity in Latin America. This “new regionalism” (Either, 1998; Devlin and Estevadeordal, 2001) has been much more than just a rebirth of integration initiatives after the collapse of the region’s traditional Post-War schemes during the crisis years of the 1980s. The greatest difference between the two periods was the policy environment that the new integration initiatives were designed to support. The policy framework encircling the “old” Post-War regionalism involved an inward-looking and protectionist/state-led import substitution strategy (often in the context of authoritarian regimes). The New Regionalism, however, is inserted into a framework of policy reform that promotes open and competitive private market-based economies in a modern democratic institutional setting. In this context, a new “technology” for designing and implementing regional trade agreements or regional integration agreements has emerged. In this section we focus in particular on two dimensions as distinctive features of the new technology in signing regional agreements: the depth of RIAs in terms of their content and the choice of partners.

The change in the global policy framework contributed to a fundamental change in the modalities and instruments of regional integration. Liberalization of the regional market has paralleled a dramatic reduction of external protection. The traditional laborious positive lists for regional trade liberalization were abandoned in exchange for automatic schedules to liberalize trade with limited negative lists. Free trade objectives have gone beyond traditional liberalization in goods to incorporate so-called new issues such as services, investment, intellectual property, dispute settlement mechanisms and consistency with GATT/WTO rules.

But perhaps the most dramatic change has been the shift of interest in integration from an intra-regional focus--“South-South” or one could even argue “North-North”--to a growing interest in interregional agreements (“North-South”). This shift means that developing countries are trying to link up commercially with industrialized countries in reciprocal free trade (in contrast to the traditional non-reciprocal relationships). This is something that would have been politically inconceivable before the new policy framework. The trend is evident in Mexico joining NAFTA, and its signing of a free trade agreement with the E.U.; in Canadian free trade areas with Costa Rica and Chile; in Chilean negotiations for a free trade area with the U.S. and Chile’s recent signing of an agreement with the EU; in EU negotiations with Mercosur and the Caricom countries, in Central American negotiations with the U.S., in the Western Hemisphere’s Free Trade Area of the Americas (FTAA) process, and through the participation of several Latin American countries in APEC. A similar trend is also taking hold in the Asia-Pacific, in particular with a shift in policies towards FTAs in Japan, South Korea or China. A complementary phenomenon is the strategic dimension of negotiating sequentially bilateral FTAs, therefore pursuing hub & spoke type strategies, vis-à-vis consolidating trade blocs. The combinations are then multiple, from South-South & Bloc strategies such as Mercosur, to South-South-North & Hub/Spoke strategies in the cases of Mexico, Chile, US or the EU. The North-South & Bloc strategy observed in the cases of NAFTA or the ongoing FTAA negotiations is an example of a different perspective.

The developing countries interest in pursuing interregional trade agreements with industrialized countries involves more than securing stable access to major markets. The broader motive is to secure a firmer anchor for policy reform and to attract direct foreign investment. These North-South interregional initiatives tend to lock-in and add credibility to the broad trade-related disciplines that accompany free trade agreements. They also induce other modernizing reforms through the effects of competition and learning by doing. Another advantage is that they can be an instrument for competing internationally for direct foreign investment as risk premiums are lowered on account of the association with a stable and credible industrialized country. As for the industrialized market countries, their motives also extend beyond mercantilist market access as such. “Doing

business” surely remains a motive. But other motives exist, such as promoting political stability and development in the poorer countries; gaining a beachhead in a low wage market for the purpose of outsourcing segments of the chain of production to achieve enhanced national competitiveness; indirectly influencing negotiation agendas in the WTO; strategic market positioning in the globalized world economy; and offsetting the effects of preferences that a prospective partner country may have granted other countries, etc.

However, one of the major results of RIA proliferation in most of the world has been the formation of the so-called “spaghetti-bowl” (illustrated in Figure 1 in the case of Latin American and Asian agreements). This concept has been traditionally associated with the negative effects of RIAs, especially due to the lack of transparency and complexity of overlapping trade rules among commercial partners, as well as the potential costs associated with the presence of a setter-agenda country that can jeopardize the full benefits of negotiating an agreement collectively. While we cannot dismiss the costs associated with the “spaghetti-bowl,” these must be measured while keeping in mind some potential benefits. This is an important question that we will address later on in the paper¹.

(b) The “C” Technology

In this paper we use the concepts of regional cooperation agreements (RCAs) and regional public goods (RPGs) somewhat interchangeably, since our objective is to establish their functional relationship with trade and integration agreements. The use of the concept of RPGs as an “output” concept for RCAs is important for several reasons. From a conceptual perspective, the theory behind regional cooperation agreements can be separated from the study of particular technologies associated with different types of RPGs. From an empirical point of view, the distinction is also useful since it is difficult

¹ For example, one potential benefit is the possibility that these agreements become building blocs for a larger and more ambitious trade agreement. In this context one should ask the right counterfactual question: would it had been possible to successfully negotiate an FTAA starting from zero, or without any pre-existing agreements in place?

to evaluate the effectiveness of cooperation agreements. One alternative approach is to measure their outputs based on the amount of specific RPGs provided. In this paper we define RPGs as transnational public goods whose non-rivalry and non-exclusive properties extend beyond national borders, but are contained in a well-defined set of states or a geographical region. Here are a few examples: cleaning up a lake; a transnational park; preserving a rain forest; prevention or mitigation of natural disasters; reducing acid rain; power grids and other energy projects; airport hub-spoke networks; transportation infrastructure; transnational diseases; agricultural and other research; and policy standards (financial; labor; etc.). A formal regional integration agreement such as a free trade area or a customs union (RIAs) should also be considered as another type of RPG.

In the literature on international relations, the concept between states is defined as mutual adjustment of state policies to achieve outcomes that all prefer to the status quo (Keohane 1984). Thus, any conscious policy coordination is considered cooperation. To narrow it down, we should add that this coordination should be voluntary as well as necessary for the extraction of mutual benefits for all participants. Cooperation requires some form of subordination of the members' sovereignty to the interests of the group. This subordination of internal interests is always associated with some costs to participants. But the full benefits of cooperation are not internalized, causing a lack of provision for cooperative action. This is why international cooperation is traditionally regarded as a *public good*.

The coordination of individual actions takes place through *agreements*, which make the cooperative effort binding. The purpose of *institutions* through which the agreements are negotiated is to generate the power for this cooperative effort, in order to compensate for the market failure that inhibits realization of mutual advantages. The institutions function in the domain of either 'hard laws' or 'soft laws.' The former refers to a legal framework which produces formal protocols, accords and treaties, which have to be ratified by the members to become legally binding. An example of such a structure is the GATT. Soft laws, on the other hand, do not build on a legal framework. In this case coordinated

action is achieved through informal communications and notes among members. The G-7 forum is one such arrangement.

There are two traditional approaches to the analysis of multilateral cooperative action: through either international laws or through international regimes. The first is less important in this case, as this approach embodies the legal aspects of cooperation, which we assume to be dependent on the circumstances, the preferences, and the relative importance of the players. The latter approach is more interesting as it focuses on the framework for emergence and institutionalizing of cooperative actions. Regimes facilitate emergence of international agreements by setting rules, norms, principles and procedures, and by establishing the institutional framework under which the cooperation evolves. In the case of trade, the international regime was embodied in the GATT and later in the WTO.

The actual multilateral or regional cooperation—the day-to-day coordination of policies—takes place through specially designed international organizations created to facilitate the cooperative efforts. The role of these institutions is to help the states remove barriers to mutually advantageous collective actions, primarily by providing information about the preferences, intentions and behavior of the actors. The outcomes of strategic interaction depend on many factors that characterize the particular situation. To a large extent the size and the relative power of the participating states determine the cooperative solution. Another important feature is the existence of focal points, which are equilibria that for one reason or another may seem “obvious” to the players. The players’ cultural background and past experiences are important in establishing focal points, and this is where the informational role of the international organizations comes into play. The most prominent examples of such institutions include UN organizations, the IMF and the World Bank.

Special consideration should be given to the issue of enforcing international agreements. The agreements have to be self-enforcing, or designed in such a way that participants choose to comply with requirements voluntarily. This view departs from a more idealized notion of cooperation that assumes a certain dose of altruism in the players’ behavior.

The modern theories of international cooperation assume not only that the states act in their self-interest, but also that these interests are conflicting and complimentary (Kaul et al 1999). Self-enforcement is necessary because there is no international authority with enough power to punish the deviator, and there are no mechanisms to prevent the parties from simply breaking agreements that they find unbeneficial.

Moreover, there are certain differences between global cooperation and bilateral or intra-regional cooperation, even though the latter can be considered a subset of multilateral cooperation. North-South agreements embody a special type of bilateral cooperative action, where special attention is given to developmental issues. Depending on the particular area of cooperation, North-South relations can be shaped either according to the donor-recipient model, or to a broader model of cooperative action. The first model envisages direct transfer of resources from industrialized to developing countries, whereas the second model represents the problem of providing global public goods.

3. The Modalities of a Joint Technology: The “T and C Nexus”

This section provides an overview on how the T and C technologies have been combined in practice based on the following typology: (i) Trade alone [T]; (ii) Cooperation alone [C]; (iii) Trade and Cooperation jointly but as separate processes [T + C]; (iv) Trade and cooperation together in a single and integrated process [T & C]; (v) Trade precedes Cooperation [T -> C (or T + C)]; (vi) Cooperation precedes Trade [C -> T (or C + T)]².

While trade liberalization and non-trade cooperation can evolve independently, in many cases the two components are closely related. One would expect that when economic integration is launched with the far-reaching objectives of a common market (common external tariffs and free movement of the factors of production) or more, the agreement will not only anticipate regional free trade, but also systematic cooperation in trade-related and non-trade areas, thus creating a trade and cooperation nexus (T+C). This approach may save costs associated with negotiations, as well as development and

² A more detailed analysis of this typology can be found in Devlin, Estevadeordal and Krivonos (2002).

administration of the cooperation programs. However, it also entails the risk of getting bogged down with a large number of complex issues.

However, a strictly “business only” free trade area may more quickly capture the mutual interest of the parties, and serve in practice as a solid beachhead for more comprehensive future cooperation. In effect, as trade successfully deepens, a trade-based model without any systemic plans for cooperation beyond the free trade itself may later create incentives for incorporating elements into the agreement that make cooperation more difficult. These elements may be just trade-related, at first, but they could later expand into non-trade areas. In this scenario, the relationship evolves from trade (T) to a trade and cooperation nexus [(T) → (T+C)].

Another model involves agreements where an initial framework of cooperation only (C) predominates in economic and/or non-economic areas, through success and growing recognition of broader opportunities. This can reach a point where parties eventually launch a formal trade and integration agreement, creating a trade and cooperation nexus [C → (T+C)].

It is possible that the agreement produced in the course of negotiations ends up being more deep or shallow than the parties initially intended. On the other hand, a protracted negotiation period may produce a series of agreements that replace or supplement one another. With many issues on the negotiating table that are sometimes in conflict, it is not surprising that although they have a particular agreement design in mind, negotiators are sometimes forced to take a step back and change some of the intended components of the agreement. If a unified approach is anticipated, it may become necessary to negotiate one part of the agreement at a time, perhaps starting with trade and moving later towards a trade and cooperation nexus.

An overview of Post-War initiatives more or less bears out the models suggested above. Agreements launched with an initial official framework, or objective, of “very deep integration” have typically started out with a trade and cooperation nexus (T+C) built into

the initiative. This is illustrated in the Latin American and Caribbean “old” subregional integration schemes that were committed to developing a common market, as well as the “new” subregional schemes such as the Andean Community. The other extreme is shallow agreements such as free trade areas which are “business only” (T) in their initial intent. NAFTA, the new bilateral trade agreements in Latin America, and the Latin American Free Trade Association (LAFTA) of the 1960s, are all examples.

Meanwhile, Western Europe is a good example of where deepening trade interdependence through (T) evolved into comprehensive (T+C). One also now observes increasing pressures on NAFTA partners to move from (T) to the direction of (T+C). The movement from (C) to (C+T) is a less frequently observed model; ASEAN is perhaps the most outstanding example.

The most recent North-South agreements can be divided into agreements that only cover trade (T), agreements for cooperation without a trade component (C), and agreements that cover both preferential trade and cooperation simultaneously (T+C). Appendix I shows that North-South cooperation agreements can be quite comprehensive in scope, involving trade-related cooperation, economic cooperation, political cooperation, social and cultural initiatives, environmental protection, human resource development and science and technology, just to mention a few.

In the context of North-South agreements, cooperation can be in a donor-recipient type with implicit or explicit one-way resource transfers between partners, purely intergovernmental programs without net resource transfer implications, or a mix of the two. In North-South interregional cooperation one would expect some presence of the donor-recipient model in addition to purely intergovernmental schemes. A distinction should also be made depending on the instruments used to achieve cooperation; for example, whether cooperation evolves through informal channels without any official budgetary or technical support, or cooperation is couched in more structured operational terms involving formal mechanisms to identify and agree on priorities and objectives and

agreed procedures to implement the outcomes of deliberations/negotiations coupled with programmed budget support.

Finally, there are three modern North-South plurilateral initiatives that are interesting variants of the (T+C) model and lead us to our central points. The first is the Western Hemispheric Summit process, which involves a free trade negotiation coupled loosely with a confederation of somewhat autonomous non-trade cooperation initiatives involving more than 20 areas. This cooperation is a mix of intergovernmental and donor-recipient types. The donor-recipient type cooperation (aid and technical assistance) is delivered in the framework of an informal “outdoor” contracting market where supply and demand clear only very imperfectly, at least up to now³.

Then there is the APEC process, where there also is a package of trade and non-trade cooperation initiatives. The non-trade cooperation component (more than 25 initiatives) is largely of the intergovernmental type, while the trade component is a loose confederation of voluntary MFN trade liberalization exercises with the goal of reaching free trade by 2010 or 2020 for industrialized and developing countries, respectively.

Finally, there is the EU-bilateral Interregional Association Agreements, which propose the novel EU approach of a “single undertaking.” This would systemically integrate several initiatives through political dialogue, cooperation and reciprocal free trade under a single umbrella agreement.

4. The “T and C Nexus”: A Regional Public Goods Approach

This section examines the rationale behind some of the typologies described in the previous section, in particular, providing some additional arguments borrowed from the

³ However, in the recent FTAA Ministerial Summit in Quito a proposal for a *Hemispheric Cooperation Program* was launched. See http://www.ftaa-alca.org/ministerials/quito/minist_e.asp.

regional public goods literature⁴. As discussed in the previous section, trade agreements are invariably the point of departure for regional economic integration for several reasons. First, trade can attract support from well-organized private business communities. Second, unlike many other economic arrangements, the mutual benefits of trade agreements and their distribution can be reasonably assessed *ex-ante* by participants, and monitored and enforced *ex-post*. This is because they usually contain very precise disciplines, and the institutions/procedures (including WTO rules) for negotiating and administering cross-border trade are already in place. Third, trade agreements accommodate nationalistic sentiments in every society, as they can be designed in ways that initially involve only a very limited loss of national sovereignty, such as in the case of free trade areas. Trade negotiations also do not demand resource transfers. On the other hand, the difficulty of negotiating non-trade issues is related to the very nature of such issues: whereas preferential trade arrangements are concerned with the *removal* of trade-distorting policies, cooperation in other economic areas as well as in social and cultural fields requires the *introduction* of additional policies. This is more difficult to deal with. Finally, a critical mass of regional trade among partners acts as a “hanger-on” to which other forms of cooperation can be functionally draped.

Indeed, growing and mutually beneficial commercial interdependence among partners typically induces demands for expanded economic cooperation in order to more fully exploit the revealed advantages of a regional market (RIAs). Moreover, demands for non-economic and even political cooperation arise from the social externalities generated by closer economic ties (RCAs). In effect, the centripetal forces of trade among partners can be an effective handmaiden of deeper integration whether it is planned or not. As mentioned in the previous section, Western Europe is the best contemporary example where growing interdependence through trade has served to fuel the political agenda of certain partners of the agreement, who sought very deep integration and broad-based cooperation. As a result, regional market opening became functional to widening the

⁴ This section borrows some of the key concepts on Regional Public Goods from a very recent and growing literature on this topic; in particular, see Arce and Sandler (2002), Ferroni (2002), Ferroni and Mody (2002), Kanbur et al. (1999), Stalgren (2000) and Sandler (2002). Kaul et al. (1999) offers an excellent compilation of articles on Global Public Goods.

scope of cooperation, or in the words of Garcia and Glocker (2000), to “integration by stealth.” As commitments have deepened, even the multilateral trading system has increasingly encompassed more and more issues that originally were not identified with trade. The recent international debate on labor and environmental standards in the production of traded goods is an example of the pressure to further expand the frontier of cooperation, as multilateral commitments to liberalize trade enter advanced stages of development.

One of the major results of RIA proliferation in most of the world has been the formation of the so-called “spaghetti-bowl.” As discussed earlier, this concept has traditionally been associated with the negative effects of RIAs, especially due to the lack of transparency and complexity of overlapping trade rules among commercial partners. While we cannot dismiss the costs associated with the “spaghetti-bowl,” we must also measure potential benefits. Beyond the economic logic of trade agreements for or against the formation of “spaghetti-bowls,” there are other reasons why there can be a favorable outcome. From a purely “rationalistic” approach to international cooperation and negotiation, the “spaghetti bowl” is a reflection of the revealed preferences by nation states in search of their commercial and economic interest, as a potential first stage towards greater interdependence. In this sense, the explosion of regionalism may have created the infrastructure or the “wiring” for an effective provision of regional public goods. This view downplays the potential negative effects of the “spaghetti bowl.” The final “use” of this infrastructure for regional cooperation will depend on the joint outcome of two dynamic processes. The first is the process of inter-state bargaining for the provision of regional public goods building on existing RIAs and the decisions regarding institutional arrangements for such provision. The second is the degree of absorption of “minor” connections by larger ones: such as in the Americas, the effect of an FTAA on existing sub regional and bilateral agreements.

One way of thinking about the linkages between RIAs and RCAs is the classic trade-off described in the public finance literature on federalism. This trade-off is between the benefits of size, due to externalities and economies of scale and scope, and the costs

associated with heterogeneity of preferences, culture, and attitudes of the population as well as the presence of information asymmetries. It should help to identify the optimal scope and the equilibrium size of a “regional” agreement. This trade-off also implies that the appropriate level of regional “policies” or “cooperation” should be limited to those cases where economies of scale and externalities are large, and heterogeneity of preferences and information asymmetries are low. The important point here is to recognize the potential endogeneity between the two. A larger market resulting from an RIA can create conditions so that specific regional policies now have greater opportunities to take advantage of economies of scale. In the same way, increased commercial relations can reduce the degree of heterogeneity of preferences or information asymmetries. In other words, the optimal size of a “region” and the equilibrium number of regional “initiatives” is endogenous to the expansion of the “region” itself.

Since RPGs cannot be supplied by national governments acting unilaterally, countries need to cooperate in their provision, and cooperation will usually require an agreement of some kind supported by a variety of institutional arrangements (RCAs). Effective design and implementation of a cooperation agreement and the development of supporting institutions will depend on what other countries are doing. This is why strategic interdependence issues should be taken into account. It is important to note that despite a greater emphasis on global public goods, RPGs are easier to supply since, all else being equal, the incentives to free ride increase with the number of countries that must supply a public good. Therefore, there is a positive correlation between the number of benefit recipients and the extent of sub-optimality in the provision of Public Goods. So we should stress again that in terms of a central trade-off on federalism, RPGs compare better vis-à-vis GPGs since countries in a regional group have greater homogeneity, more opportunities to take advantage of scale economies, and also face constraints due to asymmetric information.

From a negotiation dynamics point of view, given the differences in the pay-off structures, negotiations on trade issues and in some areas of cooperation may be more or

less complicated, and may take more or less time than in others. In the context of a formal regional integration process, it is clear that some issues are discussed and negotiated ahead of others, depending on the potential benefits, complexity and complementarities, as well as the how each government prioritizes the issues. The linkage between RIAs and the provision of other RPGs may increase the number of “negotiating” issues on the table, creating more margin for “trade-offs.” At the same time, this increases the complexity of negotiations based on the “single-undertaking” principle, such as in the EU bilateral agreements. The success of that type of arrangement will depend ultimately on the right combination of “carrots” and “sticks” in the form of technical assistance or some type of compensatory mechanisms that can facilitate the provision of RPGs.

There are also some important institutional aspects that support a linkage between trade and cooperation. RIAs may offer a cost-saving institutional architecture to aggregate the demand for RPGs among their members. RIAs can achieve enough economies of scope⁵ with respect to RPGs, so that it is possible to offer for the provision of “multiple” or “joint” RPGs, and support other complementary activities through redistribution to the least developed group members. RIAs may also increase the credibility and ability of a regional group to act jointly to offer collateral to back up loans or other external financing for RPG provision. The leading country of an RIA may act as a “demandeur” of RPGs when dealing with the international donor community. RIAs may also reduce the effect of competition among regional members that may otherwise inhibit efficient RPG provision. Finally, RIA institutions possess the necessary infrastructure to provide RPGs, and also act as intermediaries in global networks that can contribute to a more optimal provision of GPGs.

The principle of subsidiarity in the provision of RPGs implies a correspondence between the political (decision-making) jurisdiction, and the economic domain of the public good’s range of spillovers. According to the subsidiarity principle, a GPG should be

⁵ The cost of providing more than one RPG by the same institution is lower than supplying them by separate institutions, due to the use of common inputs

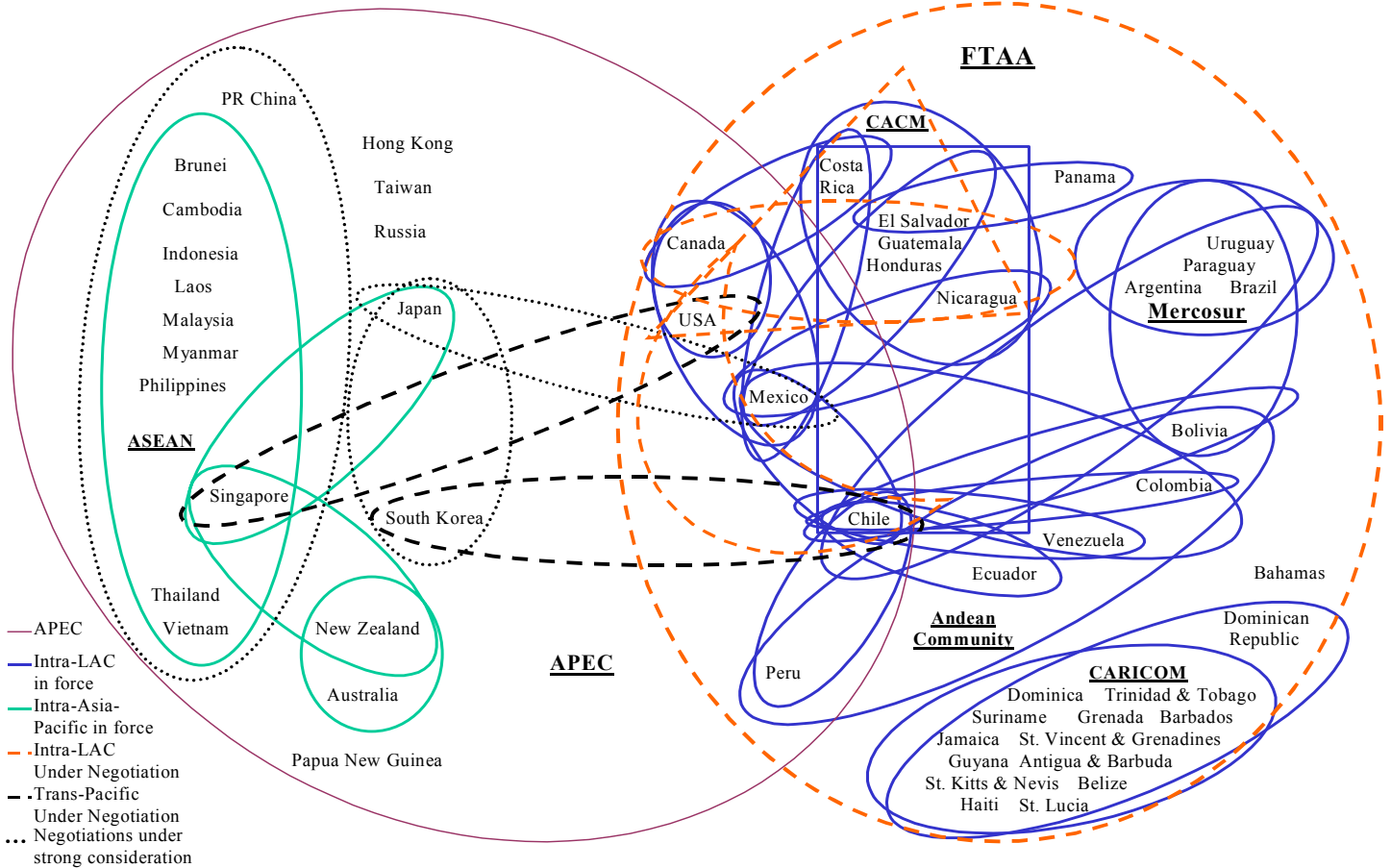
allocated optimally by a global institution, while a trans-regional public good would be better provided by a network of regional institutions. An RPG should be allocated by a single regional organization. Based on this subsidiarity principle, there are additional advantages or justifications for using existing RIAs for the provision of RPGs. By choosing the most localized jurisdiction possible, transaction costs are saved by limiting participants, drawing on shared culture and fostering repeated interactions. In addition localized benefits and common values promote the evolution of regional institutions, so that they can adapt more rapidly to changing circumstances. However, there are some factors that detract from subsidiarity. First, it may be more efficient to have institutions with greater geographical reach in the provision of RPGs to several regions at once because of economies of scale. This argument would favor N-S agreement of the “Bloc” variety (i.e., FTAA) where RPGs are provided on the basis of a large regional agreement. Second, it may be more efficient to have a single institution providing multiple RPGs with nonoverlapping spillover ranges because of economies of scope. This argument would favor North-South agreement of the “Hub & Spoke” variety (i.e. EU bilaterals) whereby a northern institution (i.e. European Commission) can provide similar RPGs to different “regions” according to particular needs and specificities. Finally, another potential problem associated with the subsidiarity principle is that there may not be a dominant nation with enough leadership capacity to support the appropriate regional institution, and assume responsibility for some RPGs. This is an argument for strengthening subregional South-South agreements, in particular in terms of institutional capacity to move beyond trade issues.

There is an additional argument that favors North-South agreement of the “Hub & Spoke” variety (i.e. EU bilaterals). An important aspect of the EU bilateral agreements is a three pillars approach, or an agreement consisting of trade, cooperation and political dialogue components. This approach can minimize some of the traditional constraints that donors face regarding the RPG provision. This type of agreement facilitates RPG monitoring by donors. RPG spillovers in developing countries also tend not to benefit donor countries directly, therefore reducing their interest in provision. In the context of a

bilateral agreement, donors can also internalize some of the benefits, by coordinating RPGs with other GPGs.

Figure 1

**TRADE AND INTEGRATION AGREEMENTS SIGNED AND UNDER NEGOTIATION
IN ASIA-PACIFIC AND THE AMERICAS**



Source: Ando, Estevadeordal and Miller (2002)

Appendix I Areas of Cooperation Covered by the Present Agreements

Areas of Cooperation								
Agreement Name	Trade-related Cooperation	Non-trade Cooperation						
		Economic	Political	Social and Cultural	Environment	Human Resources and Science & Technology	Other	
EU-ACP	Competition policy, intellectual property rights, standardization and certification, sanitary and phytosanitary measures, trade-related environment and labor standards, consumer policy and protection of consumer health	Investment, private sector development, macro-economic and structural reforms, economic sector development, tourism, fisheries and food security	Human rights, democratization, rule of law, good governance, peace-building, conflict prevention and resolution	Social sector development, poverty reduction, health, youth and gender issues and cultural development	Environment and natural resources	Education and training	Regional integration and cooperation, institutional development and capacity building	
EU-Mexico	Public procurement, competition, intellectual, industrial and commercial property rights, customs, technical regulations and standards, sanitary and phytosanitary measures, protection of human and animal health	Liberalization of capital movements and payments, industrial cooperation, investment promotion, financial services, cooperation on small and medium-sized enterprises, agriculture, mining, energy, fisheries, transport, tourism, statistics, consumer protection and data protection	Human rights and democratization	Social affairs, poverty reduction, health, refugees and cultural cooperation	Environment and natural resources	Science and technology, information and communication, education and training	Regional cooperation, and combating drug-related crimes	

Areas of Cooperation

Agreement Name	Trade-related Cooperation	Non-trade Cooperation						
		Economic	Political	Social and Cultural	Environment	Human Resources and Science & Technology	Other	
APEC	Deregulation, dispute mediation, implementation of WTO obligations, customs procedures and standards and conformance, intellectual property rights, competition policy, government procurement and rules of origin	Macroeconomic policy, financial stability, structural reforms, economic infrastructure, business systems, facilitation, financial systems, free movement of investments, mobility of business people, capital markets, energy, tourism, fisheries, transportation, telecommunications, small and medium enterprises, agriculture, rural infrastructure, food production and biotechnology	Political dialogue through Ministerial Meetings	Social safety, social development and gender integration	Environmental protection and marine resource conservation	Industrial science and technology, human resources development, knowledge and skills development, information and communications technology and electronic commerce	Emergency preparedness	
ASEAN	Customs, dispute settlement, standards and conformance	Macroeconomic and financial stability, freeing movement of capital, investment facilitation, industrial development, infrastructure, food, agriculture and rural development, forestry, mining, energy, tourism, transport and communication	Political and security cooperation	Human and social development, poverty reduction, women and youth issues, cultural cooperation	Environment	Science and technology, human resources development, information and communications technology and electronic commerce	Combating the abuse and traffic in narcotics and drugs and transnational crime	

¹ Environment and Transport Investment Support program (ISPA) and Agricultural and Rural Development Support (SAPARD)

Source: Devlin, Estevadeordal, Krivonos (2002)

Appendix II The Initiatives Drawn by the Miami Summit

1. Strengthening Democracy
2. Human Rights
3. Invigorating Society
4. Cultural Values
5. Combating Corruption
6. Drugs / Money Laundering
7. Terrorism
8. Mutual Confidence
9. Free Trade in the Americas
10. Capital Markets Liberalization
11. Hemispheric Infrastructure
12. Energy Cooperation
13. Telecommunications
14. Science and Technology
15. Tourism
16. Access to Quality Education
17. Basic Health Care Services
18. Women in Society
19. Microenterprise
20. White Helmets
21. Sustainable Energy Use
22. Biodiversity
23. Pollution Prevention

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