

BOOK REVIEW

Guido Glania & Jürgen Matthes (2005) *Multilateralism or Regionalism? Trade Policy Options for the European Union* **Brussels: Centre for European Policy Studies**

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The aim of his book is to answer some of the most fundamental questions concerning trade policy options for the EU. What effects will the growing regionalization have on EU competitiveness? Should the EU give top priority to the WTO, rely on both multilateral and bilateral liberalization or should it mainly pursue bilateral and regional agreements? In this book the authors go a long way toward answering these questions both from a theoretical and an empirical viewpoint.

After presenting a short introduction about the context of the forthcoming chapters of their books, the authors proceed with the second chapter. They begin with the definitions and Status Quo of regionalism and regional agreements. In international trade policy, 'regionalism' is used to refer to economic integration between two or more countries based on formal agreements (WTO 2004). The trading partners concerned grant each other conditions that are preferential in comparison with other countries. In this context, the concept 'regional' refers to a limited number of countries and is used to set it apart from multilateral liberalization, which included all member states of the World Trade Organization (WTO). This also means that non-members of the agreements are placed at a disadvantage with respect to members. It is a fact that all WTO member states with the exception of Mongolia are involved in at least one regional trade agreement. The WTO estimates that in 2005, approximately half of global trade has taken place within such associations. The authors provide an analytical table (Table 2.1) with a series of important regional trade agreements and the relevance of these groupings' intra-exports for global trade. They also present diagrammatically the increase of regional agreements since the middle of the 1990s (Figure 2.1). They note that between 1995 and May 2004, about 50% of these agreements came into force.

In the third chapter of the book, Glania and Matthes provide a range of potential advantages as well as numerous disadvantages of the latest wave of regionalism and bilateralism. They start their analysis with a variety of motives for regional trade agreements. Some of those are summarised as follows. First, geopolitical and diplomatic motives lead to an increase in regional agreements which represent instruments to intensify relations with certain countries to promote political stability, to protect peace or terrorism. Second, the establishment of regional trade agreements can serve to enhance negotiating power for example between the US and MERCOSUR (Southern Cone Common Market). Third, additionally there is a range of economic reasons for countries to conclude regional trade agreements, to substitute ineffective domestic production with more efficient foreign production. On the other extreme, sometimes access to the market of the partner country is improved to the advantage of one's own industry and at the expense of competition from outside the association. Further, a regional trade agreement means that third countries are placed at a relative

disadvantage. Lastly, at the multilateral level the costs of forging a consensus on liberalization are very high owing to the large number of members. Hence the conclusions of such agreements take longer and are less extensive.

In the next part of chapter three, the authors analyze theoretically and empirically the welfare effects of regional trade agreements as discussed in academic literature. An extensive number of theoretical studies provide mixed evidence on the welfare effects. Nevertheless, the analysis has shown that regional trade agreements discriminate against third countries that are not part of the agreement, owing to the preferential treatment of the partners. As far as the empirical evidence is concerned, on the one hand trade effects of regional associations are considered whilst on the other extreme, the focus lies on estimating welfare and growth effects. The majority of studies uses gravity models of trade, utilizes historic data and determines the most important factors that influence one country's trade with another. This approach has its weaknesses and consequently it is not unsurprising that different studies sometimes arrive at different conclusions. Concerning the effects on welfare can only be determined with general equilibrium models. Although, this approach has its charms, it also has disadvantages and therefore the different studies arrive at different conclusions. Overall increases in welfare can be shown for almost all members of regional trade agreements. Non-members are affected to a small degree, but partially suffer losses of welfare as is to be expected. To summarize, increases in welfare are greatest in the case of multilateral liberalization for the majority of countries examined.

While chapter 3 analyzes the effects of regional agreements, the fourth chapter is devoted to options for EU trade policy. The specific aim is to discuss the trade policy options that the EU is facing. The analysis begins with the issue of liberalisation. Given the political problems and institutional shortcomings at the WTO the issue of multilateral liberalization is discussed. In addition, this section provides a thorough analysis of the revised agenda of the Doha round and challenges the EU priority for multilateral linearization. Having said that, the next subsection analyses the unilateral reduction of tariffs.

In the third section of chapter four, the issue of bilateral agreements is raised. It is argued that the EU has an incentive to conclude bilateral agreements on tariffs. In this context the authors also mention the fact that these agreements may be even larger when other diverting effects and political pressures are present. On the other hand, a transatlantic free trade zone could be another option. However, this kind of cooperation has been repeatedly rejected in the past by governments. The fourth part of this section is devoted to plurilateral variants. After defining plurilateral agreements, the authors analyze the advantages and disadvantages of such agreements. Finally, the book offers some interesting recommendations for EU trade policy.

In the concluding part of the book, Glania and Matthes provide an overview of each chapter, seek to answer questions that were raised throughout this volume and finally, propose research questions that will be included on the future research agenda.

On the whole, this is an extremely interesting book which adds significantly to our understanding of trade policy issues in the European Union. This book is useful for assessing the economic and political costs and benefits in the crucial area of trade agreements.