

Chapter 4

Reconciling Parallel Universes: Multilateralism and the Challenge of Preferentialism

The previous chapters of this Report have focused on the multilateral trading regime and the role of the WTO as its central institution. But trade governance and trade liberalisation are not simply a multilateral enterprise. In the last two decades, significant trade liberalisation has been achieved outside the multilateral arena, with most tariff reductions coming from unilateral liberalisation.

For some scholars of global trade, growing recourse to bilateral and regional preferential agreements is simply an inferior policy choice that undermines multilateralism and should be avoided. Yet trade governance and liberalisation are not as simple as that. PTAs need not, in all circumstances, be counterproductive in terms of a wider multilateral trade agenda. Moreover, such agreements, along with regional activity in other economic policy domains such as monetary relations, are increasingly a fact of life in contemporary international economic relations and they will not simply disappear.

Even commentators favourably disposed towards PTAs as a vehicle of international cooperation recognise their downside from a more inclusive, multilateral perspective. The Commission's recommendations set out below seek to minimise the friction between regionalism and non-discriminatory trade relations presided over by the WTO. The WTO rules on Free Trade Areas (FTAs) and Customs Unions (CUs) have been notably unsuccessful in disciplining and regulating PTAs and this raises the question of what can be done about the rules. The Commission argues that the WTO needs to take a fresh look at the way it addresses regionalism and, as we shall discuss, a promising start has been made in this direction with the recent adoption of the new Transparency Mechanism.

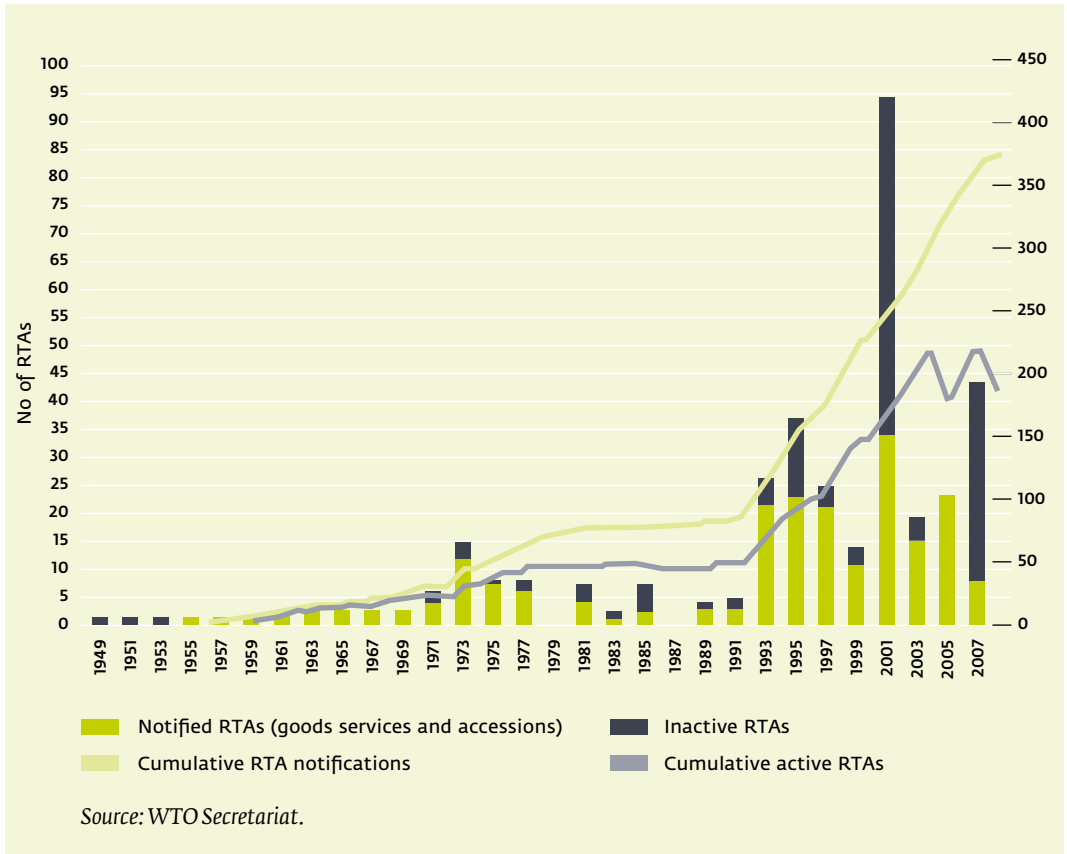
4.1 Why countries enter PTAs and what this implies for multilateral trade relations

Since the beginning of the 1990s, PTAs have multiplied rapidly. As of July 2007, 380 PTAs had been notified to the WTO. Taking into account agreements that have not been notified, as well as those that will come into force by the year 2010, the number of existing preferential agreements is around 400. It is said that the only WTO Member that has not signed or is not negotiating at least one PTA is Mongolia. In thinking about why this explosion is taking place, it is useful to consider first some of the salient features of contemporary regionalism.

Distinguishing features of PTAs

Some of the reasons why governments enter into PTAs can be illuminated by reference to two key architectural distinctions among these agreements. The first of these is the distinction between CUs and FTAs. When governments take the extra step of unifying their external trade regimes with respect to third parties, as they do in the case of CUs as opposed to FTAs, it is highly probable that the motivations driving such agreements include a strong economic component, underwritten by a willingness to pool sovereignty across a range of policy areas, with limited exceptions.

The establishment of a common external tariff in a CU involves a greater degree of negotiated integration than FTAs, which rely on rules of origin to regulate the rights of third party suppliers and suppliers in the PTA area. CUs also set the scene for an easier process of deeper integration involving internal measures that affect trade. In addition, members of a CU cede an additional measure of sovereignty in trade policy action, since they should not, in

FIGURE 1: THE EVOLUTION OF PREFERENTIAL TRADE AGREEMENTS 1948 TO 2007²⁰

principle, be at liberty to negotiate FTAs with third parties or MFN tariff reductions without the consent of their CU partners.²¹

These stronger integrationist tendencies in CUs may partly explain why there are so few CUs in existence, and why virtually all recently constituted PTAs are FTAs. Only some thirteen out of the 380 PTAs notified to the WTO to date are CUs. Moreover, a number of these CUs fall far short of meeting the basic characteristics of a fully fledged CU. This observation merely reinforces the notion that real CUs are generally very different from what pass as FTAs. Much of the current literature on regionalism and what it means for the trading regime is therefore focused on FTAs.

Turning to FTAs, the second basic distinction referred to above relates to the relative size of the

parties involved and the number of members in a FTA. Some FTAs comprise several countries of similar size. Such FTAs often involve clusters of developing countries and can be explained by a variety of motivations, which can include a strong interest in the economic gains from trade. Again, the validity of this statement will vary among agreements and across time. But a growing number of FTAs are not agreements among similar-sized (developing) countries. Rather, they involve one large developed country and one or more developing countries. Moreover, many recent FTAs are in fact bilateral in nature, and these bilateral agreements typically involve a large developed country and a small developing country.²² These FTAs tend to have mixed motives on both sides, are mostly of relatively recent vintage, and embody particular characteristics. We note two of these characteristics.

First, a growing number of bilateral FTAs involve countries that are not geographically contiguous. Examples of such agreements are those between the United States and certain Middle Eastern and Latin American nations. Such agreements may have important economic implications for at least one party, but generally they are strongly motivated by political and strategic considerations. To the extent that such FTAs involve a large (developed) and one or more small (developing) countries, their global economic impact will not be very significant and one would need to look at more localised regional factors to understand their effects on third parties.

Second, large countries entering into such arrangements sometimes apply a standard policy template that embodies elements going beyond WTO provisions (the so-called “WTO-plus” provisions), either in terms of the areas covered or the depth of commitments. This may be seen as strategic behaviour, perhaps motivated more generally by foreign policy considerations. Alternatively, such PTAs could be part of a broader demonstration of the characteristics of international trade policy regimes sought by the large country concerned.

Smaller countries may also pursue these arrangements in part for strategic reasons, relating both to the search for stability and certainty in their trade relations with major partners and perhaps to a desire to define and tie in domestic policies in a manner that make them harder to change. Developing countries may be willing to accept WTO-plus provisions in exchange for these perceived benefits.

A final point relevant to this brief discussion on typology refers to what has become known in the literature as “hub and spoke” agreements. These are essentially a series of bilateral agreements maintained by a single large trading entity (the hub) with a collection of smaller trading partners (the spokes). In economic and political terms, the large countries are doubtless well served by such arrangements, but the spokes are generally less well off than they would be if they formed part of a larger whole in which they were integrated among themselves in a larger arrangement with the erstwhile hub. This is but one of the

considerations that inform the Commission’s recommendations spelt out below in relation to the multilateralisation of regionalism.

One could argue that as long as trade liberalisation occurs, as it does with unilateral liberalisation, it matters less whether it is at a bilateral, regional or multilateral level. In theory, preferential agreements can have significant benefits, e.g. promoting technology and knowledge transfers, domestic reforms, productivity gains and improved developmental prospects. Critics of preferential agreements, however, would emphasise the negative effects, including the distortion in trade patterns between ‘insiders’ and ‘outsiders’ which undermine the welfare gains arising from expanded trade. Critics also stress that the trade distortions create incentives for inefficient resource allocation. The institutional dimensions of rules also matter; especially the ‘spaghetti bowl’ effect of multiple agreements with separate rules of origin. The operational costs of meeting different requirements in different countries pose a major challenge, especially for small and medium-sized enterprises. Preferential trade agreements with these outcomes are clearly a second-best option compared to a multilateral agreement at the WTO with uniform rules applicable to all members.

Motives for PTAs

Our discussion about different kinds of PTAs requires us to provide a more systematic consideration of what motivates governments to enter into PTAs. In the past, unilateral liberalisation and preferential agreements co-existed with the development of multilateralism. It has been suggested that, at least during the first phase of regionalism after World War II, in the 1960s, these three dimensions complemented rather than competed with each other. The 1980s saw the launch of the Uruguay Round in 1986, major steps forward in European as well as North American integration as well as unilateral liberalisation. With the completion of the Uruguay Round in 1994, we saw both a remarkable achievement for multilateralism and some important preferential initiatives. Thus, we could assume that there is little

need to see a threat to the multilateral regime emerging from preferential agreements. There is, however, evidence to suggest that today's preferential agreements create a different environment which poses threats to the multilateral trading regime.

First, the United States is actively pushing for PTAs. The country that helped shape and underwrite the post World War II non-discriminatory trading regime has been at the forefront of those emphasising the development of PTAs in recent years. Whilst the number of PTAs between the United States and other countries has been somewhat limited, in part due to the linking of trade and security policy, the continuing push for preferential agreements represents a break with US policies of the past. Similarly, the European Union has long been actively pursuing PTAs although many of them have been with countries either on the European continent or with which the EU has enjoyed strong historical relations. Today, the EU is entering negotiations with some of the few remaining countries with which it still trades on MFN-basis.

Third, Asian countries have joined the trend. Whilst important East Asian countries, Japan, South Korea and China, long refrained from negotiating preferential agreements these countries have been extremely active in the push for PTAs since the turn of the century. Fourth, many PTAs are about much more than regulating trade. The United States, for example, uses a template in its PTAs that also has the effect of shaping domestic regulation in the partner countries. The consequence is the creation of parallel regulatory spheres that, at least in some cases, make international trade more difficult than under the umbrella of the WTO. A plethora of competing and overlapping norms and regulations does not facilitate international trade.

Beyond this political context there is a vast economic literature on this subject and it is not our intention to rehearse it here. We simply recount some of the more important explanations that are linked to perceived shortcomings in the multilateral trading regime and the capacity of the WTO to deliver

an adequate framework for international trade relations. Other motivations for establishing PTAs simply cannot be seen as shortcomings of multilateralism. In this sense, improvements in the WTO system and the way it works may certainly help to deal with some of the drawbacks of regionalism and engender greater systemic coherence, but however well they are executed, they will not make PTAs disappear. This is why the Commission believes that the contribution of the WTO in managing regionalism should go beyond merely seeking to enforce treaty-based rules.

Ten of the most important reasons why governments may become involved in PTAs are:

- To protect a larger market from external competition, or in other words to divert trade and protect local enterprises;
- To enlarge a trading entity in order to increase bargaining power when dealing with other trading partners;
- To secure additional benefits from open trade and trade rules that cannot be realised at the multilateral level because multilateral negotiations are unsuccessful or too slow;
- To go further and deeper in terms of policy coverage and commitments ("WTO-plus");
- To promote good neighbourliness or to secure any other of a range of political or foreign policy objectives that focus on a subset of the international community (non-trade objectives);
- To reap short-term political advantage and publicity through signing agreements where the act of doing so may be seen as more important than the substance of a contemplated agreement (Bhagwati's CNN effect);
- To lock in domestic reforms in a fashion that a WTO commitment does not guarantee either because of the reach of its rules, the nature of exceptions to the rules, or the absence of a strong enough compliance imperative;

- To allow experimentation with respect to different approaches to international rule-making or with trade liberalisation (the “laboratory motive”);
- To insure against future policy instability or uncertainty, particularly in the markets of major trading partners (the “insurance motive”);
- To avoid exclusion as other countries and competitors secure advantageous access to markets via PTAs (the “domino effect”).

These ten considerations are by no means exhaustive, but they are among the factors frequently cited as motivations for negotiating PTAs. Research is lacking in respect to which of these reasons, or which other reasons, are the most salient, but the picture is likely to be highly varied across regions, among agreements, and over time. As noted above, the variegated motivations for seeking alternatives to the WTO raise challenging questions about how the WTO might contribute to minimising the adverse fallout from discriminatory trade policy initiatives.

The impact of regionalism on the multilateral trading system

As with every other aspect of regionalism, much has been written about the impact of PTAs on the multilateral trading system. Most commentators agree that a multilateral approach to trade relations is generally preferable to the fragmentation that is today’s PTA panorama. This tends to be true of those who are relatively sanguine about the adverse effects of regionalism as much as it is of those who worry about its corrosive impact on international trade relations. The Commission is firmly of the view that concerted action is needed to bring greater order and coherence to the present confusing web of criss-crossing PTAs around the world.

We briefly identify six considerations that signify the need for caution in the creation, design and management of PTAs. These considerations also provide pointers as to what might be done to promote coherence, fairness and stability in trade relations. They may be

characterised as concerns about distortions, exclusion, instability, inefficiency, the circumscription of liberalisation opportunities, and diverted attention.

First, the jury seems to be out on the question of how trade-distorting PTAs have become, or in other words, how much trade diversion they cause. Evidence goes both ways, but this is clearly a source of legitimate concern and underlies the design of some of the WTO rules on regional agreements. Moreover, where PTAs go further than the liberalisation of trade at the border to cover regulations and internal measures, they carry the risk of further segmenting markets and distorting trade in ways not fully understood.

Second, PTAs can exclude countries, especially small ones that offer limited attraction in terms of their market size. In this sense, regionalism can engender unfairness in the system and carry a cost for the most vulnerable.

Third, each time a regional agreement is struck, it carries implications for existing PTAs in terms of relative trade advantages. In other words, preference margins acquired as a result of existing PTAs are rendered less valuable with the addition of each subsequent PTA. In stark contrast to MFN liberalisation, these arrangements are inherently unstable and potentially unsettling for trade relations.

Fourth, the very nature of FTAs and the need for rules of origin, engender trade costs and uncertainty, particularly when such rules overlap among Members that are party to several such agreements. These effects become more troublesome in a world where production processes are situated across multiple jurisdictions and when much cross-border trade and investment activity concerns intermediate inputs and services. These rules are wasteful as they incur costs which in turn reduce trading opportunities and the benefits that flow from FTAs. As discussed below, there are ways of limiting the dampening effects on trade of rules of origin.

Fifth, one less than universally appreciated feature of preferentialism in trade is the effect it has on the ability of governments to address the

most intractable trade policy problems. Regional agreements typically pick off the easiest liberalisation opportunities, leaving the harder parts as exceptions to free trade under PTAs. These exceptions tend to be found in similar areas to those encountered in multilateral trade negotiations, such as trade in agriculture and in labour-intensive manufactures. By liberalizing in the “easy” areas PTAs are eroding the scope for future trade-offs, both domestically and internationally. Those who pay are in the sectors where liberalisation is more difficult, as there is less to trade off in a reciprocal negotiation.

Sixth, a number of commentators have argued that an additional burden imposed by regionalism is that it diverts attention from multilateral negotiations. This can be true in two senses. First, governments may believe, or be lulled politically into the conviction, that they can acquire all they need by way of trade policy through regional arrangements. This will lead to neglect of the relative costs and benefits, especially over time, of regional versus multilateral approaches to trade relations. The second way in which RTAs may crowd out serious consideration of the frequently harder business of making multilateral agreements is through the resource costs of actually carrying out negotiations. Even the biggest and best organised countries can be challenged when it comes to negotiating trade agreements at these two different levels.

Taken together, these six concerns in regard to prevailing FTAs raise questions about the appropriate multilateral rules for PTAs. In the next section we first describe briefly the existing multilateral rules pertaining to these arrangements and then consider whether they fall short.

4.2 WTO rules, the erosion of non-discrimination and options for reform

The three key WTO provisions permitting departures from the non-discrimination principle on the grounds of regional integration are found in GATT Article XXIV and the ‘Enabling Clause’²³ for goods and the General Agreement on Trade in Services (GATS) Article V for services. Today, the increased use

of these exceptions arguably makes MFN look like the exception rather than the rule. The European Union, for example, applies MFN tariffs to only nine trading partners and around half of world trade now takes place on a non-MFN basis.²⁴

GATT Article XXIV permits CUs and FTAs and stipulates that they should be designed to facilitate trade among the parties concerned and not raise barriers to the trade of third parties. Thus, CUs and FTAs are required to liberalise substantially all trade among the parties and not to raise additional barriers against outsiders. They may take the form of interim agreements in the first instance, but save in exceptional circumstances should be fully compliant within ten years.

The 1979 Enabling Clause codifies various elements of special and differential treatment for developing countries, including in respect of PTAs. Provided the PTA in question is only among developing countries, it may be constituted as long as it does not raise barriers or frustrate the trade of other parties nor ‘constitute an impediment to the reduction or elimination of tariff and other restrictions to trade on a most-favoured-nation basis.’²⁵ Perhaps most significantly, the Enabling Clause has removed the “substantially all trade” requirement for CUs and FTAs exclusively comprising a developing country membership.

GATS Article V is similar in intent, both with respect to the effects on outsiders of discriminatory liberalisation and the coverage among the parties to an agreement, although the provisions are phrased in somewhat dissimilar language to take account of differences in how services trade is conducted. Moreover, the provisions are arguably couched in somewhat less precise terms. The Article is entitled Economic Integration and the equivalent of “substantially all trade” in Article XXIV is the requirement of substantial sectoral coverage (with no a priori exclusion of a mode of supply) and the absence or elimination of substantially all present and future discrimination. However, in evaluating whether these conditions are met, consideration may be given to ‘a wider process of economic integration or trade liberalization

among the countries concerned.²⁶ In addition, developing countries are to be accorded appropriate flexibility in meeting the criteria set out for a conforming agreement.

Criticisms of the rules

The first of two well known criticisms of the WTO rules is that they have never been adequately enforced. The GATT/WTO membership has almost never agreed that a PTA presented for examination is in conformity with the rules, nor insisted on any modification to bring an agreement into conformity. This has created a major hole in the multilateral system of trade disciplines. It is the result of wilful neglect on the part of the membership, reflecting in no small part the comfort of mutual indulgence. Second, the rules themselves are vague and incomplete. Efforts over the years to render them more precise and to clarify their reach have met with limited success, doubtless for the same reason that the PTA examination process has generally been inconclusive and lacking in influence. Moreover, there are significant gaps in the rules.

The most notable of these gaps on the goods side is the absence of disciplines on rules of origin, which in the particular case of FTAs are crucial in shaping the conditions of competition within the preferential area and the terms upon which third parties can benefit from new trading opportunities within the preferential area. Rules of origin are used to determine how much non-local content is permitted in the production of a good without that good losing originating status, and therefore duty-free treatment, within the preferential area. These rules can be complex, opaque, highly varied across sectors, strongly protectionist and costly in terms of both administration and compliance. Strict rules of origin are, in effect, becoming a new form of non-tariff barrier. The abuse of rules of origin for protectionist purposes can cast a shadow over the legitimacy of PTAs. Tailor-made rules of origin can be used to provide protection to a very specific sector of a country's economy. It is this that makes the use of rules of origin in PTAs so attractive to political leaders: they can be tailored to serve the interest of certain interest groups.

Addressing the rules on permissible departures from MFN for PTAs

Given the strong probability that not all PTAs are net welfare enhancing in global terms, a key question is whether there are ways to improve multilateral disciplines applying to these agreements. Despite successive negotiating mandates to revisit the rules on regionalism, particularly GATT Article XXIV, only relatively slight clarifications and improvements have been forthcoming. Similarly, certain disputes have provided clues as to possible future interpretation, but few would claim the rules are adequate or effective.

The most elegant way of eliminating the discrimination inherent in preferential agreements would be to reduce all MFN tariffs to zero. Considering the low level of tariffs on many products, both in developed and developing countries, this idea may not seem far-fetched in the not-too-distant future. Indeed, recent work on "mutlilateralising regionalism" explores the idea that as overlapping PTAs multiply, pressures may mount in favour of dismantling the preferential tangle in favour of a more multilateralised approach to trade relations. The essential dynamic at work here is that, in a world of internationalised production structures and falling tariffs, increasing trade costs associated with overlapping and differentiated systems of origin rules, possibly combined with localised regulatory obstacles, will rebalance producer interests and raise demands for a more rationalised and global approach to integration through trade. The research on these questions is ongoing, but basic market realities may be turning the tide towards a greater appreciation of the advantages of multilateral trade policy and a finer appreciation of the costs implicit in a PTA proliferation.

However, for the time being other means of reconciling PTAs with the multilateral system could usefully be explored. The Doha Declaration mandated negotiations for the purpose of 'clarifying and improving disciplines and procedures under the existing WTO provisions applying to regional trade agreements.' How might the WTO membership address this mandate? Many reform proposals have been put forward both in negotiations

and the academic literature. It is not our intention to revisit these or add to them. Suffice it to say that the Commission strongly endorses continuing efforts to improve the rules governing PTAs. Such efforts should not shun the more difficult issues, such as the “substantially all” requirement, the period within which a PTA should become fully operational, timely notification obligations, and of course, the rules of origin.

Improving the rules: dealing with origin

The fact that no international disciplines exist for preferential rules of origin²⁷ has obviously left room for different brands of creativity, not all favourable to an integrated world economy. One way of mitigating the more restrictive aspects of origin rules is to broaden the cumulation criteria. In other words, rules of origin can be made less restrictive through an extension of the geographical area from which qualifying inputs can originate. An example of this would be if the “hub” in a “hub and spoke” network of PTAs were to allow cumulation for the designation of origin to extend to all the “spokes”. In other words, inputs from all the “spoke” economies could count as originating for the purposes of trade between any one “spoke” and the “hub”. This would have the effect of making a “hub and spoke” arrangement look much more like a plurilateral PTA, with attendant increases in trading opportunities and a concomitant decrease in both compliance costs and likely trade and investment diversion. There would also be significant advantages in rendering different systems of origin rules more uniform and less confusing and costly for those whose activities require that they operate in a world of multiple origin systems.

The Transparency Mechanism: a fresh approach

Recently, the WTO membership took a different tack by agreeing to institute a new Transparency Mechanism²⁸ under which Members are required to notify the WTO and provide information on newly signed RTAs. In turn, the WTO Secretariat will prepare a factual presentation on the RTA in a timely manner. This is a promising avenue. The exercise will

contribute to knowledge on the details of regional agreements. Transparency is typically a precondition for progress in improving the policy environment. The Commission strongly endorses this initiative, which has been adopted on a provisional basis, since it was negotiated in the context of the DDA. We believe that the mechanism should be accorded permanent status and strengthened as necessary to ensure a continuing high-quality flow of information on PTAs among WTO Members.

The Commission also believes that an effective transparency exercise is but a beginning that affords an opportunity for the membership of the WTO to engage in a reflection exercise on the question of how to render the parallel universes of multilateral and less than fully multilateral trade relations more coherent and more beneficial to the entire community of trading nations. This proposal is consistent with the Commission’s broader recommendations regarding the enhanced role of the WTO as an institution that fosters reflection and the exchange of ideas, thus providing a constructive supplement to its functions as a forum for negotiating trade rules and settling disputes.

In the particular case of regionalism and its relationship with multilateralism, the Commission recommends that a reflection on the future role of the WTO in managing regionalism should include consideration of an exercise to establish best practices to be followed by Members engaging in PTAs. This exercise is already being undertaken by APEC and it may be possible to learn from that experience. A key challenge would be to distinguish the comity-based exchange of ideas about appropriate ways of approaching regional agreements – best practices – from the WTO’s rule-making functions. We do not for a moment suggest that the WTO should be seeking to soften binding law and substitute it with best-endeavour understandings. On the contrary, the conversations around best approaches to managing regionalism are designed not only to enhance mutual understanding and improve policy approaches, but also to inform law-making and lessen the likelihood of trade disputes.

A leadership role for the major trading nations

One reason why half of world trade is still conducted on a MFN basis, notwithstanding the existence of an even greater number of PTAs, is that the largest trading nations have so far desisted from negotiating PTAs among themselves. No such agreements exist, for example, among the United States, the European Union and Japan, although the United States and the European Union have signed a 'Framework for Advancing Transatlantic Economic Integration' in April 2007. Relatively few agreements exist between the three major players and major developing countries. None of the three have PTAs with China or Brazil, for example. However, other large developing country traders such as South Korea and Mexico do have PTAs with at least one of them.

If the WTO membership is to engage seriously in addressing what has clearly become a challenge to the coherence and stability of the trading system, the largest trading nations in the system should show leadership. They should be willing to underwrite the "public good" of non-discriminatory multilateral trade. In short, the Commission believes that the major industrial countries should, as a matter of principle, forswear the establishment of PTAs among themselves. We believe that they should also be mindful of the systemic implications of establishing additional PTAs with other large trading countries. If PTAs were to be negotiated among the major trading nations, the very real risk is that such agreements would be seen by their signatories as a new template for redefining the multilateral trade regime. It is hard to imagine a more contentious and destructive scenario for international trade relations.

4.3 Conclusion

The Commission is convinced that the WTO alone has the capacity to address PTAs as a collective action problem confronting the multilateral trading regime. We do not believe that regionalism will disappear, nor that the WTO is necessarily well placed to achieve everything that governments seek to attain in terms of their international trade relations with other nations. But we do believe that the

explosion of regionalism in recent years has been sub-optimal in systemic and political terms.

Recent developments carry the risk of undermining the fabric of inclusive, fair and stable institutional arrangements that underpin international trade. Governments should not forget the post-war lessons learned from the *débat* of largely institution-free trading arrangements in the first half of the twentieth century. We also believe that poorly conceived regionalism carries many avoidable costs and tends to penalise the weaker and smaller members of the trade community. These are the considerations informing the Commission's recommendations in this area.

CHAPTER 4: RECOMMENDATIONS

- 7 The Commission believes that the very rapid growth of PTAs in recent years has unnecessarily raised trade costs and carries worrying implications for the world trade regime in terms of stability, fairness, opportunity and coherence. The Commission therefore recommends that as part of a concerted response by governments to this situation, current efforts to clarify and improve disciplines and procedures in relation to WTO provisions on RTAs be intensified.
- 8 The Commission recommends that, as an expression of their commitment to the multilateral trading system and of a willingness to provide leadership in maintaining and strengthening international trade arrangements for the benefit of all, the major industrialised countries should refrain from establishing PTAs among themselves. The Commission also believes that large developing countries with significant shares in world trade should similarly refrain from establishing PTAs with each other.
- 9 The Commission recommends that WTO Members strengthen and make permanent the recently established Transparency Mechanism for reviewing RTAs. The Commission believes that this initiative would provide crucial support for an urgently needed process of reflection, independent of negotiations, to consider how to manage the relationship between multilateral and RTAs. In this connection, the Commission recommends that consideration be given to developing a mechanism that facilitates collective surveillance of regional trade agreements and to the establishment of a code of best practices.