

Preferential Trade Agreements and Globalization: The Impact of a Common Foundation

Author: Holly M Rothe

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BOSTON COLLEGE

PREFERENTIAL TRADE AGREEMENTS AND GLOBALIZATION: THE IMPACT OF A
COMMON FOUNDATION

A SENIOR HONORS THESIS

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HOLLY MARGARET ROTHE

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Contents

Introduction, Methodology, and Definitions	4
<u>Chapter I</u> : Economic Concepts and Theories of PTAs.....	8
<u>Chapter II</u> : Economic Concepts and Theories: Case Studies.....	18
<u>Chapter III</u> : Political and Cultural Concepts and Theories of PTAs.....	34
<u>Chapter IV</u> : Political and Cultural Concepts and Theories: Case Studies.....	41
<u>Chapter V</u> : Conclusions.....	53
Works Cited and Consulted.....	57

Introductions, Methodology, and Definitions

The history of world trade is long, complicated, and erratic. For millennia, people of different nations have come together to exchange goods and services which they could not otherwise obtain. Crusaders brought western articles to the Holy Land, traders on the Silk Road traversed thousands of miles to sell their wares, and expeditions were mounted around the globe in search of territory, conquest, and new markets. Yet mankind has also sought, periodically, to shut itself off from these foreign influences, leading to extended periods of internal production and protectionist behavior. The world now stands in the midst of another swing of the pendulum from an isolationist mentality to one of global interconnectivity. Since the end of World War II, countries have sought to reduce barriers to trade, accelerate the global chain of production, and integrate markets at a historic level. The development of the Internet and the corresponding communications revolution, as well as travel advances that have decreased the time and difficulty required to reach even the most remote locations, have set the stage for this next step in the progress of world trade.

The newest means by which trade is expanding and evolving is through the creation of Preferential Trade Agreements (PTAs). While the concept is not new, the number of PTAs currently existing or under development is impressive. These PTAs stretch across continents and oceans, bringing together countries of different ideologies and cultures. By the end of 2002, more than 250 trade agreements in various steps of progress had been reported to the World Trade Organization (WTO).¹ From the North American Free Trade Agreement (NAFTA) to the Southern Common Market (MERCOSUR), the European Union (EU), the Association of Southeast Asian Nations (ASEAN), and even the simpler bilateral agreements such as the Closer

Trade Relations Trade Agreement (CER) between Australia and New Zealand, a PTA is clearly a popular and prestigious accomplishment for most countries. Yet the implications of such widespread and complicated membership in PTAs are not yet fully understood. Unanswered is the question of how the proliferation of agreements will affect the larger goal of complete international integration.

Additionally, despite an increasingly faster ability to exchange information, an inability to understand or cooperate with other cultures continues to pervade the world. Ethnic and cultural stereotypes continue and religious fault lines are becoming more defined. The much debated concept of “globalization” carries both positive and negative connotations, and experts and amateurs alike agree that despite the increasing connectivity of our world, the need exists for a vehicle for better cultural understanding. Is the increasing prevalence of PTAs a new opportunity to build common foundations of understanding between and among countries? Can the member countries of various PTAs use the existence of common economic interest and structure as a starting point in streamlining other areas of agreement, particularly in more sensitive and ambiguous fields of politics?

This paper will seek to answer some of these immediate questions surrounding the development of international trade by means of PTAs. First, it will examine the conceptual merits of the arguments for and against PTAs as a useful tool for worldwide economic integration. It will then evaluate the economic performance of two major PTAs, the EU and NAFTA. Then, it will discuss the relative opportunities for greater political and cultural understanding that may be created among countries as a result of PTAs. Again, the concepts discussed will be analyzed against the experiences of the EU and NAFTA. In conclusion, the

paper will seek to make predictions for the future of global PTAs and the impact such entities may have on international relations.

Methodology

The paper will be predominately dependent on available research and secondary sources. It will review the current theories surrounding trade agreements, and will seek to create a synthesis among the many studies. My objective in this senior honors thesis is to make visible new linkages among earlier research efforts and provide a new lens through which the growing proliferation of PTAs and their effect on the global community may be evaluated.

Definitions of Preferential Trade Agreements

Although any trade agreement that involves several countries making a distinction in rules and regulations from the greater global community can be described by the umbrella label of a PTA, there are in fact several sub-categories that explain the extent of economic integration across countries. The least integrated PTA is simply called a Free Trade Agreement (FTA), in which members lower tariffs against each other but maintain their previous tariff levels for external partners. A Customs Union raises the bar by setting a standard level for external tariffs accepted by all member countries. Common Markets follow the rules of Customs Unions but also allow free flows of resources and factors of production across member borders. An Economic Union, the most integrated purely economic arrangement, also includes common laws governing economic issues such as product and process standards (Krueger 111). This paper will address PTAs which fall into these varying categories as well as PTAs which have progressed beyond Economic Union to political integration, such as the EU. The term PTA will be used to

refer to generic trade agreements, while the specific category names will be used when appropriate.

Chapter I: Economic Concepts of PTAs

This section of the paper will discuss several of the main economic concerns raised in discussion of PTAs. Are PTAs trade creating or trade diverting? How do PTAs affect issues of inequality among and within their member countries? These investigations will seek to discover whether PTAs can serve as a useful and efficient tool in the creation of a globally integrated, free-trade oriented community.

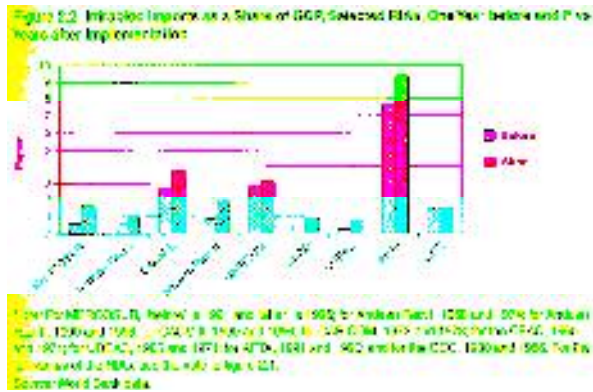
Trade Creation or Trade Diversion?

Currently, a debate exists as to the implications of widespread PTAs. While many economists argue that PTAs are simply an intermediary tool to truly global free trade, some economic theorists insist that PTAs will divide the world into competitive trade blocs that will foster protectionist behavior. How can PTAs be trade creating rather than trade diverting? As Anne Krueger questions, will the PTAs be building blocks or stumbling blocks for international economic liberalization? (Krueger 1999:109) This question must be addressed before further advances can be made towards successful integration, either economic or political.

A trade cooperation treaty aims to increase the economic welfare of all of the countries involved without imposing unfair penalties on non-member countries. According to the rules for PTAs as set out by Article XXIV of the General Agreement on Tariffs and Trade (GATT) at the end of the Second World War, preferential trading agreements could exist if three criteria were met: the terms of the agreements called for the elimination of tariffs among the partners of the agreement; the PTA agreed to follow a specific timeline of integration; and the PTA did not increase protection outside its boundaries (Krueger 1999:106). These conditions would allow for the creation of larger PTAs in accordance with free-trade principles and discourage a return to

the earlier world system of discriminatory bilateral agreements. However, despite the presence of regulations prohibiting protectionism, trade diversion can still occur in other ways. Ideally a PTA would allow a member country to purchase items from its partners which had previously borne a tariff burden at a lower, tariff-free price, while still facilitating trade with external partners and garnering benefits from the associated tariff revenue. Additionally, a country would be able to import from member countries items it had previously produced domestically, particularly those items which had required inefficient production. However, trade diversion could occur if countries within a PTA felt pressure to change their purchasing habits in order to purchase predominately from their new partners, in fact reducing trade with external partners. Although this would allow them to take advantage of tariff-free zones, their final costs could in fact be higher. Tariff revenue received from external nations also has the potential to decrease as increased trade occurs within the PTA, reducing the overall welfare of the member country (Krueger 1999:107). Members must carefully consider whether their PTA trading practices are in fact beneficial.

Schiff and Winters (2003) present data analyzing the five-year results of various PTAs (which they call Regional Integration Agreements – RIAs) to discover if trade creation or trade diversion can be observed. An analysis of both imports within the PTAs and imports with external members as a share of GDP seems to suggest that the PTAs led to positive growth over the six year period:



When Schiff and Winters consider this data in conjunction with external factors, they find that import propensities increase sufficiently both intrabloc and extrabloc, which strongly suggests that the selected PTAs led to economic liberalization as well as improvements in economic management techniques (Schiff and Winters 2003:36). This is a significant argument for the trade-creating prospects of PTAs.

Another positive argument for PTAs is that they provide assistance to smaller markets struggling to modernize and join the world trading market on a more equitable level. Regional integration will allow smaller or developing markets to take advantage of economies of scale and greater competition, both of which can help them become more efficient. Also, PTAs can combat monopolistic behavior in single markets by opening the field of competition beyond national borders (Schiff and Winters 2003:50). The popularity of PTAs may also have important welfare implications for developing countries by encouraging free-market competition as well as modernization. Not only will this provide the consumers with more choice, one of the major benefits of a free-market system, but competition is also likely to spur democratization and liberalization of economic affairs within a country. Developing countries in Latin America have struggled to overcome the legacy of Import Substitution Industrialization (ISI) policies that allowed state-owned enterprises (SOEs) to perpetuate despite gross inefficiency. The ability to

join PTAs and reap the benefits from membership may prompt other developing countries to challenge their SOEs and inefficient industries more promptly than they otherwise would.

Schiff and Winters also make the important point that “in purely trading terms, [a PTA] cannot provide any benefits that member countries cannot attain through nondiscriminatory tariff reductions (Schiff and Winters 2003:63).” In an ideal world, the traditional Most Favored Nation (MFN) system of standardized tariffs towards all states would be a better option than a prevalence of overlapping PTAs. However, in the absence of such a reality, a blend of the two models seems most fitting. Currently, the US maintains MFN status with all members of the World Trade Organization (WTO); at the same time, the US is engaged in numerous PTAs. The MFN system, like the enforcement of WTO regulations, is imperfect. WTO regulations are difficult to determine and implement, with many countries claiming tariffs at a low level and applying them at a higher actual level. Also, governments can restrict trade using non-tariff barriers without violating the WTO regulations, thus making trade less liberalized. PTAs are attractive because countries can work together to correct these failings of the multilateral system. Yet PTAs themselves may lead to problems as an international web of PTAs develops without any overarching pattern or plan for eventual standardization and liberalization. As stated by the WTO:

PTAs can complement the multilateral trading system, help to build and strengthen it. But by their very nature PTAs are discriminatory: they are a departure from the MFN principle, a cornerstone of the multilateral trading system. Their effects on global trade liberalization and economic growth are not clear given that the regional economic impact of PTAs is ex ante inherently ambiguous. Concurrent MFN trade liberalization by PTA parties, either unilaterally or in the context of multilateral trade negotiations, can play an important role in defusing potential distortions, both at the regional and at the global level. Because each PTA will tend to develop its own mini-trade regime, the coexistence in a single country of differing trade rules applying to different PTA partners has become a frequent feature. This can hamper

trade flows merely by the costs involved for traders in meeting multiple sets of trade rules.²

The problem is not easily solved by the emergence of a few larger, rather than many smaller, trading blocs. In fact, it becomes even more acute when one considers the current trend toward larger and larger PTAs with significant bargaining power. NAFTA and the various trade agreements within the Americas are under pressure to evolve into a proposed Free Trade Area of the Americas (FTAA), which would encompass the entire hemisphere. The EU is in process of accepting 10 new member states, an enlargement that will nearly double its current membership of 15. Nearly 80% of the world's production trade is conducted in NAFTA, the EU, or in East Asia within either ASEAN and the informal PTA Asia Pacific Economic Cooperation (APEC) (Pastor 2001:20). With the emergence of these larger trading blocs, how will the open international trading community find balance with these increasingly powerful PTAs? Because WTO regulations prohibit higher external tariffs, the blocs may not exclude non-members by such means; instead, they may seek to make agreements concerning intellectual property regulations, services, and non-tariff barriers. Utilizing these various alternatives to tariffs, nations may be able to reap more benefits within their trading bloc and undermine the global trading system. Paul Krugman addresses the problem of a small number of large, equal-sized PTAs. He asserts that large trading blocs are advantageous because of the increase in tariff-free trade, but at the same time, trade diversion is more frequent and competitive tariff-raising may occur between the blocs. He concludes that one single bloc of global free trade is the ideal, but with a small number of powerful blocs, "diversion and competitive tariff setting outweigh the benefits of intrabloc free trade (Pastor 2001:225)."

The counterargument to Krugman's identified problem of competitive behavior is the fact that trade is not a singular occurrence. Each transaction has a significant impact on the following

transaction, and for this reason, PTAs will evaluate the costs and benefits of cooperation or undercutting the competition. The political implications of trade negotiation thus become critical. Schiff and Winters evaluate three criteria which contribute to a decision whether or not to participate in competitive tariff behavior: the importance of future cooperation to the deciding bloc; the probability of punishment by the competitor, and the shape this punishment would take; and the relative tariff levels of each bloc (Pastor 2001:226). As PTAs gain influence and simultaneously become increasingly tied to the global economy, these considerations must be carefully considered in order to maintain peaceful affairs and a liberalized, efficient economy.

PTAs and inequality

Member nations of a PTA rarely enter into the agreement on an equal economic footing. Rather, they run the gamut from poor to wealthy. This is particularly true in bilateral agreements between developed and developing nations, or in larger PTA blocs such as ASEAN. The resulting income disparities and differences in standards can cause problems for PTAs as they attempt to become efficient and competitive blocs. These problems, particularly income disparities, can also be extensive within the individual member nations themselves, as is the case in Mexico.

Standards

PTAs frequently require that member (or potential member) nations adhere to certain product and process standards in order to join an agreement. Standards exist in the shape of environmental regulations, production regulations, and any number of regulations in the process from idea development to final product creation. A recent example of standards playing a role in the global economy is the sweatshop labor debate. Many companies were forced to change their production policies when the purchasing public became aware of the methods by which certain

goods were created. As the public is becoming more informed, standards become another method of competition. Consumers may seek the product that is most attractive, most cost-efficient, and most politically correct or eco-friendly. Standards enter into the PTA debate as an important “gate-keeper” mechanism. While many developed nations see compliance with standards as a necessary prerequisite to global economic integration, many developing nations see such requirements as discriminatory and unfair. Poorer countries often argue that they seek to utilize the PTA in order to increase their economic capabilities. If they are not allowed to use resources in the ways they are best able, and are discriminated against by the richer members, how can they hope to raise their standards to the level at which they will be admitted? They face an apparently vicious cycle of inadequate standards feeding more inadequate standards. Less developed nations also argue that the developed nations took advantage of the more lenient environmental and product standards that existed around the time of the Industrial Revolution. Today’s economic powerhouses developed to their current levels of productivity using methods which are now prohibited, such as slavery or child labor. Poorer nations must realize that these arguments, while they may prompt sympathy within the developed nations, are not likely to lead to more lenient standards. By upholding standards, competition is encouraged, one of the basic tenets of trade liberalization. In the long run, compelling nations to perform at a common level, identified by product and process standards, will elevate the level of trade, integration, and performance globally. PTAs can address the short-run difficulties of developing nations by providing aid and education, as is currently done around the world. The aid is often given under the condition that it will not fund environmentally-dangerous production methods or outdated modes of production. The success of aid programs in NAFTA and the EU will be addressed later in the paper.

Economist Kym Anderson explores many of the social standards of economic integration, finding that the implementation of standards is just as important in fields such as worker rights, education, and health policies. The absence of standards or the presence of standards which are inadequate will result in economic costs. These costs will quickly be identified as weaknesses where integration is considered, and will require attention and legislation in order for the offending nation to continue on the path to membership in a PTA. Anderson finds that this is a process which occurs both nationally and internationally as supranational bodies tend to take control of standard regulation. The net impact of economically inefficient social standards will be a loss of competitive capability (Anderson 1997:59). Thus, it is in the best interest of the governing body – whether this is the PTA or the local government – to address social policies that will have a negative impact. PTAs have the potential to persuade a future member nation to solve its social and economic policy problems by offering the reward of membership. This reward is significant because membership in a PTA can serve to bolster the reputation of a nation. In order to become or remain a member in good standing of the EU, for example, a nation must meet certain benchmarks in growth indicators and behavior. Another benefit of compliance with standards is that often, achieving PTA technical standards can help poorer countries to overcome some of the non-tariff barriers that limit their growth. The alternation between different electrical, telecommunications, and travel infrastructure systems that is currently required in order to do business in many developing nations significantly increases the costs for firms interested in doing business with the nations in question. Although the process of becoming compliant and adhering to standards may be strenuous and expensive in the short-run, it will provide many long-term benefits, from membership in the PTA to the elimination of many barriers to trade.

Income Disparities

It is necessary that PTAs address income disparities both in the creation of and the maintenance of their free trade agreements. Income disparities may hinder the formation of a PTA, as poorer nations struggle to meet the entrance requirements. Also, PTAs may suffer from continuing income disparities as increased trade and growth prompt an unequal distribution of development across member nations. PTAs must address both of these issues in order to become more efficient tools of economic development and integration.

To attack international income disparities, nations and PTAs are increasingly turning to policy intervention, as the regions in need of assistance often require a specific formula of aid, rather than a lump sum of money. Regions which have suffered or have been overlooked throughout the recent history of economic liberalization and globalization have demonstrated an inability to adapt of their own volition to these new challenges. Many of the African nations, for example, suffer from a combination of underdeveloped economies and infrastructures and severe human capital and population challenges. Although certain African integration programs have been mounted, the continent is definitively recognized as an area of the world where income disparities are the rule rather than the exception. Significant action is necessary. Accordingly, a new strategy must be developed as present-day PTAs look towards the future. This strategy is taking shape as a commitment to investment in human capital. Human capital development is critical, both to promote achievable standards and to reduce income disparities. Increasingly, investment in human capital is seen to be more important than investment in physical plant and equipment, which has dominated much of the aid given in the past. The actions that PTAs take to nurture and utilize human capital, particularly in the poorer regions of their member states, will

provide a significant insight into both their underlying motivations and their probability for continued success.

Conclusions

The analysis of PTAs and economic performance is a continuing, evolving study. While a consensus has not yet been reached, many of the current indicators present a persuasive argument for the effectiveness of PTAs as a tool of forward-leading economic integration. This paper will now undertake a more specific study of PTAs and evaluate the performance of two of the world's largest areas: the EU and NAFTA.

Chapter II: Economic Concepts and Theories: Case Studies

The European Union

Origins

The European Union is the most integrated large trading bloc currently in existence. It is composed of 15 countries (soon to be 25), a population of over 370 million, and a GDP of approximately \$11,500 billion.³ Yet the development of the EU was neither a smooth nor a fully planned occurrence. The Union was conceived in the aftermath of two World Wars and slowly evolved from an idea of economic union to promote competitive behavior – and thereby stem rearmament - to the eventual introduction of communal political bodies. The process of this integration, as well as the current challenges facing the EU, can serve as an insightful example for other communities considering further economic and political integration.

The EU was first created as an entity to guard against further wars and destruction, particularly in Western Europe. France and Germany, historically bitter rivals, needed to forge a common interest in order to prevent future aggressions. In 1951, the first step was taken towards the creation of this entity with the christening of the European Coal and Steel Community (ECSC). Six years later, this community evolved into the European Economic Community (EEC), composed of Belgium, France, Germany, Italy, Luxembourg, and the Netherlands. The Treaty of Rome, which established the EEC in 1958, asserted the intention to aspire to closer union among the nations and peoples of Europe (Pastor 2001:28). The Treaty of Rome technically established a customs union between the six original signatory states; however, in practice, the EEC did not become a full-fledged customs union until the early 1960s. The EEC continued to welcome new members and deepen its integration policies, fostering increased

competition among members and leading to strong economic benefits. Many of these positive results came into play in the early 1990s, following the Maastricht Treaty, when the customs union formally evolved into a common market, which allows free movement of factors across borders and included elimination of nearly all internal trade restriction. This resulted in the eradication of obsolete, noncompetitive SOEs and allowed the EEC to overcome many physical, technical, and fiscal barriers en route to becoming an economic union with harmonized economic policies and a common currency. The EU today enjoys greater competition, lower prices, better allocation of resources, and increased foreign direct investment (FDI). Additionally, its experiences over the past 50 years have laid the foundation for more efficient action and response to the changing global economy (Pastor 2001:33). The EU's economic integration can serve as a model for positive change and community building. Its lessons will inform both its future enlargement and the evolution of other PTAs worldwide.

Economic Performance

The EU has demonstrated significant economic growth and trade creation, especially from 1990 onward. From 1988 to 1997, exports of goods and services increased from 26.8 percent to 31.73 percent of EU GDP. Imports also experienced an approximate 3 percent increase. Andrés Rodríguez-Pose identifies these increases as “a greater level of trade creation in absolute terms than in any other developed area of the world.” Additionally, relative trade creation was significantly higher during this period in EU countries than in their non-EU neighbors – such as Norway and Switzerland (Rodríguez-Pose 2002:21). In 2002, the EU enjoyed a trade and current account surplus of around .6 percent of its GDP (Wolf 2002:48). After being initially undervalued against the Dollar, the Euro, introduced in 1999, has been strengthening against the Dollar for the better part of 2003 and into 2004. The EU experienced a

similar technological boom to that of the US throughout the 1990s, attracting increasing amounts of FDI and enhancing competition and deregulating government monopolies in, among others, the airline and railroad industry. Additionally, liberalization and freer trade challenged privatized power and telecommunications industries, resulting in lower prices for gas, electricity, and telecommunications (Gillingham 2003:453). The EU has developed into an economic bloc rivaling NAFTA. However, it still lacks certain critical economic bodies. John Gillingham emphasizes the lack of a European financial market, stating that this costs the EU approximately 1 percentage point of growth each year. He asserts that a single financial market (SFM) is a necessary component of a strong and competitive EU. The establishment of an SFM would increase even further the EU's economic integration, encouraging more competition and transparency. He also emphasizes that successful EU financial competitiveness in the long run will require that the pension program be privatized (Gillingham 2003:461). Yet creation of an SFM has been stymied by political disputes and a European banking system that is still unable to rival its international competitors. Finally, Gillingham asserts that, although the EU has suffered some economic setbacks in recent years, it should be able to recover with the implementation of new reforms and avoidance of new problems.

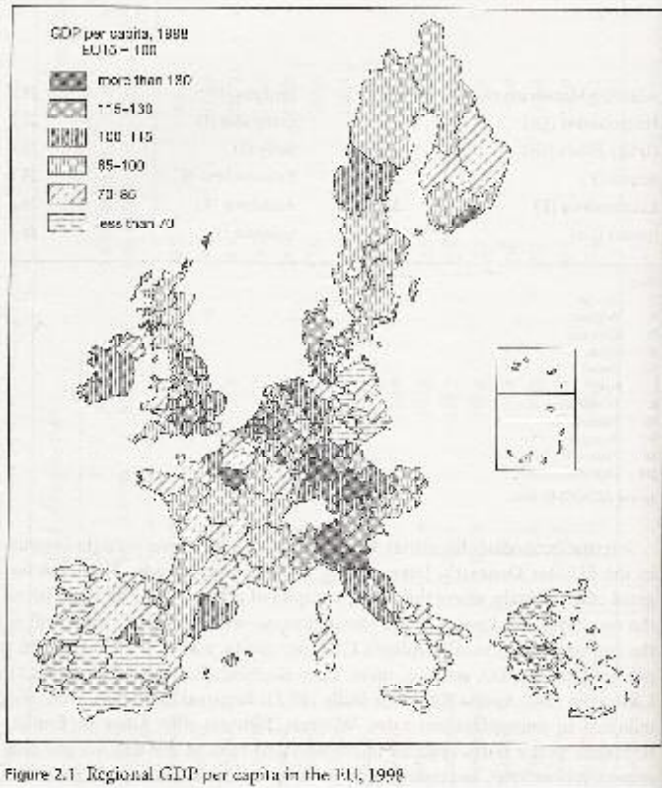
An issue which plagues the economic reputation of the EU and deserves mention in any discussion of its economic performance is its Common Agricultural Policy, or CAP. The EU, along with other developed nations, continues to contradict its commitment to free trade and anti-protectionist policies by upholding strong protectionist legislation in the interests of its local farmers. Currently, the CAP legislation on subsidies is under negotiation in preparation for enlargement, but it is unlikely that the CAP will ever be completely phased out of EU policy. The policy itself is a highly volatile political issue which has caused significant arguments

among WTO members, particularly between developed and developing countries. The implications and evolutions of the CAP will be an important measure by which the EU continues to be judged.

Rodríguez-Pose offers a closing opinion on economic progress in the EU throughout its process of integration. He highlights the heterogeneous nature of economic growth with EU countries, noting that some – Ireland, for example – have experienced extensive growth, while others, particularly in the traditionally powerful core of the EU – Germany and France – have not demonstrated such success (Rodríguez-Pose 2002:30). Overall, however, the impact of integration has been to stimulate competition, generate growth, and perhaps most importantly, create the foundations of a powerful economic bloc that will continue to grow and respond more efficiently and competitively to global economic challenges.

Integration and Inequality

The EU has, since its inception, dealt with income disparities and the challenges of integrating nations from a wide range of socio-economic development levels. In recent history, a pattern has been visible as each country has been identified either as a “core” country - Austria, Belgium, Denmark, Finland, France, Germany, the Netherlands, Luxembourg, Sweden and the UK – or a peripheral country – Greece, Ireland, Portugal, and Spain. Italy has continuously fallen into the margin (Rodríguez-Pose 2002:35). These designations were decided by comparative levels of GDP, but countries in the core category are also more advanced technologically and have experienced better growth statistics, including unemployment rate and productivity levels, than those in the periphery. However, this pattern is beginning to change. And with it, regional disparities seem to be increasing. The figure below illustrates regional GDP per capita across the EU in 1998 (Rodríguez-Pose 2002:38).



The growth in regional disparities can be attributed to the faster development of certain areas as they take advantage of the increasing resources provided by the processes of integration and globalization. The EU has attempted to combat this occurrence by the creation of the European Cohesion and Structural Funds and subsequent investment in infrastructure, particularly in the peripheral areas. But the map demonstrates that disparities are occurring not only in the poorer countries but also, and increasingly, in core countries such as Germany and the UK. One reason for this is unequal investment in technology and telecommunications networks, which are vital to success in today's interconnected world.

Today the EU is on the verge of a significant enlargement that will make it even more powerful as a regional entity. The challenges of enlargement will force the EU to reevaluate its current institutions and regulations, reformatting them to encompass a sphere of more diverse

nations, many of which are still struggling to overcome the economic destruction of the Cold War, and do not share the historical tradition of Western Europe. The population of the applicant nations nearly equals that of the current EU (Rodríguez-Pose 2002:2). Enlargement will require extensive economic, political, and social consideration. In order to address the enlargement and the problem of income disparity, the EU has included in its Treaty the objective of social and economic cohesion policies. The importance of an intensive consideration of these challenges is demonstrated by the fact that there are currently 170 regional groups represented in Brussels seeking legislation that benefits their needs and belief (Mulvey). The conviction that the EU must economically and politically assist the lagging members (and applicants) to bring their nations to acceptable performance levels has led to the establishment of this cohesion fund and the expansion of regional policies. However, this may not prove to be enough to combat the significant disparities which exist, especially in some of the Eastern European nations.

The Central and Eastern European nations which stand poised to enter the EU, commonly referred to as the CEECs (Central and Eastern European Countries), have been preparing for accession for many years already. Fortunately, many of the improvements that they seek in order to gain membership have also been targeted as development goals since the fall of the USSR. Yet the CEECs are particularly plagued with income disparities and can be divided among themselves as comparative winners and losers. As discussed by World Bank economist Helena Tang, the process of competition that has permeated the recent years of preparation and economic development has situated the more open economies in an advantageous position. These “winners” include the Baltic states, the Czech Republic, Hungary, Poland, the Slovak Republic, and Slovenia (Tang 2000:4). While the economic situation in these states is far from perfect, they have reached levels of economic development and competitive behavior that will

facilitate entry into the EU. Conversely, Romania and Bulgaria, due to more difficult adjustments to independence and poor domestic economic policies, will require more EU assistance in the transition. The Economic Policy Institute and the Center for the Study of Democracy anticipate that the sudden exposure to the competitive markets of the EU will prove quite challenging to these countries as they undertake restructuring policies concurrently with integration policies (Tang 2000:5).

However, offsetting the difficulties that the nations may face in the integration process are the benefits that consumers will receive as competition leads to lower prices and better products. An increase in tourism is expected as integration facilitates travel, and this will likely provide an economic boon to the CEECs. Tourism also exemplifies the problem of economic development leading to income disparities. It is likely that the main tourist destinations, and those that will reap the benefits of increased revenue, will be the urban and cultural centers which are already comparatively wealthy. The poorer hamlets and inaccessible villages are unlikely to draw either visitors or significant amounts of money. However, clever marketing could spur visitor interest in seeing the parts of the country that still live under the shadow of the communist legacy or evoke the traditional spirit and character of the particular country. As is always the case, liberalization will provide both threats and opportunities. It will be critical for the EU to closely monitor the development of these nations, both winners and losers, as they begin to integrate into the greater economic body, and to continue to combat disparities, both with the existing structural funds and with nuanced policies that will best benefit each nation's individual struggles.

Although the EU faces certain future challenges as it looks to the east, its experience over the past few decades can inform other PTAs as they grapple with issues of enlargement and

disparities. Robert Pastor of the Institute for International Economics (IIE) discusses some lessons from the EU that may be particularly useful to other PTAs when determining optimal social assistance programs:

1. A declaration of goals: PTAs which hope to create more integrated communities must begin with a clear mission statement.
2. Limiting institutions: Pastor maintains that the EU developed permanent supranational institutions in excess, leading to duplication of mission or funding. Accordingly, PTAs must create their supranational institutions as temporary bodies until their need is appropriately confirmed.
3. Convergence and conditionality: PTAs must consider income gaps among member (or applicant) countries and develop an appropriate bundle of aid and investment programs to assist the poorer countries in their efforts to achieve equal standing. Government policy must also regulate the use of such resources.
4. The best projects for regional assistance: The EU has funded myriad projects, but has found the most efficient uses of funding to be projects developing infrastructure and higher-level education.
5. Emigration: The EU's success in reducing income gaps has led to a corresponding decrease in emigration from poorer to richer countries. This may be a powerful incentive for other PTAs to address disparity problems.
6. Reducing volatility: Pastor found that poorer countries experience higher peaks and lower troughs than richer countries during booms and recessions. The

richer countries of the PTAs must recognize the unique vulnerabilities of poorer countries and attempt to counteract such volatility.

7. Growing inequality within the “successful” poor countries: the EU experience showed that the poorer regions of the poorer countries can be left behind as the more prosperous regions experience more rapid development. Policies must address and seek to remedy these inequalities.
8. Funds for the affluent and gaps among regions: a disproportional amount of EU aid went to the poorer regions of more prosperous countries rather than all regions of the poorer nations. There must be ways to spread aid funding more equally to those who more desperately need it.
9. The benefits and pitfalls of politics and bureaucracy: The EU, with 15 nations, demanded a large bureaucracy. However, many people felt that this impeded the democratic nature of the system. Much fine-tuning is needed to strike an appropriate balance.
10. The magnitude of the commitment: Significant funding and absolute dedication are required to make any such integration program successful. The EU was particularly dedicated to reducing disparities across its member nations, which has proven vital to the continued success of the integration policies and the health of the EU (Pastor 2001:59).

These steps offer a perspective on the prior experience of the EU and the attitude with which it approaches its pending enlargement. As other PTAs look to deepen levels of integration, the EU will continue to serve as a successful example. However, the EU must continue to look forward and must cautiously consider its next steps as it becomes an increasingly influential world body.

The North American Free Trade Agreement

Origins

The North American Free Trade Agreement was created in the early 1990s between the governments of the United States, Canada, and Mexico as a means to eliminate barriers to trade, increase competition and investment, protect intellectual property rights, and create a foundation for further multilateral cooperation between the member nations.⁴ NAFTA was proposed by the president of Mexico, Carlos Salinas. In contrast to the driving forces behind the EU, the NAFTA members did not seek to create an economic body to avoid future conflict; rather, the body was inspired by the desire to decrease a history of asymmetrical economic performance and inequality across the North American continent. When the agreement was first proposed, the US GDP was nearly 20 times larger than that of Mexico and 10 times larger than that of Canada (Pastor 2001:63). Both Mexico and Canada were originally wary of entering into a PTA, fearing that their smaller economic size and productivity levels would result in a smaller voice and influence within the body. However, as world integration and PTAs became increasingly common, Mexico and Canada realized that without an agreement with the United States, their economies would continue to falter. The US and Canada signed a preliminary trade agreement in 1988, which was later expanded to include Mexico. The NAFTA and was signed in 1992 and came into full effect on January 1, 1994.⁵

Economic Performance

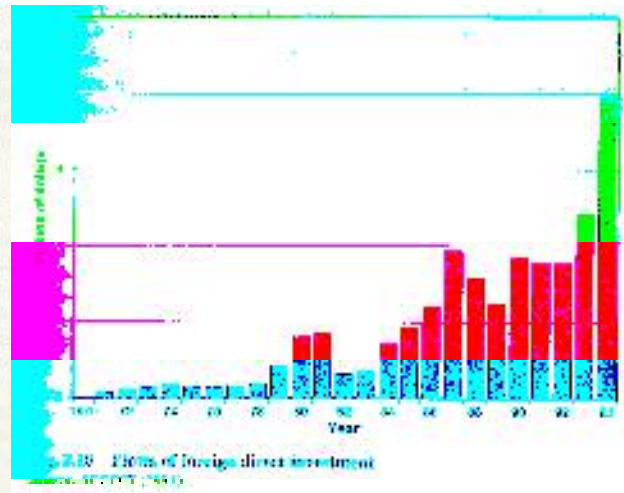
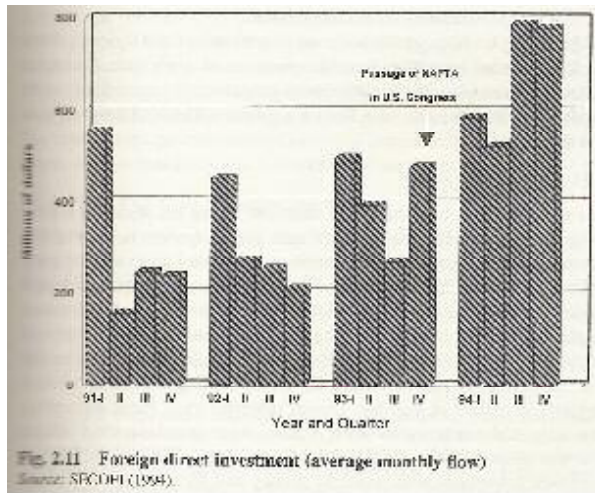
Since the implementation of the agreement, NAFTA's member nations have demonstrated strong evidence of trade creation. Mexico suffered an early but temporary setback in the 1995 peso crisis. Some economists assert that the peso crisis was facilitated by NAFTA's

encouragement of foreign investment, but the Office of the US Trade Representative argues that NAFTA actually helped Mexico recover more rapidly than it otherwise would have (Pastor 2001:67). A previous debt crisis, in 1982, pushed Mexico into a five-year recession, but it took only about a year to regain the ground lost during the peso crisis (Fishlow and DeSouza 2000:101). To date, NAFTA has achieved many of its stated objectives, and has generally performed in accordance with trade creation theory. Enhanced competition has been stimulated within the member countries. Barriers to trade have been significantly reduced: from 1993 to 1999 Mexico's tariffs fell from 10 percent to 2 percent, and non-tariff barriers had been eliminated. Nearly all goods traded by the US and Canada are completely duty-free. The one remaining challenge to tariff and non-tariff barriers is in the area of agricultural products, which bears a free trade deadline of 2008 (Pastor 2001:68). As in the EU, the agricultural tariff issue has proved problematic for NAFTA. Trade and investment also showed tremendous increase in the wake of the NAFTA policies: exports among the three countries between 1990 and 1999 increased by nearly 11 percent. The International Trade Commission certified that there was a "strong, statistical link between the increase in bilateral trade between the United States and Mexico and the implementation of NAFTA. (Pastor 2001:69)" Trade between the US and Canada, and between Canada and Mexico, also doubled (Fishlow and DeSouza2000: 102). Canada's Department of Foreign Affairs and International Trade stated that this growth in trade was due predominately to the trade liberalization created by the FTA and then NAFTA. The sectors liberalized by the trade agreements experienced rapid growth, and Canada was able to begin exporting manufactured goods rather than raw materials. The three member nations experienced a similar shift in production as NAFTA enabled them to import what they had

previously (and often inefficiently) produced domestically. Trade growth among the three countries was predominately intrafirm and intraindustry (Pastor 2001:70).

Perhaps the most publicly discussed economic issue of NAFTA is that of jobs. The impact of NAFTA on jobs was the focus of a heated debate in the US Presidential Campaigns of 1992. Candidate Ross Perot's prediction of a "giant sucking sound" as jobs fled the US for lower-wage Mexican workers deterred many in the US from the agreement. Yet studies by the US Department of Labor and by UCLA showed that, although about 70,000 US jobs were lost to Mexico and Canada between 1993 and 1999, more than 20 million jobs were created in their place (Pastor 2001:69).

Another important way to measure the success of a PTA is its impact on foreign direct investment (FDI). The statistics of FDI also indicate that NAFTA has created positive, rather than negative, effects on the member countries. FDI in Mexico nearly tripled in the 1990s, but this was not wholly due to increased American or Canadian FDI: in fact, the percentage of FDI that was American actually decreased, indicating an increased world interest in investing in Mexico (Pastor 2001:70). The graphs below show the increase of FDI to Mexico through the year that NAFTA was implemented. Although they do not illustrate more recent FDI behavior, one can observe the increasing trend that was accentuated by the creation of the PTA (Tornell 1997:41).



Canada also experienced positive FDI development. NAFTA stimulated new investments in many sectors, but also prompted diversification of investment, particularly by the Americans, whose investment share in Canadian petroleum and mining actually declined. Annual FDI in Canada doubled from 1993 to 1998, bringing with it significant investment in new technology and increases in productivity. Canadian FDI also increased exponentially. Canadian FDI in the US experienced an annual growth rate of nearly 11 percent, and total Canadian FDI worldwide tripled by 1998 (Pastor 2001:71).

NAFTA has succeeded in increasing the competitiveness of each member nation as well as of the corporations which operate across national borders within the PTA. The agreement has allowed North America to become increasingly integrated, and global economic success has followed accordingly. An analysis by Stephen Blank and Jerry Haar of the performance of transnational corporations (TNCs) operating in the three countries reports that “NAFTA intensified trends already underway toward the development of continental-wide strategies and the creation of North American production, marketing, and sourcing networks (Pastor 2001:73).” The countries of NAFTA now find themselves in a similar economic position to the EU, operating as

a powerful trading bloc, and facing the challenge of whether to follow the European example into political integration.

Integration and Inequality

The countries of NAFTA face a two-fold challenge of income disparities. To begin with, the United States is significantly more powerful and endowed with more economic resources than either of its partner nations. Secondly, the acceleration of economic growth due to NAFTA seems to have accentuated the problems of regional income disparities, particularly in Mexico. This section of the paper will evaluate the presence of disparities and the actions taken by NAFTA to combat them.

The contrast between income levels in the US and Mexico is so great that it would take Mexico at least 50 years to reach current US levels of income (Reyes 1999:169). Canada is considerably more advanced than Mexico, but still does not equal the United States for resources or global voice. To a certain degree, the investment and development spurred by NAFTA has decreased some of this inequity, but the countries are far from reaching an equal playing field. The problem with NAFTA is that the PTA was designed to reduce barriers to trade and promote competition, not to address and reduce social welfare problems. However in recent years pressure has been applied, notably by the US Congress, for NAFTA to expand its sphere of influence and “address issues like transition measures, wage disparity, environmental protection, and worker rights. (Reyes 1999:169)” Yet even legislation on these issues does not immediately make available the necessary resources to combat the overwhelming problems. If NAFTA seeks to increase its efficiency and utility, it will need to develop a way to meaningfully address the problem of disparities across nations and guarantee a louder voice to Mexico and Canada.

The problems of income disparity are even more acute when examined within regions of the NAFTA countries. Canada and the United States share a legacy of racial and ethnic discrimination that underline a present-day socio-economic split. Poverty, education, and opportunity have traditionally been decided by heritage, race, and geography. Mexico has even greater internal disparity problems. In the mid-1990s the average income of the wealthiest 10 percent of the population was 36 times higher than that of the poorest 10 percent (Reyes 1999:166). In the aftermath of the development boom prompted by NAFTA, this disparity has taken on increasingly geographical attributes. Although the northern areas of Mexico, particularly lining the US-Mexico border, have always been moderately more industrialized, recent growth has just served to increase this split in society. Gordon Hanson examines the impact of NAFTA on wages in Mexico and finds that workers with “relatively high skills living in regions with relatively good access to foreign markets” have fared well under NAFTA. Wage growth follows FDI, access to trade, and proximity to the US (Hanson 2003:28). The southern regions of Mexico, particularly those untouched by the tourism trade, and predominately populated by Indian groups, are still rural and undeveloped, with the accompanying unemployment and lack of appropriate education and health facilities (Reyes 1999:166). The poverty and unsatisfactory economic situation in these regions is increasingly troublesome as it feeds political and social unrest, exemplified by the Zapatista movement from Chiapas. Without a prompt response from Mexico and the NAFTA community, this unrest could continue to escalate and support dangerous social schisms.

NAFTA finds itself at a crossroads as it considers future expansion, either economically into FTAA or politically into a greater integrated unit. So far, it has defined itself as a purely economic body, leaving political and social issues to national sovereignty. However, it may no

longer be able to partition its interests in such a way without experiencing a significant economic backlash. Action is needed, but it remains to be seen just how it will evolve.

Chapter III: Political and Cultural Concepts and Theories

Many economic and political theorists state that while PTAs are usually created out of economic interest, they frequently lead to enhanced political and cultural understanding. This potential for building relationships based on economic and trade policies must be examined as a significant outcome of increasingly popular PTAs. Robert Keohane and Joseph Nye explore this idea, which they define as “social globalism,” in their article *Governance in a Globalizing World*, as a force that follows economic globalism:

Ideas and information and people follow armies and economic flows, and in so doing, transform societies and markets. At its most profound level, social globalism affects the consciousness of individuals and their attitudes toward culture, politics, and personal identity. Indeed, social and cultural globalism interacts with other types of globalism, since military and environmental, as well as economic, activity convey information and generate ideas, which may then flow across geographical and political boundaries (Keohane and Nye 2000:196).

PTAs are sometimes even created out of a desire to develop political cohesion, rather than economic cohesion, among member nations. Yet regardless of the initial motivation for forming the PTA, as more agreements take shape, increasing accounts of positive repercussions can be observed. This chapter will discuss the political and cultural developments which can emerge from PTAs. There are three main areas in which these developments have predominately occurred: national security, political relationships, and migration and cultural awareness. Schiff and Winters (2003) discuss the various public goods which may result from a PTA, with an emphasis on national security, peace, and development aid. Close and continuous contact between political leaders of member states with a focus on economic cooperation can create synergies that will generate positive future relationships. PTAs also increasingly serve as a tool for managing migration issues that come along with expansion of free trade areas. Finally, PTAs

can impact the citizens of member nations by allowing them to gain access to cultures that are different than their own, and by doing so to learn to understand and appreciate those who are different. PTAs simply serve as the starting point from which such relationships can be built.

National Security

National security is often both a motivating force and a frequent result of PTAs. Schiff and Winters make three arguments for the interrelated concerns of trade and security. First, increased trade will create economic interdependence among the member nations. This will make political conflict, and particularly war, ill-advised, as it would seriously threaten the economic stability of the member nations. The increased trade volume means that business communities will be in a position to make their voices heard and influence the outcome of disputes between nations. Also, the resulting closer contact and more frequent exchange of goods and services across borders can generate more cultural awareness among the peoples of the nations, including better understanding of their customs and institutions. This will likely lead to greater stability. Finally, nations will have more secure access to the goods and raw materials they require for economic success, and interdependence will reduce the likelihood of trade embargoes as efficient tools of protest (Schiff and Winters 2003:190). All of these positive externalities of PTAs will have independent positive downstream effects on integration efforts; collectively, they enhance the national security situation of the member nations.

PTAs will require member nations to solve their problems diplomatically and politically in ways which do not sabotage their economic interdependence and stability. In the long run, increased trust may lead to additional social welfare increases as the possibility of violent conflict decreases. Schiff and Winters envision a virtuous cycle of increased trade leading to enhanced integration and understanding, which in turn would facilitate further trade

liberalization and growth. This cycle is an ideal for many PTAs currently in existence or planning stages. It has been practically observed in the creation of ASEAN, APEC, and CACM, all of which were created to defuse potential military conflict as well as generate economic success. The case of MERCOSUR is another example of economic diplomacy: Argentina and Brazil developed the PTA in order to reduce tensions between them and strengthen their democratic institutions. Rubens Ricupero, the secretary-general of the UN Conference on Trade and Development (UNCTAD) and the former finance minister of Brazil, stated: “it was essential to start with agreements in the economic area in order to create a more positive external environment that rendered it possible to contain the military nuclear programs and to replace rivalry by integration (Schiff and Winters 2003:193).” Eventually, this led to the creation of MERCOSUR and its expansion to include Paraguay and Uruguay, and has allowed the PTA to become an effective bargaining bloc in the hemisphere.

Another potential impact of PTAs is the creation of partnerships in which certain rules are enforced and certain regulations expected. The EU is such an example: potential as well as existing members are required to meet particular economic expectations. If expectations are not met, membership will be denied or appropriate punishment will ensue. The partnerships also allow pressure to be applied in the political arena. For example, applicant nations may be required to demonstrate progress in raising literacy rates or voter education prior to admittance to the PTA. Such arrangements are especially common when one country dominates the trading agreement, either by size, population, level of development, or level of world influence. Accordingly, PTAs consisting of developed and developing nations often find themselves in such a situation. This situation creates both benefits and challenges, particularly for the developing nation: they will be able to take advantage of the experience and resources of a

developed country, but they may also struggle in attempts to comply with all of the standards required. Schiff and Winters also state that the relative situations of the PTA partners can have an impact on the effectiveness of the PTA as a tool for heightened security, emphasizing that significantly unbalanced partners may not share the same commitment to security (Schiff and Winters 2003:188).

Synergies between political leadership

Just as close and continuous contact between member nations can increase economic efficiency, PTAs can also lead to efficient diplomatic relations and synergies between political leaders. The implementation of a PTA is an intensive and complex process, requiring repeated negotiations and generating progressively deeper levels of trust. Robert Keohane quotes Robert Putnam on the positive political externalities of “networks of civic engagement” such as those inspired by PTAs. Putnam states that these networks will produce better governments because they facilitate continued contact between nations, thereby creating the possibility of anticipating each others’ actions. Additionally, such continual contact fosters relationships that would be severely damaged if not ruined by a decision by one partner to act in an unacceptable way (Keohane 2000:258). The threat to not only diplomatic relations, but also economic stability, which is more intensively felt by the citizens of a nation, can be a powerful motivation for cooperation or at least extended attempts for compliance. The possibility of work strikes and labor protests, not to mention the loss of FDI and investor confidence, can encourage a leader to closely consider all options before severing economic or diplomatic ties. Relationships between political leaders of member nations of PTAs are visible in many parts of the world, and as these relationships strengthen, so will the possibilities of constructive cooperation.

Migration and Cultural Awareness

The creation of a PTA often includes the elimination of barriers to free movement of human capital within the region. As a result, citizens of member nations often find themselves migrating to a nation where their skills are needed and more lucrative. This migration, which allocates human resources in the most efficient way, also serves to create enhanced cultural diversity among the peoples of the member nations. As a result, citizens of each nation are increasingly exposed to different cultures and customs. With this process comes a heightened awareness of the external world. Often this aspect of PTAs presents difficulties, especially in the early stages, as citizens of different cultures can be hostile to each other. However, over time, this hostility tends to fade and positive results of the merging cultures become visible. Continued exposure tends to bring acceptance. The case of Turkey and its migration issues in light of the EU will be examined later in the paper.

PTAs also help to stem migration after it has exceeded its utility. While a certain amount of migration is to be expected as barriers fall, PTAs seek to enhance the economic situation in ALL member countries, ideally maintaining an ideal mix of skilled and unskilled workers in each economy to produce according to that economy's comparative advantage. A successful PTA will defuse the problem of the "brain drain," in which the talented individuals of a developing country flee to a more advanced nation in order to pursue their interests and make positive contributions. PTAs strive to avoid this segmentation of society, as it has significant negative long-term consequences for the developing country and can contribute to the problem of income and development disparities among member nations.

The prevalence of PTAs as common economic models throughout the world lends credence to the idea that PTAs can be useful tools to create multilateral understanding even

where there is no common political or cultural ideology among nations. In the post-Communist world, nations of all religions and cultural backgrounds can agree that trade liberalization and integration will best serve their economic interests. Even China, a significant Communist hold-out, has recently taken steps in this direction with its addition to the WTO and relaxation of economic policies. While many nations and NGOs criticize China for its human rights record, the ability to deepen economic cooperation and the adherence of the Chinese to liberalized trade policies bodes well for future discussion and progress in the areas of human rights conflict. The Southeast Asian nations have also experienced a developing regional consciousness as their economies have developed and struggled together. The recent Asian crisis has provided a common challenge from which the nations have emerged as a more united body (Stubbs 2000: 232). Shared economic interest has powerful implications.

These shared economic opinions may prove critical as nations confront seemingly impassible conflicts of belief, as has been increasingly observed in the growing schisms between the West and the Islamic world. This ideological conflict seems to be growing as Islamic nations are tending to embrace more militant expressions of faith in government, while the West increasingly secularizes its politics and policies. Many economic agreements already exist between Western nations and the Middle East. The United States maintains Trade and Investment Framework Agreements (TIFAs) with its predominant allies in the region, namely Qatar, the United Arab Emirates, Kuwait, Yemen, Saudi Arabia, Bahrain, and Algeria. The United States also has an Agreement in Trade on Agricultural Products with Israel and a Free Trade Agreement with Jordan.⁶ The text of the TIFAs emphasizes the desire to increase friendly relations and trade volume, and to create an “open and predictable environment for international trade and investment.”⁷ The agreements are in fact motivated by both economic interests –

predominately oil supply– and security interests, as the West feels it necessary to maintain some presence in the area. Although they have not yet reached the level of full integration, the agreements have enhanced the stability of relations with important partners in the Middle East, while the most troublesome nations, Iraq and Iran, have not developed substantial economic partnerships with Western nations. It is important to note that economic partnerships in the Middle East have not served as a simple remedy to the many conflicts of belief and interest that currently exist between the region and the West. The fact that many of the September 11, 2001 hijackers were actually from Saudi Arabia, traditionally considered a strong US ally, demonstrates that economic relations among nations do not guarantee peaceful cohabitation. However, the existence of the economic agreements is a significant step that proves the ability of these diverse nations to reach consensus and work together in a constructive manner.

The potential of PTAs to generate significant political and cultural bonds is one of the most powerful side effects that stem from the implementation of trade liberalizing agreements. The impact of PTAs as a political and cultural force is visible throughout the world.

Chapter IV: Political and Cultural Concepts and Theories: Case Studies

The European Union

The EU began as an economic agreement motivated by strong political interests. John Monnet, one of the creators of the EEC, argued that without the creation of a “European entity that results in a common economic unit” the continent would once again be plunged into the fear that generated their history of destructive wars (Schiff and Winters 2003:189). The Coal and Steel Union (ECSC) was meant to reduce the possibility of future wars between France and Germany by integrating their economies to the point that such war would cause significant harm to industry and economy. The Paris Treaty, which established the ECSC, included language declaring that it was “resolved to substitute for age-old rivalries the merging of their [France and Germany’s] essential interests, and to create, by establishing an economic community, the basis for a broader and deeper community among peoples long divided by bloody conflicts. (Schiff and Winters 2003:189)” Thus the initial impetus for integration was both economic and security-based. As the union has progressed, these two aspects of international cooperation have continued to define priorities for both individual nations and the EU as an entity.

The political developments in the EU have followed in the wake of economic agreements: “As the EU’s integration has deepened, decision-making has increasingly moved away from national capitals to Brussels, and much of the current debate is shaped by the belief that some form of political unification must eventually follow the creation of an integrated economic unit (Schiff and Winters 2003:202).” The EU has demonstrated success in the creation of supranational bodies such as the European Commission, the European Parliament, the Council of the European Union, the Court of Justice, and the Court of Auditors, and several other Banks

and Committees.⁸ These bodies govern the actions of member nations, are composed of representatives from across the EU, and share duties with the national governmental bodies of each nation. In this way the EU has created a common European voice to speak on issues of trade, migration, justice, and foreign affairs, while maintaining a respect for national determination on many social issues. The formation of these bodies has been beneficial both in facilitating the management of the EU and in developing significant relationships among leaders: “The most striking phenomenon of formal European integration has been the interpenetration of national administrations, with ministers and officials from different governments in close and continuous contact (Wallace 1994:4).”

This system of gradual integration and merging of leadership has allowed the citizens of the EU to develop a dual identity, such as German and European, without seeing such an identity as contradictory. The gradual progression of the EU from a purely economic body to a socio-politically integrated community has provided the necessary space and time for its citizens to adapt to this new way of placing themselves within the greater global environment. And, importantly, it is a living process that continues to unfold as the EU seeks further political cohesion. The experience of the EU to date seems to support the theory that regional economic entities may prove to be a solid foundation for political cooperation. However, the validity of this theory will be challenged in a new way as the EU looks towards its future.

The European Council has declared a number of conditions which any member applicant must meet in order to be eligible for admittance to the EU. While many of these conditions are economic, some critical political criteria also exist. These lay the groundwork for further development of intercultural understanding and peaceful relations among the member countries. The existence of these criteria also works as a stimulus to the incoming nation to propel them

along the path to economic, political, and social transformation (Borrás-Alomar 1999:153). In order to join the EU, the candidate must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities (Stankovsky 1998:119).” Once a candidate has been admitted, certain commonalities are then understood, making negotiations and discussions that much easier. Just as native English speakers may understand each other better than a native and a student of the language, nations which share the common idea of a “European-ness” will be able to bypass certain formalities and instigate higher-level cooperation. This is a significant step in the creation of identities which will uphold the ongoing integration of the EU and will be increasingly important as the EU faces challenges as a united entity. As Ben Rosamond (2002) states;

The globalization of markets and the individualization of behavior, which typified the eighties and nineties, have led in turn to the need for a cultural identity, a desire to belong to a community. This will have a variety of implications for the legitimization of the European project: ‘national identities’ are of such long standing that the more recent ‘European awareness’ will tend to be more fragile; on the other hand, this awareness will be reinforced when confronted by the clear international challenges and the cultural singularities claimed by the major regions of the world. (Rosamond 2002:163)

The experience of the EU is an ongoing project of growing cultural awareness and integration of different peoples. The historically defined identities of the European nations, solidified by centuries of wars, national pride, and individual languages, are starting to take a backseat to the emerging “melting pot” of Europe that includes not only a mix of original European citizens but also an increasing immigrant population. The EU has, through legislation and creation of supra-national bodies, both encouraged the development of a European identity and contributed to the greater diversity of peoples within European borders. As the EU prepares for a significant enlargement the resulting migration and mixing of cultures will become even

more intense. The cases of the formerly Communist Eastern European nations and of Turkey are particularly enlightening, and demonstrate the abilities and limitations of economic agreements to create the foundations for political and social integration.

The Eastern and Central European nations seeking accession to the EU have overcome significant economic obstacles in order to apply for membership. Yet the most important impact that these nations may have is on the developing EU identity and its creation of social legislation. As nations still living with the shadow of the Cold War, the CEECs have experienced a dramatically different cultural and political development. The experience of groups such as Polish Solidarity and other underground protest organizations during the Communist occupation have imbued the people with a passion for political responsibility and democratic methods. As well, the CEECs have strong opinions on human rights issues and dictatorial regimes, having experienced firsthand, and recently, significant abuses. It is perhaps for this reason that the recent debate over whether to attack Iraq's Saddam Hussein found considerably more support in the CEECs, and particularly Poland, than in the Western European nations. Yet the historical differences do not dissuade the CEECs from membership. To the contrary, the prospect of becoming part of the EU is clearly where CEECs feel their future lies. Nations from East and Central Europe see their identity as increasingly tied to that of the EU. Approximately 50% of Slovenians, Poles, Slovaks, and Hungarians assert that the futures of their nations are most closely linked to the European Union (Stankovsky 1998: 183). The CEECs will bring critical new voices to political debates, deepening the perspective of the EU and making it a stronger global entity.

The experience of Turkey vis-à-vis the EU is an excellent example of how economic integration can lead to cultural understanding. Turkey, formerly the Ottoman Empire, has a long

history of involvement in European affairs. Situated along many of the ancient and current-day trade routes, at the gateway to both Europe and the Middle East, Turkey has historically been an economically important link and a mix of cultural influences. However, its recent experience with the EU has served to generate increasing economic ties to Western Europe and to facilitate intercultural communication between the peoples of the EU and Turkey. Although the relationship is by no means perfect, and new challenges have presented themselves in light of renewed religious fervor and struggles in the Arab world, the case of Turkey is still educational. Despite significant cultural differences, the economic relationship has provided the foundation for an enhanced exchange that holds promise for future stability in the region.

Turkey is a nation unlike any other. It is the only secular Muslim democracy with a market economy. While it may seem impossible for a country to be both secular and Muslim, Turkey fits this narrow definition by avoiding strict Islamic law but containing a population that is almost entirely Muslim. Turkey has deftly maneuvered the sticky politics of the Arab world by positioning itself as a European nation, and as a cousin, but not a brother, of the nations of the Middle East. This distinction endows Turkey with a sense of isolation but also a sense of possibility, as it has the unique opportunity to act as a mediator between two very different regions of the world (Muftuler-Bac 1997:14).

Turkey first applied for membership in the then-European Community (EC) in 1959. Having attentively developed its economy according to western standards, Turkey was hopeful of an acceptance. However, the Council of Ministers, particularly concerned about cultural (i.e. religious) differences, denied Turkey membership at that time. Finally in 1963 with the signing of the Ankara Treaty an Association Agreement was created, calling for further improvement of the Turkish economy and eventual full membership in the EC (Muftuler-Bac 1997:53). This

agreement led Turkey to develop its economy, but it also resulted in a wave of Turkish immigrants to Europe. These immigrants would prove to be instrumental in beginning an exchange of culture, primarily flowing from Europe to Turkey, but also visible in Europe as the Turkish culture was suddenly thousands of miles closer to the everyday lives of Europeans. Turks were eager to accept and inculcate European ways of life. Muftuler-Bac's study claims that "this receptiveness to European norms came as a result of a large network of transactions between Turkey and Europe, leading to interdependence in matters such as the exchange of workers, tourism, and the flow of capital and goods (Muftuler-Bac 1997:19)." Remittances by family members working in Europe aided Turkey's economy and balance of payments. Visitors returning from Europe detailed their experiences with Western culture and ideology, and the education and skills learned while in Europe helped Turkey's process of industrialization. All of these experiences helped to strengthen the relationship between Turkish citizens and Europeans, and to encourage Turkey to pursue even more ardently membership in the EU.

Today Turkey is still a case on the sidelines. It struggles to be seen as a European nation, and continues to strive for full membership in the EU. Despite the significant connections that have been built over the past few decades, the lack of a solid economic commitment underlies the political and cultural fractures between Turkey and Europe today. Neither entity has yet made the significant commitment required to propel political and cultural cooperation to the next level. Certain current events cast a shadow on the possible accession of Turkey in the immediate future. The revival of religious fundamentalism, currently linked most publicly with Islam, and the troubling factor of Turkey's antagonism towards the Kurds indicate that cultural divides are still strong. But Turkey continues to demonstrate a commitment to secular democracy and recognizes that it must address its human rights reputation as well as its economic stability in

order to gain full access to the West. Finally, the West is realizing that Turkey will play an important role in the future security of the European – Middle Eastern region. As Muftuler-Bac states, “European security requirements cannot be completely and credibly satisfied without Turkey’s participation, which is in many respects essential (Muftuler-Bac 1997:112).” Given these conditions, it is in the interest of the EU to increase its ties to Turkey, first economically, and then politically. The Euro-Turkish relationship will likely prove to be tremendously significant in the world of the future.

NAFTA

NAFTA has been created and maintained as a predominately economic entity, with few official ventures into the realm of political or cultural integration. However, despite the fact that such consequences may have been unintended by the political leadership that conceived of the PTA, NAFTA has in fact resulted in an increase in the level of cultural and political interpenetration between the member nations. The ramifications of these types of integration are still becoming clear. Because NAFTA does not seek political integration as one of its mandates, the authority does not yet exist to create supra-national authoritative bodies such as those of the EU. However, as NAFTA continues to deepen and the member nations consider a FTAA, political and cultural considerations will become increasingly important.

National security is one factor that will likely motivate NAFTA members to consider deepening their levels of political integration. The US-Mexico border has proven to be a security concern, particularly for the United States, as a weak point of entry both for black market trade and immigration and as a potential access point for terrorist cells. This concern for border security is nothing new, and NAFTA was implemented in part as a way to reduce social tensions

in the border region and decrease security concerns by increasing economic welfare in Mexico (Schiff and Winters 2003:197). However, as Mexico experiences significant economic development in the border regions, the area is becoming more critical to both member nations. The black market traffic, particularly of drugs and illegal immigrants, is also a troubling factor that inhibits progress in policy integration. The difficulty of enforcing legislation in these fields adds another complication to this process. However, the two nations recently signed the Smart Border Declaration, which will address the common challenges to the region, including both economic and political issues such as agriculture, migration, water and energy supply, and tourism.

The US-Canada border has also received heightened attention in the new millennium. In December of 2001, the US and Canada signed another Smart Border Declaration, similar to but independent of the US-Mexico agreement. This Declaration is a document which praises the history of cooperation between the nations in economic and public security and outlines new ways in which secure flows of goods and people could be more effectively managed, taking into consideration the new and urgent threats posed by terrorism.⁹ The quick and relatively easy drafting of this Declaration is a testimony to the close relationship between the two nations, a relationship that was significantly strengthened by the creation and implementation of NAFTA.

NAFTA has also been a source of significant democratic gains to its member nations, particularly Mexico. Both the United States and Canada have a strong history of democratic behavior, and while their trading relationship certainly strengthened the ability of the nations to cooperate and pursue democratic ideals, it is Mexico, the developing nation, that has had the most to gain from the positive political pressure applied by its democratic partners. NAFTA succeeded in impacting the politics as well as the economics of the member nations. Mexico

faced incentives for democratization and building social stability (Fishlow and DeSouza 2000:101). Mexico has had a history, like that of many Latin American nations, of questionable democratic practices. The Institutional Revolutionary Party (PRI), which had ruled Mexico since the time of its revolution, maintained tight control over elections. In the aftermath of NAFTA, electoral institutions such as the Federal Election Institute and the Electoral Court became more independent. In 1997, the PRI lost its Congressional majority for the first time in its history. The most surprising democratic triumph was the 2000 election of President Vicente Fox Quesada, of the Alliance for Change and the National Action Party, with a 6 percent victory over his PRI opponent (Pastor 2001:78). Many political and economic theorists argue that the economic liberalization of NAFTA was a major chink in the armor of the PRI. The economic prosperity and potential for significant investment was not compatible with an authoritarian political regime.

In the aftermath of the election of President Fox, enormous gains have been visible in political transparency and the cultivation of close relationships, particularly between Fox and US President George W. Bush. The leaders have met frequently to assert the importance of the bilateral relationship. President Bush has asserted that “the United States has no more important relationship in the world than the one we have with Mexico,” a statement that is increasingly true as economic, political, social, and cultural policies between the nations become ever more interdependent.¹⁰ If the members of NAFTA choose to actively pursue a more structured set of political integration policies, the relationships that have been developed and deepened during the phases of economic integration will prove instrumental in achieving this goal. A recent test of the political relationship between the NAFTA members was the United States’ campaign to attack Iraq’s Saddam Hussein and destroy his purported stashes of weapons of mass destruction.

Although no official political ties are included in the NAFTA arrangement, the years invested in building a relationship among the member nations made the reaction of both Canada and Mexico a critical evaluation of the impact of the PTA. Mexico and Canada have provided support to the mission by providing funding to humanitarian programs. Canada has provided limited military support to ongoing operations in the Gulf region. While neither Canada nor Mexico have been as outspoken of an ally as Great Britain or a member of the “Coalition of the Willing,” neither was overtly critical of the United States’ decision to take unilateral action, and both nations have provided support as the reconstruction period continues. The issue of the Iraq war has proved to be divisive, and the members of NAFTA have deftly maneuvered the politics of the issue to maintain close relations yet still voice their independent opinions.

Perhaps the most significant result of NAFTA for the citizens of each nation is the explosion in cultural awareness that has occurred, particularly between the United States and Mexico, since the trade agreement was put into effect. Mexican immigrants, both legal and illegal, have moved to the United States in record numbers. Spanish is approaching the level of a second national language for the United States, particularly in the Southwest and in major urban centers such as New York City and Miami. The state of California recently announced that white Americans of Anglo European descent have become a minority. Mexican culture has blended seamlessly with American culture, demonstrated by the successful advertising jingle “Yo quiero Taco Bell” and the popularity of Corona, which recently replaced Heineken as the most imported beer to the United States (Pastor 2001: 73). Mexico is an increasingly popular and accessible vacation destination, and university exchanges between the nations continue to rise. Mexican popular culture has also impacted the American entertainment scene, leading to an explosion in the popularity of Spanish-language music and movies. This cultural exchange has gone both

ways, with American movies and music pervading Mexican radios and movie theaters, and Levis and McDonalds visible throughout the North American continent.

The main challenge posed by NAFTA to the relationship between the US and Mexico is that of illegal immigration. Presidents Bush and Fox had approached a significant agreement on immigration, including the appropriate treatment of illegal immigrants who had been living in the United States for many years, but this particular agreement was derailed by the events and follow-up to September 11, 2001. However, the issue of immigration is an urgent and continuing priority that the nations must address in the interest of security and economic and political progress.

Canada and the United States are also experiencing a cultural interchange, although it is generally lower-profile than that between the US and Mexico, perhaps because the nations share a longer history of cooperation and speak the same language. An example of enhanced cultural exchange includes the rapidly growing number of American students who choose to pursue their undergraduate studies in Canada. According to the Canadian Embassy in Washington, DC, in the past three years enrollment in Canadian colleges by American students has increased by 86 percent.¹¹ The attraction of studying in Canada is partially economic, as Canadian tuition is significantly lower than the cost of a private university education in the United States. Certainly, this increase in enrollment is influenced by the current rate of exchange between the two nations' currencies. However, the appeal of studying in an international system has always existed, and Canada continues to be an attractive destination, due in part to its close economic and political ties to the United States. Canada and the United States also share a rich intellectual heritage, with many celebrity figures and artists crossing the border to perform and create in both countries. Canadian artists such as Celine Dion, Shania Twain, Michael J. Fox, Alanis Morissette, and Dan

Aykroyd are equally well known in their home country and in the United States. The opportunities for increased cultural awareness and understanding of each neighbor have been enhanced by increased trade, and will likely continue to grow in the future.

The prospects for future enlargement of NAFTA to include the entire Western Hemisphere will present significant challenges to all potential member nations. Although the FTAA, like NAFTA, would begin as a purely economic agreement, the nations of the Americas are much more diverse in levels of economic and political development than the United States, Mexico, and Canada were at the time NAFTA was created. This diversity will complicate the process of negotiations and the amount of integration that will be possible. Specific allowances will have to be made to address the political situations that underlie economic problems in many regions.

Chapter V: Conclusions

This paper has investigated the economic, political, and cultural impacts of preferential trade agreements, finding them to be constructive and increasingly important contributors to the process of globalization. An in-depth examination of the European Union and the North American Free Trade Agreement has shown that these two PTAs have led to significant economic growth. Although neither PTA has experienced only positive results, the statistics indicating increases in FDI and diversification of production are especially compelling indicators of economic progress. The PTAs have set the stage for future economic integration, with discussions of the proposed FTAA intensifying. As this thesis goes to press, the EU has officially accepted its ten newest members, and the enlarged EU is looking to the future as an even more influential body. PTAs are increasingly addressing the underlying social issues that plague effective growth, designing policies to mediate income disparities and increasing regulation of product and process standards. By actively targeting these development concerns of trade integration, PTAs are uniquely poised to positively impact economic growth and liberalization policies. Due to their experience in brokering multinational trade and economic agreements, the leaders of PTA member nations have the necessary skills to provide support for political integration and cultural interchange. PTAs are in the position to have an even greater impact as all nations and non-state actors become more intricately involved in global affairs. The ability of PTAs to enhance levels of communication among nations and governments is likely to prove invaluable as the process of globalization continues. These multifaceted economic and political bodies are likely to develop increasingly powerful voices representing the diverse yet mutual interests of their specific part of the world.

Given the number and scale of PTAs currently in existence, the impact of PTAs will only increase. As the world considers its multilateral institutions such as the UN and WTO and seeks to find fresh multinational representative voices, PTAs will be able to provide unique perspectives, particularly on issues such as migration, trans-national security, economic justice, and cultural diplomacy. Nations may find PTAs less threatening as supra-national institutions, and certain commonalities of belief and method among all PTAs may allow for enhanced linkages and collaboration on the global scale. Additionally, the idea of small group accountability can create an environment of enhanced stability. This is increasingly important in a world threatened by potential economic meltdowns. Enhanced economic integration and standardization of expectations will likely reduce the probability of future economic crises. Just as NAFTA was able to provide a mediating force to the Mexican Peso crisis, it can be presumed that strong PTAs may be able to provide support in crisis situations. The Asian Financial Crisis, with its repercussions felt from Russia to Argentina, highlighted the interconnectivity of the international economic and financial system. I present the argument that PTAs can prevent such crises both by strengthening the foundation upon which global commerce is conducted and emphasizing the universal interest in preserving financial stability.

While the IMF and World Bank will continue to serve as emergency lenders in time of need, I suggest that PTAs will reduce the need for such insurance, particularly as further integration occurs between the developed and developing worlds. For example, The European Union carefully observes the economic situations of its member nations, and intercedes with policy or monetary aid if a member becomes troubled. The ability of a PTA to recognize and treat instabilities before they become emergencies is a significant strength of the economic partnerships.

Increasing the networks of accountable nations and trustworthy partnerships under the auspices of PTAs can also become a critical tool in the struggle against new threats of terrorism and rogue actors. The creation and deepening of political and cultural ties between PTA partner nations can create an environment hostile to violent opposition groups. This could have the potential to decrease the territory from which terrorist groups could strike and increase the consequences to nations that choose to support harmful activities. Just as many PTAs found their source in a hope to discourage additional war between nations, PTAs may be able to evolve into similarly effective barriers to terrorist activity. In the long run, as more nations become members of PTAs and experience economic and humanitarian benefits from the globalized free market system, many of the ideological roots of terrorism may slowly be eradicated. Gradual, positive exposure to liberal economic and political values can have a significant impact on young people who might otherwise grow into violent radicals, encouraging them instead to pursue more constructive means of personal fulfillment.

However, despite these promising potentialities of PTAs, it must be emphasized that terrorism, as a non-state activity, is immune to many of the positive results that PTAs bring in their implementation. As stated earlier in this paper, the preliminary trading agreements between Saudi Arabia and the United States did not prevent Saudi terrorists from attacking the US. While enhanced multinational cooperation and integration is a significant step in addressing global threats, it is not a simple cure, particularly for complex and evolving threats such as terrorism.

The future of PTAs seems to be promising, but it remains to be seen how exactly these organizations will take their place on the increasingly crowded world stage of NGOs, multilateral institutions, and trans-national corporations, not to mention traditional actors such as individual nations and the UN. Based on the findings of this paper, I trust that the impact of PTAs will

increase as world development continues, making positive contributions to global relations. Although there will likely be significant challenges along the way, I believe that PTAs will lay the foundations for unprecedented levels of cooperation. The prospects for enhanced understanding are particularly strong between nations which have traditionally had lower levels of contact. The various developments brought on by globalization will continue to reduce the practical distances between societies, and PTAs will be able to facilitate further interchange of ideas by means of trade and political discourse.

The lessons of the past seem to indicate that, on the balance, the contributions of PTAs outweigh their detriments, and as each new PTA is formed, old lessons reduce the initial challenges and new lessons emerge from the experience. The process of globalization is certainly one in which the actors must continue to learn as the process takes place, and the formation of PTAs is no exception to this. As current PTAs consider expansions that will encompass continents, the significance of PTAs cannot be denied. The influence that they carry into the future will play a major role in shaping the world of the new millennium.

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⁵ The North American Free Trade Agreement, http://www.nafta-sec-alena.org/DefaultSite/legal/index_e.aspx?articleid=80

⁶ Text of the U.S. – Qatar TIFA, <<http://www.ustr.gov/regions/eu-med/middleeast/regional.shtml>>

⁷ Text of the U.S. – Qatar TIFA, <<http://www.ustr.gov/regions/eu-med/middleeast/regional.shtml>>

⁸ “The European Union At A Glance,” <http://europa.eu.int/abc/index_en.htm>

⁹ The Smart Border Declaration, <<http://www.dfait-maeci.gc.ca/can-am/menu-en.asp?act=v&mid=1&cat=10&did=1669>>

¹⁰ Press Conference by President Bush and President Fox, March 22, 2002, <<http://www.whitehouse.gov/news/releases/2002/03/20020322-10.html>>