A Shifting Mandate:

International Ownership, Global Fragmentation and A Case for Deeper Integration under the WTO

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Abstract

This paper reviews several key implications of international investment and global supply chain fragmentation for the multilateral trading system. Based on existing economic research, I identify a two-fold challenge for policy makers: first, to leverage the trade-liberalizing potential of global fragmentation at the multilateral level; and second, to counter the potential for opportunistic manipulation of behind-the-border policy instruments.

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1 Overview

The rapid rise in global fragmentation – international ownership and the 'unbundling' of production across borders, both within and outside the boundaries of the firm – introduces new challenges for the World Trade Organization (WTO). This paper distills the key implications of frontier research in economics to draw concrete policy lessons for the multilateral trading system.

When the General Agreement on Tariffs and Trade (GATT) was first ratified in 1947, the notion of an 'American', 'French', or 'German' firm, tied to clearly delineated production, trade, and ownership patterns, was intact. For the most part, a country's economic interests coincided with its geographic boundaries, and trade between exporters in one country and importers in another generally took the form of arms-length exchanges of raw materials, commodities, and final goods traded at the border. In that environment, a 'shallow' agreement over tariffs and quotas was largely capable of mitigating any opportunistic manipulation of international activity by independent governments.

The multilateral trading system has grown increasingly complex in subsequent decades. Globally fragmented supply chains, foreign investment, and cross-border portfolio holdings have introduced new and deeper economic connections between trading partners. Some of these connections make the job of the WTO easier – for instance, governments may be induced to expand market access unilaterally in response to their own constituents' offshoring investments. But in other ways, global fragmentation of production and ownership poses deep challenges for the WTO in its current form. Deeper economic integration through foreign investment or tightly woven contractual relationships between foreign suppliers and domestic buyers of customized intermediate goods could trigger opportunistic manipulation of behind the border (BTB) instruments by *both* governments. The current shallow integration mandate of the GATT/WTO is not equipped to counter the host of potential BTB externalities between countries. Indeed, the recent surge in regional trade agreements – many of which do carry powerful behind the border provisions – may be in part a reflection of latent demand. Moreover, to the extent that regional agreements allow some trading partners to leverage a reinforcing cycle of investment and trade liberalization, they may undermine further *multilateral* talks.

Building from recent research on the economics of trade agreements, this paper advocates a more nuanced understanding of governments' unilateral policy objectives in the presence of global fragmentation and international ownership. Discussion proceeds in three parts.

The next section opens with a primer on the conceptual starting point: the GATT/WTO as a "shallow" solution to a classic 'terms-of-trade driven prisoners' dilemma'. By outlining the canonical (economic) understanding of the role of the GATT/WTO in the traditional national-ownership framework, it is then relatively simple to ask how that traditional mercantilist understanding needs to be updated in light of the global fragmentation/ownership phenomenon. I identify three key features of fragmentation – foreign ownership, cross-border bargaining, and the length of global supply chains – and demonstrate how they relate to the conventional understanding of market access and trade barriers.

Three broad conclusions emerge from this distillation of existing research. First, international ownership introduces a potential ‘trade-investment complementarity’ that can induce governments to expand market access unilaterally but preferentially. Second, both complex arms-length supply chain relationships as well as international ownership introduce the potential for opportunistic manipulation of behind the border policy instruments by national governments. Third, longer supply chains can magnify the effects of existing trade barriers, particularly when rules of origin or value added calculations are not carefully calibrated among trading partners.

A short third section of the paper then considers the recent proliferation of regional agreements through the lens of this new framework. I first look at the extent to which the rush to preferential agreements may reflect the underlying mechanisms identified above, before considering the additional challenges that greater regional fragmentation of both production and investment may post for the multilateral trading system.

The fourth and final section of the paper uses the earlier analysis to draw several concrete policy suggestions for the WTO going forward. Most ideas are not new: reduce policy uncertainty, synchronize rules of origin, protect investors from expropriation – all with an eye to encouraging trade and efficiency enhancing investment and sourcing patterns. A familiar caution is issued against regional agreements, particularly those that leave substantial variation tariffs between the signatories in dubious conformity with Article XXIV. Finally, I consider the case for integrating deeper integration measures within the WTO umbrella – potentially including a cooperative agreement to limit FDI subsidies.

2 Fragmentation through the Economic Lens

This section opens by briefly outlining the canonical (economic) view of the GATT/WTO in the absence of global fragmentation – reviewing the Bagwell and Staiger (1999) argument that together the core GATT principles of MFN and reciprocity act as a simple and effective solution to the "shallow" market access conundrum known as the 'terms-of-trade driven prisoners' dilemma'. Building on recent research, the remainder of the section then extends this understanding of multilateral trade policy to an environment with globally fragmented production and international ownership. For the purposes of economic analysis, three key characteristics of the vast global integration phenomenon prove most important: international *ownership*, relationship-specific *bargaining* between specialized buyers and sellers, and supply chain *lengthening* that implies more border crossings embodied within the production of a final good. We consider each in turn following the brief 'terms-of-trade' primer below.

2.1 A Brief Primer on the WTO Terms-of-Trade Theory

Readers familiar with the economics literature of trade agreements – specifically the seminal work of Bagwell and Staiger (1999) – should feel free to skip ahead to the next section. The next few paragraphs draw heavily from their work; the interested reader is referred to their excellent book on the topic, Bagwell and Staiger (2002).

At the most basic level, the role of any agreement is to create win-win (or Pareto improving) outcomes: all parties should gain (or at least not lose) from signing a treaty. Ergo there must be some inherent aggregate inefficiency embodied in the pre-treaty world, such that the agreement can deliver Pareto gains.

In the context of trade policy, the economics literature long identified a single source of pre-agreement inefficiency, the so-called 'terms-of-trade externality.' The idea is simple: because large countries (by definition) affect world market clearing prices, they do not bear the full burden their import tariffs, but rather shift part of the tariff cost onto foreign exporters.[1] Left to its own devices, a large country would optimally set its tariffs inefficiently high from a world-welfare point of view. Whatever a government's domestic policy preferences (which could imply a positive 'politically optimal tariff' – especially if import-competing lobby groups are politically active), it will always have an incentive to push the tariff *even further above* this politically optimal benchmark to exploit its market power via the terms-of-trade externality.

From here, the potential for a Pareto-improving trade agreement is immediate. Because all large countries have the unilateral incentive to impose inefficiently high 'cost-shifting' tariffs, the treaty-less trading system is characterized by a terms-of-trade driven prisoners' dilemma: collectively and individually all countries would be

[1]When a country imposes an import tariff, it causes its demand (and thus total worldwide demand) for that imported good to fall. The *world* price of the imported good declines as a result of the diminished demand, and so the foreign exporters' profit margins will shrink. In effect, the foreign exporters thus bear part of the burden of the large country's import tax.

better-off if they could commit to not increasing their tariffs beyond the politically optimal level. Bagwell and Staiger (1999) demonstrate that the twin pillars of the GATT, MNF and reciprocity, achieve precisely this end. Reciprocity allows governments the means to make cooperative agreements to reduce tariffs in lock-step, thus expanding market-access. MFN ensures that pairs of countries cannot manipulate the terms-of-trade at the expense of excluded parties.

The Bagwell-Staiger understanding of trade agreements makes very few assumptions on governments' underlying political objectives. Politically optimal tariffs are left to capture a broad set of potential political machinations, and still the theory implies that (1) in the absence of trade agreements non-cooperative (Nash) tariffs would be inefficiently high; (2) a Pareto-improving agreement over tariffs would necessarily help governments cooperatively reduce tariffs and expand market access; and (3) because the terms-of-trade externality is the *only* source of international efficiency, a "shallow" trade agreement over market access is sufficient for eliminating manipulation governments' incentives to manipulate trade policy at the expense of their trading partners.

For nearly a decade, the prevailing view within the economic literature was therefore that the shallow integration mandate of the GATT/WTO embodied in the in core principles of MFN and reciprocity was sufficient to fully exhaust the potential gains from multilateral trade negotiations. More recently, this view has been extended in the context of foreign ownership, offshoring, and global supply chains by Antras and Staiger (2012a), Blanchard (2007) and (2010), Baldwin, Evenett, and Low (2009), and Baldwin (2010) among others.

2.2 Trade Liberalization through International Ownership

Although conceptually distinct, global fragmentation and international ownership frequently go hand-in-hand as part of the same deep economic integration phenomenon. In many instances, global supply chains embody foreign direct investment and thus international ownership, though clearly international ownership need not imply production fragmentation or vice versa. Consider, for example, greenfield foreign direct investment, joint ventures between foreign investors and domestic partners, or virtually any type of cross-border merger or acquisition, all of which imply foreign ownership in one or more trading partners.[2] Even international portfolio diversification by individual investors (or sovereign wealth funds) constitutes a transfer of ownership across borders.

Whatever the source, the ultimate effect of international ownership is to muddy the distinction between national and foreign economic interests. The implied wedge between a country's economic interests and its geographic boundaries deals an immediate blow to the traditional 'us-versus-them' mercantilist understanding of trade policy as a competition between foreign interests abroad and domestic interests at home. Intuitively, when domestic constituencies hold a direct economic stake in for-

[2] If the FDI is 'vertical', then we would consider it a source of both international ownership and global fragmentation; if instead the FDI is market-seeking ('horizontal'), then it would constitute the former but not the latter.

eign export markets, their home government has less incentive to levy tariffs on imports.[3] Indeed, in the limit in which countries held perfectly diversified international portfolios – for instance, because of perfect international risk sharing – all countries would have identical economic interests. Absent the potential for expropriation (an important caveat, which is discussed shortly), countries would unilaterally choose globally efficient tariffs.[4]

Cross-border ownership stakes thus may partially (or even completely) substitute for the traditionally understood role of the GATT and its successor WTO to cooperatively increase market access through (shallow) reciprocal, non-discriminatory tariff concessions. Indeed, if all countries held sufficient ownership interests in their trading partners' export sectors, those overseas investment holdings could exactly offset the beggar-they-neighbor 'terms-of-trade cost-shifting' externality that would otherwise induce governments to restrict market access.

There are, however, two important qualifications. First, import competing investment would have no such effect. In fact, economic theory suggests quite the opposite: foreign ownership in import-competing sectors – for instance because of horizontal, or 'tariff-jumping' foreign direct investment– would only sharpen governments' incentives to restrict market access through tariffs. (Roughly speaking, import competing investments abroad give a government an even *greater* vested interest in improving the terms-of-trade – increasing the relative price of goods that it

[3]See Kemp (1966), Jones (1967), or Blanchard (2007).

[4]This point has been refined by Stockman and Dellas (1986), Devereux and Lee (1999), and Blanchard (2010).

both exports and, with horizontal investment, produces overseas directly.) Thus, it is only vertical, or offshoring types of foreign investment and ownership that create a potential 'trade-investment complementarity', whereby more investment in export-oriented operations overseas induces the *investing* country's government to expand market access and (thus) trade.[5]

A second complication derives from the potential for preferential agreements. While preferential agreements can allow governments to harness the trade-liberalizing potential of international ownership, they also exacerbate potential exclusion of non-signatory countries. Moreover, to the extent that international ownership is the result of foreign direct investment, preferential agreements induce both trade *and investment* diversion at the expense of excluded countries. Section 3 takes up these and related issues in greater depth.

Importantly, the potential trade-liberalizing influence of foreign ownership finds empirical support in practice. A recent study (Blanchard and Matschke (2014)) finds strong evidence of a causal link between offshoring activity by U.S. foreign affiliates and the structure of U.S. trade preferences. The effect is big, too – the baseline estimation results indicate that a 10 percent increase in affiliate sales to the U.S. leads to roughly a 4 percentage point increase in the rate of duty free access under preferential trade programs – or a 20 percent expansion of the rate of preferential

[5] Baldwin (2010) points out an interesting caveat in the spirit of Kojima (1975): to the extent that inward FDI in a downstream import-competing industry increases its political influence, that FDI could induce tariff reductions on upstream industries (though this would require the political impact of the downstream industry's growth to outweigh the political cost of being 'foreign').

market access relative to the mean. The trade-investment complementarity appears to be more than an academic possibility; it demonstrates measurable practical relevance today.

2.3 Expropriation, Bargaining, and BTB Policy Changes

A second key feature of global fragmentation lies in expanded opportunities for manipulation of behind the border (BTB) policy instruments by opportunistic governments. To the extent that WTO's mandate extends to any government action that would "produce an adverse effect on the balance of commercial activity," as posited by Hudec (1990) (pg 24), the growing scope for BTB policy abuse warrants explicit attention in the evolving vision of the multilateral trading system.

Global fragmentation of production and ownership sharpens the incentives for BTB policy manipulation in two ways. Most directly, foreign ownership of domestic firms or resources introduces the potential for implicit expropriation by investment-host country governments via BTB manipulation.[6] When international investment is 'sunk' in the short run – or if foreign investors earn above market returns in the investment host country – the potential for rent extraction from foreign investors may induce 'rent shifting' through domestic policy changes.[7] Expropriative policy changes need not be explicitly trade related – new taxes, technical barriers, regulations, or

[6] Partial foreign ownership would attenuate (but not eliminate) this expropriative motive. Host governments would face a tradeoff, weighing potential rent capture from foreign interests against the costs borne by domestic owners.

[7] This argument is developed formally in the trade policy context in Blanchard (2009).

permit requirements could be structured in such a way to shift profits from foreign investors to the host government or domestic firms or workers.

Crucially, lengthening global supply chains can introduce opportunistic BTB policy changes even absent international ownership. When buyers and sellers trade in highly specialized intermediate inputs – the kind of transactions that are increasingly common as production becomes more fragmented – transaction prices are often determined by *bilateral bargaining*, rather than traditionally understood market cleaning conditions. As Antras and Staiger (2012a) demonstrate, the bargaining process can be opportunistically manipulated by governments of both countries through both trade policy and behind-the-border policy changes. (The BTB channel is articulated explicitly in Antras and Staiger (2012b).) Cooperative agreements over traditional market access mechanisms thus may prove insufficient to reach globally efficient outcomes.

Unfortunately, it is far easier to recognize the potential for BTB policy manipulation than it is to mitigate it in practice. While TRIMs protections are almost certainly insufficient, as they apply only to *trade related* investment protections, much broader investment protections – for example, like the provisions in the NAFTA's Chapter 11 – present their own problems. The key question going forward is which design features at the multilateral level are necessary for mitigating opportunistic BTB policies, and which, if any, of those ideal BTB policy guidelines can be operationalized in practice.[8] Early progress on the topic has been made by Staiger (2011),

[8] In the current WTO legal framework, the subsidy designation requires financial contribution, benefit, and *specificity*; this last dimension is arguably the most difficult to police.

Staiger and Sykes (2011), and Antras and Staiger (2012b) , but these questions remain an important topic for future research.

2.4 Supply Chains, Value Added, and 'Taming the Tangle'

A third complication arises from the supply chains themselves. Blanchard, Bown, and Johnson (2014) point out that supply-chain trade in intermediate inputs will alter governments' incentives to manipulate prices via trade policy. When a country's production of final goods embodies value added inputs from its trading partners, changes in tariffs both at home and abroad will in general pass through at least partly to the foreign value added producers. Depending on underlying political economy, production processes, and market structure, value added trade can thus dampen government's incentives to increase tariffs beyond globally efficient levels.

Moreover, longer supply chains magnify the inefficiencies of existing trade barriers. As global supply chains increasingly stretch around the world to incorporate more border crossings, individual trade barriers (whether tariffs or NTMs) may be applied to the same final product multiple times absent carefully synchronized rules of origin (ROOs) or value added tariff rules. Even in the best case scenario with careful (or no) ROOs and free trade, the bureaucratic and time cost of border crossings may substantially increase the final price of a good. The fragmentation process essentially increases the effective rate of protection, even if tariffs and other trade costs remain unchanged. Moreover, to the the extent that border costs induce trade or investment diversion, one can expect these problems to be magnified by global fragmentation.

On a more optimistic note, Baldwin (2006) and more recently Baldwin, Evenett, and Low (2009) articulate a potential counterweight via the political process. Multinational firms with long supply chains suffer most from the 'tangle' of complex regional and bilateral agreements and asynchronous rules of origin. To the extent that these firms have a voice in the political process, their advocacy to 'tame the tangle' may induce their governments to simplify trade restrictions and/or reduce trade barriers unilaterally. Baldwin (2010) makes a different argument with a similar conclusion: to the extent that fragmentation splinters old political alliances between upstream and downstream industries or dramatically shifts the pattern of comparative advantage along the global value chain, developing countries' governments may gradually abandon long-standing infant-industry industrialization strategies, unilaterally lowering their tariffs on upstream industries in particular.

But the devil is in the details – it very may well be the case governments' efforts to reduce and simply trade barriers apply differentially to trade partners with whom their multinational firm constituents are already or soon to be involved. Countries that are outside the global supply chain network may be left behind entirely, further worsening the discrepancy between the highly integrated 'have' countries, and the peripheral 'have nots'. And this brings us to the next issue – how global fragmentation impacts the previous understanding of regionalism as stepping stone or stumbling block to freer multilateral trade.

3 Regionalism and Fragmentation

Global fragmentation and regionalism are deeply intertwined. Preferential trade agreements foster deeper economic integration between signatory countries, just as stronger economic ties sharpen the impetus for greater policy coordination through deeper regional agreements. Unfortunately, while preferential agreements may serve as an important lever for harnessing a the trade liberalizing potential of international investment, they may raise as many problems as they solve.

Consider the following thought experiment.[9] A Canadian owned firm, XYZ Corp, sets up a manufacturing facility in Thailand, producing shoes to sell back to consumers in Canada. The investment is of the export-oriented offshoring type, and so one would expect the Canadian government to want to improve market access for XYZ corp's foreign affiliate. (If XYZ Corp lobbies a receptive government, the effect would be stronger, but in general the mechanism will obtain as long as the government has any interest in XYZ Corp's profitability, even if only for tax revenue.)

In an unrestricted trade policy environment, the Canadian government would want to expand market access for just XYZ Corp's foreign affiliate, but of course national treatment rules prohibit discriminatory treatment at the firm level. Under national treatment rules but in the absence of MFN, the Canadian government would offer preferential treatment for all Thai shoes – but at the narrowest possible product definition that includes XYZ Corp's shipments. MFN rules out such discretionary treatment at the country-product level, and so the only opportunities to

[9]The subsequent discussion draws heavily from Blanchard (2007).

exploit the trade liberalizing potential of XYZ Corp's offshoring investment manifest either through a preferential agreement (under Article XXIV or Enabling Clause exemptions to MFN), or by reducing the MFN tariff on shoes for all trading partners.

Given the number of MFN trading partners worldwide, it is relatively unlikely that MFN tariff reductions would follow from offshoring investment in just one trading partner. In practice, however, a handful of industries are characterized by such widespread offshoring and supply chain fragmentation that perhaps they could induce multilateral liberalization. One might argue that the Information Technology Agreement (ITA) implemented in 1997 reflects this underlying mechanism.

In many industries, international ownership and offshoring investment is concentrated in a small number of trading partners. In that case, the investing country's government (i.e. Canada) might look for potential preferential arrangements with its investment host(s) (i.e. Thailand). Article XXIV exemptions for free-trade agreements in principle restrict the signatories to removing virtually all trade barriers for virtually all goods. In practice, however, many preferential agreements leave substantial barriers to trade for protected industries, which may make free trade deals easier to sign. The crucial question is then whether the extent of ownership and supply-chain integration in the host country as a whole is sufficient to induce a free trade agreement given the institutional constraints. If it is, there is a new reason for (often small and developing) potential investment-host countries to seek foreign investors and global supply chain relationship from a large trading partner: doing so may earn a preferential trade agreement and improved market access for local exporters.

Two important cautions arise. First, preferential trade deals increasingly incorporate strong behind the border protections that are typically favored by multinational firms, but may be more problematic for investment-host countries. For example, the NAFTA's Chapter 11 carries powerful Investor State Dispute Settlement (ISDS) provisions that protect foreign investors against local policy manipulation by host country governments. To the extent that multinational firms are important actors in trade policy determination and strongly favor deeper policy integration and BTB protections, the rapid rise in observed and potential global fragmentation can be expected to accelerate the momentum behind greater and deeper preferential agreements. If potential investment-host countries compete for foreign investment and preferential trade agreements by signing BTB protections or investment subsidies that are otherwise welfare-reducing, world welfare may fall.[10]

Second, preferential agreements may undercut multilateral liberalization. To the extent that fragmentation or foreign investment spurs greater policy liberalization through preferential agreements, and those agreements further deepen economic ties as supply chains spread across signatories' borders, the cycle of improved market access and increased fragmentation may continue. At the same time, however, it stands to fear that the same mechanism can lead to substantial trade and investment diversion; just as some trading partners experience ever-greater economic integration through a trade-investment complementarity, other countries may be left out entirely.

[10]Blanchard (2013) formalizes this argument, making an efficiency case for multilateral disciplines on investment incentives.

4 Applying Research to Practice

I conclude by outlining a handful of policy implications that follow directly from the economic arguments articulated above. The first three are clear, actionable points, while the last three identify broader and more complex issues to be taken up in subsequent work. The key challenge is twofold: first, to harness the trade-liberalizing potential of international investment without exacerbating regional/preferential exclusivity; and second, to counter potential opportunistic BTB policy manipulation directly.

The first two policy suggestions are relatively straightforward means by which to encourage deeper economic ties through foreign investment and supply chain integration, which in turn may induce governments to reduce tariffs and non-tariff barriers unilaterally:

1. Simplify and synchronize *rules of origin* to reduce the implicit penalties faced by long supply chains and fragmented production.[11]

2. Reduce policy *uncertainty*; fragmentation typically involves sunk investments that are more readily undertaken in a stable policy environment. In the context of current rules, uncertainty is perhaps best mitigated by enforcing limited and judicious use of temporary trade measures (anti-dumping, CVDs, and safeguards) will serve to reduce uncertainty faced by exporters and, thus, potential investors in export sectors.

[11] See, among others, Baldwin (2006) for a careful discussion of diagonal vs. full cumulation rules.

The next point is more a policy caution than suggestion. It recognizes the potential for fragmentation to increase governments' demand for *sharper* trade policy instruments: to the extent that narrowly defined policy instruments can be used with surgical precision to benefit only key constituent beneficiaries (like a particular multinational firm's foreign affiliates in a particular market), any benefit of trade-investment complementarity will accrue to just a handful of beneficiaries. Perhaps the most important means to dissuade manipulation of targeted temporary remedies is to maintain a strong, fast, fair, and effective dispute settlement process.

3. Limit the ability of *antidumping and countervailing duties* to discriminate (*de facto* or *de jure*) at the country and firm level. When trade protections can be defined at the firm (as in the case of AD duties) or very-narrow (10+ digit HS) product-country level, they may be used to impose differential tariff treatment against exports by preferred (foreign affiliate) vs. arms-length foreign suppliers.

The last three points identify two key areas on which the WTO should consider in response to the global fragmentation of production and ownership. The first simply reiterates the long-held and central concern over regional or preferential trade agreements, noting that fragmentation may increase the urgency of the problem. The second advocates direct consideration of deeper integration measures at the multilateral level: unless deeper integration measures return to the multilateral negotiating table, multinational firms – a key constituency in trade policy for many countries – can be expected to continue to press for additional regional agreements rather than multilateral negotiations. The third point echoes Blanchard (2013) in calling for renewed consideration of multilateral disciplines over investment incentives.

4. Consider *Article XXIV*. On the one hand, preferential agreements leverage the trade-investment complementarity, allowing signatories to deepen economic ties through trade, supply chain fragmentation, and cross-border investment, all of which provide direct benefits. On the other, regionalism induces distortionary trade and investment diversion, at the cost of excluded countries. As the pace of fragmentation quickens, regional 'fortresses' may become more inwardly focussed.

5. Return *deep integration* measures to the multilateral table. The recent proliferation of deep preferential agreements demonstrates underlying demand for deep integration provisions between signatory countries, which we may surmise derive not least from multinational firms and international investors. Recent evidence suggests the absence of deep BTB protections ultimately may undermine shallow multilateral integration through ever stronger and more exclusive regional agreements.

6. Reconsider *multilateral investment disciplines*. There is growing concern that potential FDI-host countries are engaged in a 'race-to-the-bottom' in investment subsidies, and that this race may be intensified by the potential for Article XXIV-style trade deals. If true, there is a strong efficiency argument in favor of a cooperative agreement to limit implicit and explicit subsidies to foreign investors.

These last points are both the most contentious and the most difficult to implement in practice. It is clear that deep integration measures can protect foreign firms, investors, and cross-border relationships from BTB policy manipulation, and thus have the potential, if done right, to enrich the economic ties between signatory countries. Lawrence (2011) recently proposed a two tiered system within the WTO, one that would supplement the core GATT obligations with optional, add-on plurilateral deep-integration agreements into which countries could opt-in or out. The key, notes Lawrence, is to offer a WTO-based framework that is more attractive than regional agreements. The move away from RTAs cannot be forced – but perhaps it can be coerced by creating a better alternative.

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