iff that the US applies to developing countries but not to NAFTA partners provides an example of the concern raised about buying into partner countries' patterns of protection.[28] All of that being said, the very powerful trade-creating result for regional agreements in the gravity model literature is an important argument for regional agreements.

The strong trade creation result for RTAs also plays into the question of whether to devote resources to regional vs. multilateral liberalization. And, on the face of the evidence so far considered, the logic for putting the resources into regional pacts is persuasive. This position is buttressed by the following set of considerations:

First, the Article XXIV free trade agreements notified to the WTO—in particular those in Europe, North America and Australasia—cover a large amount of the trade between countries whose internal trade flows account for 43 percent of the

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ucts in this sector (including fabric, partial made-ups, and finished goods). By contrast, the United States exported just 4 cents worth of product to Asia for every dollar worth of textiles and apparel imported from that region. The Africa-Caribbean Bill enacted in May 2000 extended these preferences to Africa. Meanwhile, other arrangements (such as the "outward-processing program" that applies to US imports from Macedonia and Romania) exempt countries from quota limitations if they meet US ROO requirements. For discussion, see Craig VanGrasstek, Vernon's Product-Cycle Paradigm and the Political Economy of Trade: A Comment on Alan Deardorff's "Market Access for Developing Countries", available at www.ksg.harvard.edu/cbg/Conferences/trade/Comment.pdf. This in turn tends to create classes of developing countries. These arrangements inject a not inconsiderable amount of noise into the international price system.

[28] The observation that countries participating in RTAs buy into not only to each other's markets, but also into the trade protection that their partners have against the rest of the world, is not given, in my view, sufficient attention. The implied distortions can be especially costly for small countries entering in RTAs with large countries, since the structural adjustments that they make in buying into their regional partner's trade protection regime place them at risk of further structural adjustment if and when these trade protections are reduced through subsequent multilateral liberalization. The most serious aspect of this may be that new investment is prompted in existing protection schemes—which in turn may tend to harden those protections in the face of multilateral pressures.