



**Multi-year Expert Meeting on Enhancing the Enabling Economic Environment
at All Levels in Support of Inclusive and Sustainable Development (2nd session)**
Towards an enabling multilateral trading system for inclusive and sustainable development
Geneva, 8 – 9 December 2014

SESSION 3:

New regional trade architecture, systemic coherence and development

**NEW REGIONAL TRADE ARCHITECTURE,
SYSTEMIC COHERENCE AND DEVELOPMENT**

0
Peter DRAPER

Senior Research Fellow

South African Institute of International Affairs

NEW REGIONAL TRADE ARCHITECTURE, SYSTEMIC COHERENCE AND DEVELOPMENT

Peter Draper
Senior Research Fellow
South African Institute of International Affairs

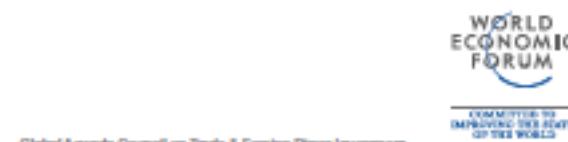
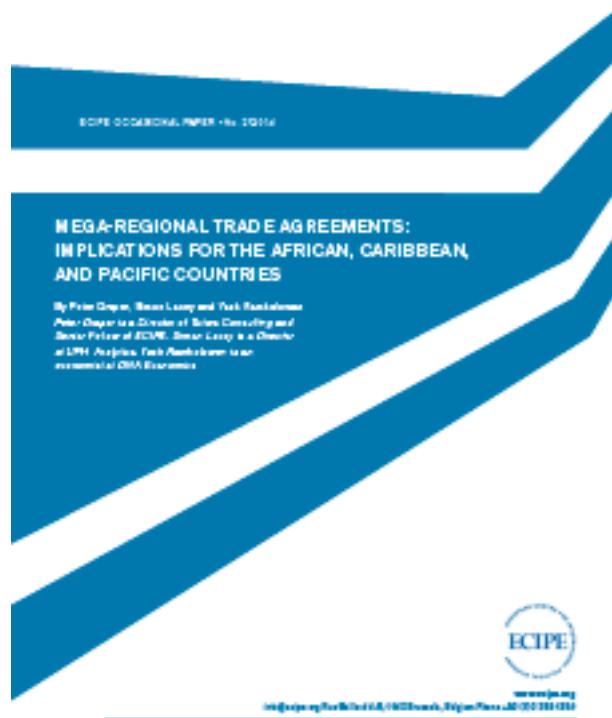
Guiding Questions

- What factors have shaped 21st century RTAs?
- What is new in 21st century RTAs?
- How do they influence the multilateral trading system?
- Implications for south-south RTAs and developing countries?

OVERVIEW

- Background
- Which mega-regionals matter most, and why?
- The regulatory agenda: A brief review
- Outcome scenarios
- Strategic implications for outsiders, especially developing countries

Presentation based on two recent reports



Global Agenda Council on Trade & Foreign Direct Investment

Mega-regional Trade Agreements Game-Changers or Costly Distractions for the World Trading System?



Background

- Growth of regionalism in inverse proportion to relative stasis in WTO
- Opportunities for advancing rules are higher in smaller, like-minded groups
- Western leadership of the global trading system in play given the rise of China and other emerging markets
- Combination of regulatory demand and geopolitical drive explains TPP and TTIP
- Whether successful or not they present serious strategic challenges to outsiders, especially developing countries

Which mega-regionals matter most, and why?

- Focus on the most systemically significant
- Our definition (ECIPE report):
 1. 3 or more countries
 2. 25% or more of world trade
 3. WTO plus, or deep regulatory agenda
- Only TTIP, TPP, and RCEP meet conditions 1 and 2
- Only TTIP and TPP meet all three
- Quite a number of other RTAs that are significant but not considered (eg Japan-EU; Canada-EU)

Which mega-regionals matter most, and why?

- Review of impact studies
 - Tariff liberalization impacts on negotiating parties predicted to be modest, since tariffs are generally not high to begin with
 - Varies between TTIP, TPP states, and by sector
 - Trade diversion effects on non-parties similarly predicted to be relatively small
 - Again varying according to sector and negotiation
 - Owing to high trade complementarities between ACP states and US/EU
 - Some studies predict that trade creation (the GVC effect) may lead to net gains for outsiders

Which mega-regionals matter most, and why?

- Regulatory impacts predicted to be substantial
- Effects could be of two types:
 - Ratcheting up of standards through harmonization, leading to lock-out effect
 - Reduction of market access costs through mutual recognition (requires mutual recognition of conformity assessment)
 - Overall effects very difficult to predict, and any attempt to do so probably shouldn't be believed
 - But the regulatory agenda is very much part of the RTA landscape and won't go away

Which mega-regionals matter most, and why?

Estimated ad valorem equivalent protection ensuing from NTMs between the EU and the USA

Sector	ECORYS (2009)		Fontagne et al (2013)	
	EU	USA	EU	USA
Agriculture	48.2%	51.3%	56.8%	73.3%
Manufacturing	42.8%	32.3%	19.3%	23.4%
Services	32.0%	47.3%	8.5%	8.9%

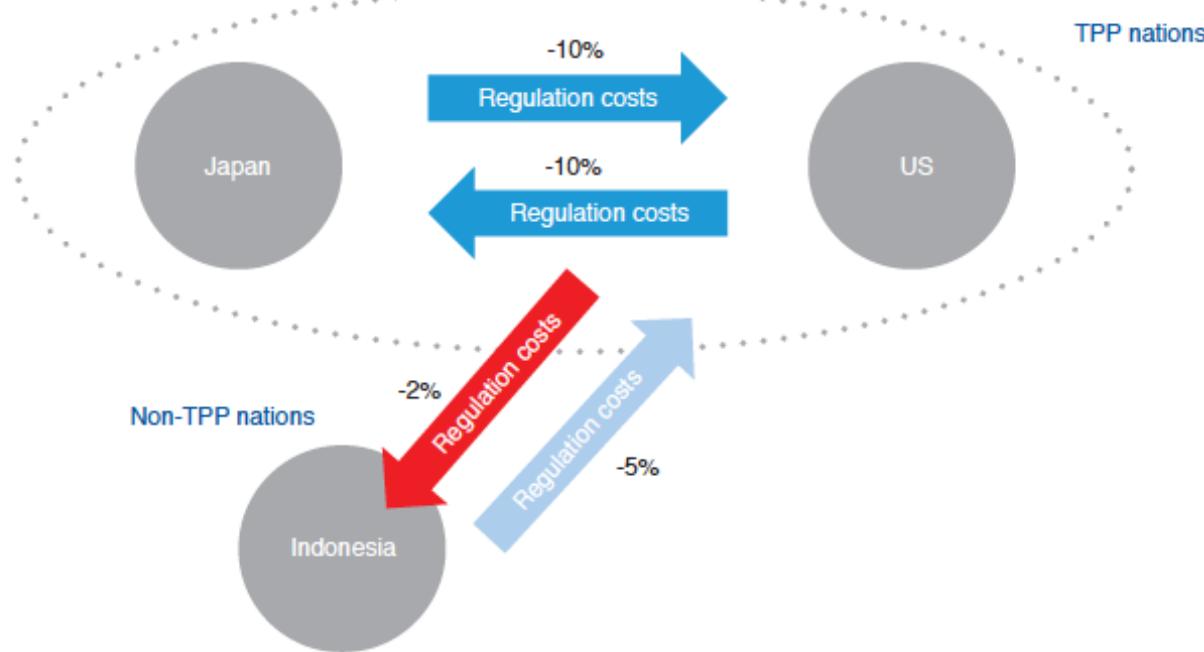
Source: Fontagne et al (2013)

Figures refer to unweighted averages across the sectors.

Which mega-regionals matter most, and why?

How mutual recognition could be beneficial to outsiders (WEF Report)

Figure 2. Regulatory Convergence: Illustration of Trade Cost Effects



The regulatory agenda: A brief review

- Sequencing is key to understanding: TPP leads; TTIP follows
- Both aim for a ‘high standard agreement’
- The US is central to both, therefore focus on US negotiating templates
- TPP covers 29 chapters under a single undertaking
- Our focus:
 - Areas not covered by multilateral disciplines incorporating all members of the WTO
 - Areas already covered by the WTO bearing closer scrutiny

The regulatory agenda: A brief review

- Select WTO plus issues:
 - Regulatory coherence – oversight councils/bodies and role of business groups
 - SOEs – trade distorting practices or ‘competitive neutrality’; linkage to competition policy
 - Government procurement – incorporation of GPA by reference (2011 text)
 - Competition – exclusions; dispute settlement
 - Investment – dispute settlement; capital controls, non-conforming measures
 - E-commerce – freedom of access and competition; data privacy
 - Environment – incorporation of MEAs; dispute settlement (enforceability)
 - Labour – enforceability through DSM
-

The regulatory agenda: A brief review

- Other issues expected to push the status quo:
 - Goods market access – construction of tariff offers; rules of origin; entrenched lobbies especially in agriculture (eg Japanese rice)
 - SPS – ‘science-based’ risk assessments; dispute settlement
 - Services – negative vs positive lists
 - IPR – US vs the rest on patents; US vs EU on GIs
-

Outcome scenarios

- Definition of success? Ours (ECIPE report):
 - Globally systemic view (not rooted in particular country interests)
 - Agreement that all negotiating states are happy with
 - Major liberalizing outcomes
 - Key blockages in the international trading system addressed

Outcome scenarios

- Full success
 - Utopian scenario
 - Not likely since many compromises entailed in both negotiations
- Partial success
 - Most likely
 - Messier than US bilateral FTAs, but substantial liberalization and harmonization that developing country parties can live with
- Failure
 - Least likely
 - Hinges on US trade politics, especially TPA

Strategic implications for Outsiders, especially developing countries

- Calibrate to the outcome scenarios
- ‘Full success’ = ‘competitive liberalization’
 - Watch China’s posture in particular (TPP; TISA; RCEP)
 - Entails great pressure on ACP countries to sign up – bilaterally and in the WTO
 - More pressure for reciprocity

Strategic implications for Outsiders, especially developing countries

- ‘Partial success’
 - More wriggle room for ACP, but
 - Failure of major western powers to decisively assert leadership of the trading system implies further WTO stasis
 - Therefore more pressure on the bilateral front down the line, not least to compete with rise of emerging markets – particularly China
 - Reciprocity still very much on the table, if not imminent

Strategic implications for Outsiders, especially developing countries

- ‘Failure’
 - Western trade leadership foregone
 - Acceleration of China’s potential leadership role
 - Balancing option for ACP more pronounced
 - But what does China want?
 - Also, developed countries likely to intensify search for reciprocity with attendant implications for preferences

Strategic implications for Outsiders, especially developing countries

- Policy options
 - ‘Do nothing’ – always an option but it seems there is nowhere to hide
 - Sequenced embrace of liberalization and regulatory reform, tailored to domestic capacities (ideal-type depiction)
 - Unilateral reforms, driven by careful review of regulatory agenda contained in mega-regionals
 - Regionally, through RTAs with neighbours and using appropriately designed models
 - Regionally, with small developed economies that are not so threatening
 - Regionally, with the major powers

Strategic implications for Outsiders, especially developing countries

- WTO
 - Proactive, positive discussion of regulatory agenda
 - Engage positively with the idea of plurilaterals on the basis of deliberations on the regulatory agenda
 - Forge a consensus on how plurilaterals could proceed without harming own interests (eg: 'plurilaterals code of conduct')