SESSION 3:
New regional trade architecture, systemic coherence and development

NEW REGIONAL TRADE ARCHITECTURE,
SYSTEMIC COHERENCE AND DEVELOPMENT

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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
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

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<tbody>
<tr>
<td></td>
<td>EU</td>
<td>USA</td>
</tr>
<tr>
<td>Agriculture</td>
<td>48.2%</td>
<td>51.3%</td>
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<tr>
<td>Manufacturing</td>
<td>42.8%</td>
<td>32.3%</td>
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<tr>
<td>Services</td>
<td>32.0%</td>
<td>47.3%</td>
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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 plurilateral agreements on the basis of deliberations on the regulatory agenda
  - Forge a consensus on how plurilateral agreements could proceed without harming own interests (eg: ‘plurilateral agreements code of conduct’)