The economics of bilateral agreements and plurilaterals: supporting or challenging the WTO?

Dr. Koen Berden, Director of Outreach WTI
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Overview

1. Trends in international trade: Trade 2.0
2. Number and depth of FTAs
3. Mega-regional FTAs and plurilaterals
4. Implications for the WTO
5. Conclusions
1. Trends in International Trade (1) Trade 2.0

- Regional production networks and cross-border trade in parts and components (now almost 80% of world trade is intermediates);
- Global value chains and Int. Production Fragmentation: ‘make it in many places, sell it to the world’;
- Move of focus from gross trade (exports/imports) to value added (where is the value added in the value chain?);
- MNEs operate in multiple regulatory regimes
- Demand for progress in areas outside WTO (hence Baldwin’s call for WTO 2.0)
  - Regulation of MNEs
  - Behind the border measures
  - Increased importance of NTMs (aka NTBs), and impact on policy calculus (political cost-benefit analysis)
  - Investment and disputes (ISDS)

1. Trends in International Trade (2) Trade 2.0
2. The number and depth of trade agreements (1)

The number and depth of trade agreements (1)

DESTA (DESign of Trade Agreements): not just the number (A) but also the depth (B) of trade agreements has been gradually increasing.

Source: Dür et al. (2014)
2. The number and depth of trade agreements (3) Example: TTIP

PILLAR 1: Market Access
- goods trade/ customs duties
- services trade
- public procurement
- rules of origin

PILLAR 2: Regulatory Cooperation
- regulatory coherence
- technical barriers to trade
- SPS – food safety; animal & plant health
- Specific sectors: chemicals; engineering; med devices; vehicles; cosmetics; ICT; medicines; text & cloth; pharma

PILLAR 3: Rules
- sustainable development
- energy & raw materials
- customs / trade facilitation
- SMEs (no real rules)
- invest. protection + ISDS
- competition rules
- IPRs & G.I.
- overall (Gov-to-Gov) dispute settlement

3. Mega-regional (large) FTAs and plurilaterals (1)

<table>
<thead>
<tr>
<th>Mega-regional</th>
<th>% World GDP</th>
<th>Total population</th>
<th>% World Trade</th>
<th># Countries</th>
<th>Start negotiations</th>
<th>End negotiations</th>
<th>No of rounds</th>
</tr>
</thead>
<tbody>
<tr>
<td>CETA</td>
<td>24%</td>
<td>543 million</td>
<td>24%</td>
<td>29</td>
<td>May-09</td>
<td>Aug-14</td>
<td>9</td>
</tr>
<tr>
<td>EU-Japan</td>
<td>31%</td>
<td>635 million</td>
<td>26%</td>
<td>29</td>
<td>Mar-13</td>
<td>Ongoing</td>
<td>17 so far</td>
</tr>
<tr>
<td>RCEP</td>
<td>33%</td>
<td>3.0 billion</td>
<td>40%</td>
<td>16</td>
<td>Nov-11</td>
<td>Ongoing</td>
<td>15 so far</td>
</tr>
<tr>
<td>TISA (pluri)</td>
<td>66%</td>
<td>1.6 billion</td>
<td>70% (in services)</td>
<td>50</td>
<td>Mar-13</td>
<td>Ongoing</td>
<td>21 so far</td>
</tr>
<tr>
<td>TPP</td>
<td>36%</td>
<td>806 million</td>
<td>26%</td>
<td>12</td>
<td>Feb-08</td>
<td>Oct-15</td>
<td>19</td>
</tr>
<tr>
<td>TTIP</td>
<td>46%</td>
<td>828 million</td>
<td>30%</td>
<td>29</td>
<td>Jul-13</td>
<td>Ongoing</td>
<td>15 so far</td>
</tr>
<tr>
<td>EU-South Korea</td>
<td>24%</td>
<td>558 million</td>
<td>24%</td>
<td>29</td>
<td>May-07</td>
<td>Oct-09</td>
<td>7</td>
</tr>
</tbody>
</table>

* EU counts for 28 countries (the EU Member States)

- **Large shares of GDP, trade, population** covered by the mega-regionals;
- The **(envisaged) depth** of these mega-regionals **differs** substantially;
- **Only three are completed** (one ratified, one not yet ratified, one likely never to be ratified in its current form) – the rest under negotiation still (so let’s see) – facing significant headwinds.
- **Note**: TPP much deeper than RCEP – regulatory dominance in Pacific…
3. Mega-regional (large) FTAs and plurilaterals (2)

<table>
<thead>
<tr>
<th>Mega-regional</th>
<th>US</th>
<th>EU</th>
<th>Japan</th>
<th>China</th>
<th>Russia</th>
<th>India</th>
<th>Canada</th>
<th>EFTA</th>
<th>LDC</th>
</tr>
</thead>
<tbody>
<tr>
<td>CETA</td>
<td>Out</td>
<td>In</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
<td>In</td>
<td>Out</td>
<td>Out</td>
</tr>
<tr>
<td>EU-Japan</td>
<td>Out</td>
<td>In</td>
<td>In</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
</tr>
<tr>
<td>RCEP</td>
<td>Out</td>
<td>Out</td>
<td>In</td>
<td>In</td>
<td>Out</td>
<td>In</td>
<td>Out</td>
<td>Out</td>
<td>Part in</td>
</tr>
<tr>
<td>TISA (pluri)</td>
<td>In</td>
<td>In</td>
<td>In</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
<td>In</td>
<td>In</td>
<td>Part in</td>
</tr>
<tr>
<td>TPP</td>
<td>Out</td>
<td>Out</td>
<td>In</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
<td>In</td>
<td>Out</td>
<td>Part in</td>
</tr>
<tr>
<td>TTIP</td>
<td>In</td>
<td>In</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
</tr>
<tr>
<td>EU-South Korea</td>
<td>Out</td>
<td>In</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
<td>Out</td>
</tr>
<tr>
<td>APEC</td>
<td>In</td>
<td>Out</td>
<td>In</td>
<td>In</td>
<td>In</td>
<td>Out</td>
<td>In</td>
<td>Out</td>
<td>Part in</td>
</tr>
</tbody>
</table>

- US, EU (incl. UK), Japan and Canada are most inside the mega-regionals;
- Russia is out, China mostly out;
- Developing countries for small part in – but mostly out;
- Traditionally: ‘inside’ gains and ‘outside’ loses (Viner, 1954) – but: Trade 2.0?
  - Who is linked through value chains?
  - Regulatory alignment – i.e. spill-overs?

4. Implications for WTO (1)

So what could these mega-regionals and plurilaterals imply economically for the multilateral trading system?
4. Implications for WTO (2) A new way of convergence?

- **Historically**: multilateral agreements developed in the context of GATT/WTO: trade liberalization rounds, trade facilitation agreement;
- **Question**: Could a multilateral agreement be the result of convergence between mega-regionals as a new alternative route?

![Diagram showing convergence between TPP, RCEP, TTIP, and Canada-EU CETA]

Source: J. Schott (OECD Forum on International Trade, February 2014)

4. Implications for WTO (3) Setting new precedents

Some of the mega-regionals / plurilaterals could set new precedents that matter economically:

- Almost **full tariff liberalisation** in many recent mega-regionals;
- **Regulatory cooperation** in TTIP, EU-Japan;
- **Sustainable Development chapters** in TPP, TTIP and EU-Japan;
- **Ratchet clause** on services liberalisation in TPP;
- Process for **regulatory convergence** in TPP;
- **Investment Court System** in CETA (EU-Mexico, EU-Vietnam);
- **Services liberalization** in TiSA;
- Etc.
4. Implications for WTO (4): Spill-overs – Example Switzerland

What is the picture that – for example – Switzerland watches unfolding?

- Switzerland has various FTAs already in place (e.g. Swiss-Sino FTA, deep agreements with the EU) – these are currently ‘baseline’ for Switzerland;
- Switzerland is part of the TiSA negotiations; Switzerland is a WTO member;
- But Switzerland is not part of other mega-regionals (TTIP, TPP, RCEP, EU-Japan or CETA);
- But Switzerland has very close economic ties to the EU (who is part to TTIP, EU-Japan, EU-Korea and CETA) and the US (who is part to TTIP and TPP (?)).

So what are the potential effects of these mega-regionals for Switzerland?

4. Implications for WTO (5): Spill-overs: 2 Rounds

“ROUND 1”: How open will the mega-regionals be?

- Can third countries join? (docking/accession clauses, extending MRA)
- How stringent are the Rules of Origin (RoO)?
- Technically: will they be open to allow for spill-overs and push themselves as a global standard or will they be discriminatory? So: direct and indirect spill-overs.

“ROUND 2”: What will third countries (e.g. Switzerland) do strategically?

- Will 3rd countries (e.g. Switzerland) do nothing or will they act to link up to one (more) mega-regionals (i.e. allow for spill-overs by aligning with the mega-regionals)?
- Will third countries flank the mega-regionals by additional FTAs (tariffs and/or NTMs)?
- How much are they in the Global Value Chains of the mega-regionals?
- Technically: will they approximate to get positive spill-overs and flank to get additional FTA benefits?

Third country effects of TTIP could be positive. This is unique for a bilateral FTA and driven by regulatory alignment. But there is a very important necessary condition: an open TTIP.

Source: CEPR (2013)

<table>
<thead>
<tr>
<th>Total effects on GDP for rest of the World (in million euros and per cent), 2027 benchmark, 20 per cent direct spill-overs</th>
<th>Ambitious Million euros</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union</td>
<td>119,212</td>
<td>0.48</td>
</tr>
<tr>
<td>United States</td>
<td>94,904</td>
<td>0.39</td>
</tr>
<tr>
<td>Total Other Countries</td>
<td>99,171</td>
<td>0.14</td>
</tr>
</tbody>
</table>

The more inclusive and more open the mega-regionals: the more they approximate the economics of the multilateral trading system!

4. Implications for WTO (7): Spill-overs: open vs. discriminatory

Decomposition of change in Swiss GDP, %

- Additional gains if EFTA opts for an EFTA-US tariff + NTM agreement in response to TTIP
- Additional gains if EFTA opts for an EFTA-US tariff-only agreement in response to TTIP and if CH chooses to align itself.
- Discriminatory TTIP effect for CH

Source: WIT (2014)
5. Conclusions

1. Trends: Trade 2.0 with GVC and regulatory divergences matter more than tariffs

2. The depth of FTAs has been increasing – more elements now part of FTAs: competition policy, IPR, SMEs, sustainable development, regulatory cooperation, etc.

3. Mega-regionals: Convergence, Setting new precedents, and Spill-over effects?

THANK YOU FOR YOUR ATTENTION!

koen.berden@wti.org