

**The Trade Lecture Series @ the WTO**  
Session 1 World Trade Institute, University of Bern

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

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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

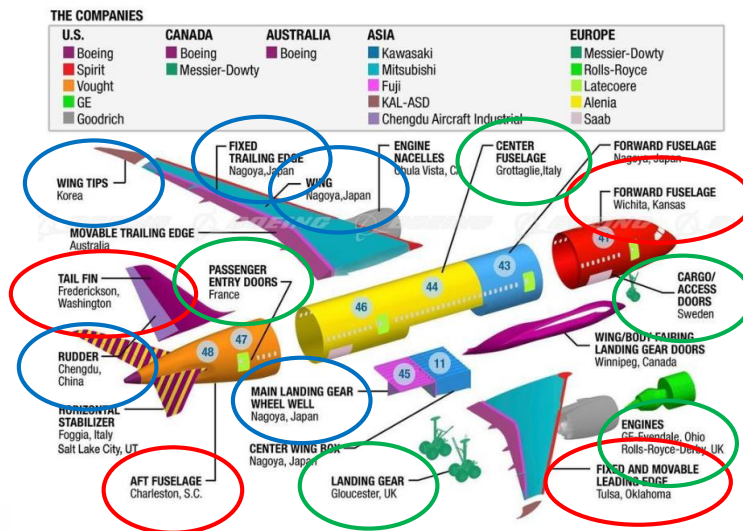


# 1. Trends in International Trade (1) Trade 2.0

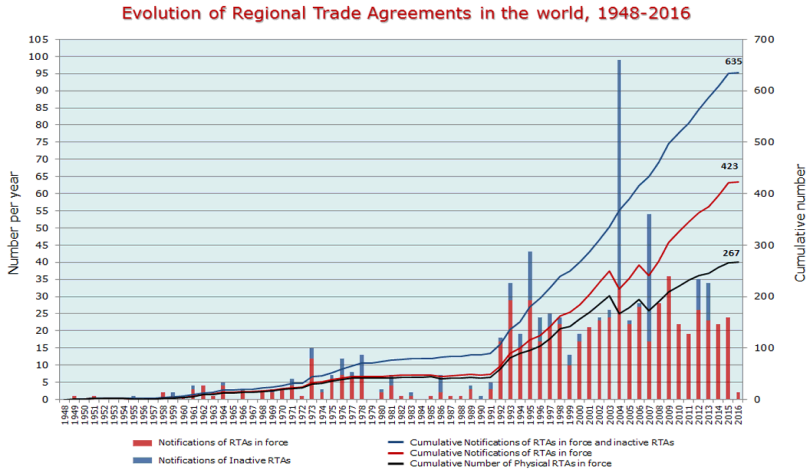
- **Regional production networks** and cross-border trade in parts and components (now **almost 80% of world trade is intermediates**);
- **Global value chains and Int. Production Fragmentation:** *'make it in many places, sell it to the world'*;
- Move of focus from **gross trade** (exports/imports) 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)

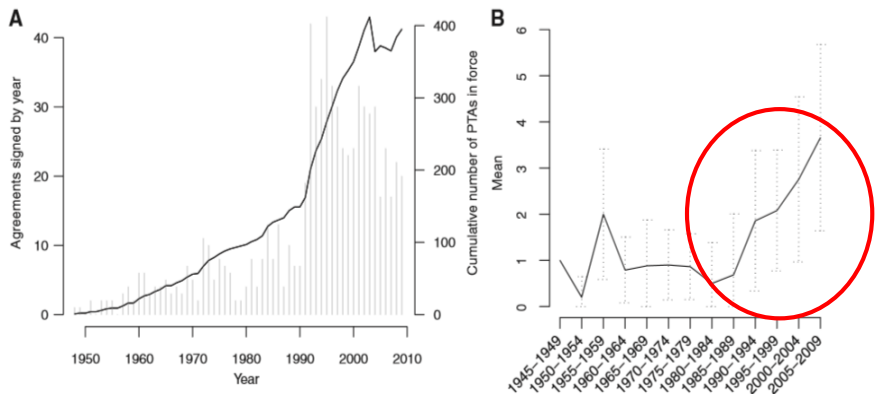


Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. Physical RTAs: goods, services & accessions to an RTA are counted together. The cumulative lines show the number of notifications/physical RTAs that were in force for a given year. Source: WTO Secretariat.



## 2. The number and depth of trade agreements (2)

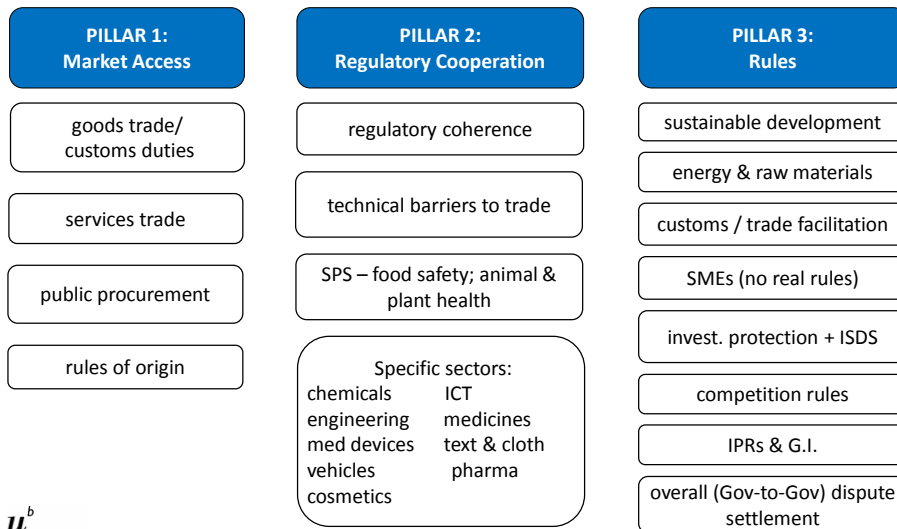
**DESTA (DESIGN of Trade Agreements):** not just the number (A) but also the **depth (B)** of trade agreements has been gradually increasing.



Source: Dür et al. (2014)



## 2. The number and depth of trade agreements (3) Example: TTIP



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

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

\* 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)

Mega-regional	US	EU	Japan	China	Russia	India	Canada	EFTA	LDC
CETA	Out	In	Out	Out	Out	Out	In	Out	Out
EU-Japan	Out	In	In	Out	Out	Out	Out	Out	Out
RCEP	Out	Out	In	In	Out	In	Out	Out	Part in
TiSA (pluri)	In	In	In	Out	Out	Out	In	In	Part in
TPP	Out	Out	In	Out	Out	Out	In	Out	Part in
TTIP	In	In	Out	Out	Out	Out	Out	Out	Out
EU-South Korea	Out	In	Out	Out	Out	Out	Out	Out	Out
APEC	In	Out	In	In	In	Out	In	Out	Part in

- **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' losses** (Viner, 1954) – but: Trade 2.0?
  - Who is linked through value chains?
  - Regulatory alignment – i.e. **spill-overs?**



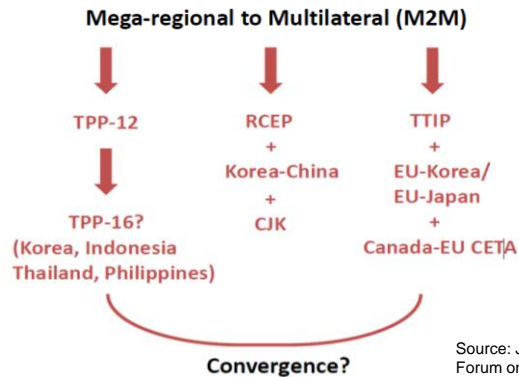
### 4. Implications for WTO (1)

**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?



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 3<sup>rd</sup> 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**?



### 4. Implications for WTO (6): Spill-overs – Example: TTIP

**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**.

**Table 41** Total effects on GDP for rest of the World (in million euros and per cent), 2027 benchmark. 20 per cent direct spill-overs

	Ambitious	
	Million euros	Per cent
European Union	119,212	0.48
United States	94,904	0.39
Total Other Countries	99,171	0.14
<i>Whereof:</i>		
Other OECD, high income	36,322	0.19
Eastern Europe	2,328	0.33
Mediterranean	1,063	0.08
China	5,487	0.03
India	2,338	0.04
ASEAN	29,834	0.89
MERCOSUR	1,545	0.03
Low Income	2,366	0.20
Rest of World	17,887	0.12

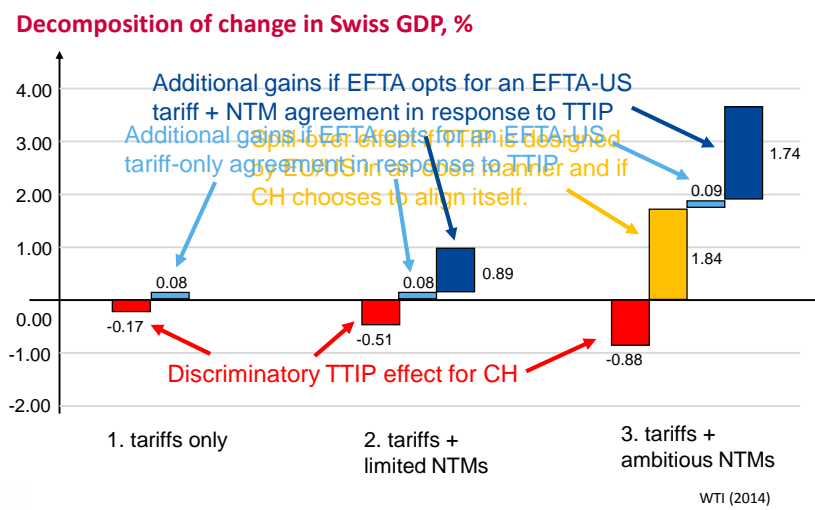
Source: COE modelling.

Source: CEPR (2013)

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





## 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!**

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