

Can Mega-Regionals Support Multilateralism?

Jeffrey J. Schott
Senior Fellow

Peterson Institute for International Economics

Presented at the OECD Global Forum on Trade
“Reconciling Regionalism and Multilateralism in a Post-Bali World”
Paris, 11 February 2014

Can mega-regionals support multilateralism?

- Success of the GATT era has not been replicated.
- Though the WTO has attracted many new members, including China and Russia, and the WTO's dispute settlement mechanism (DSM) has worked well:
 - WTO negotiations have produced only minor results.
 - The DSM is vulnerable to overload.
- As Geneva talks drifted, major trading nations refocused efforts on mega-regionals as potential “Plan B”:
 - Trans-Pacific Partnership (TPP), since March 2010.
 - Transatlantic Trade and Investment Partnership (TTIP), since July 2013.
 - Regional Comprehensive Economic Partnership (RCEP) linking ASEAN with China, Korea, Japan, India, New Zealand and Australia, since May 2013.

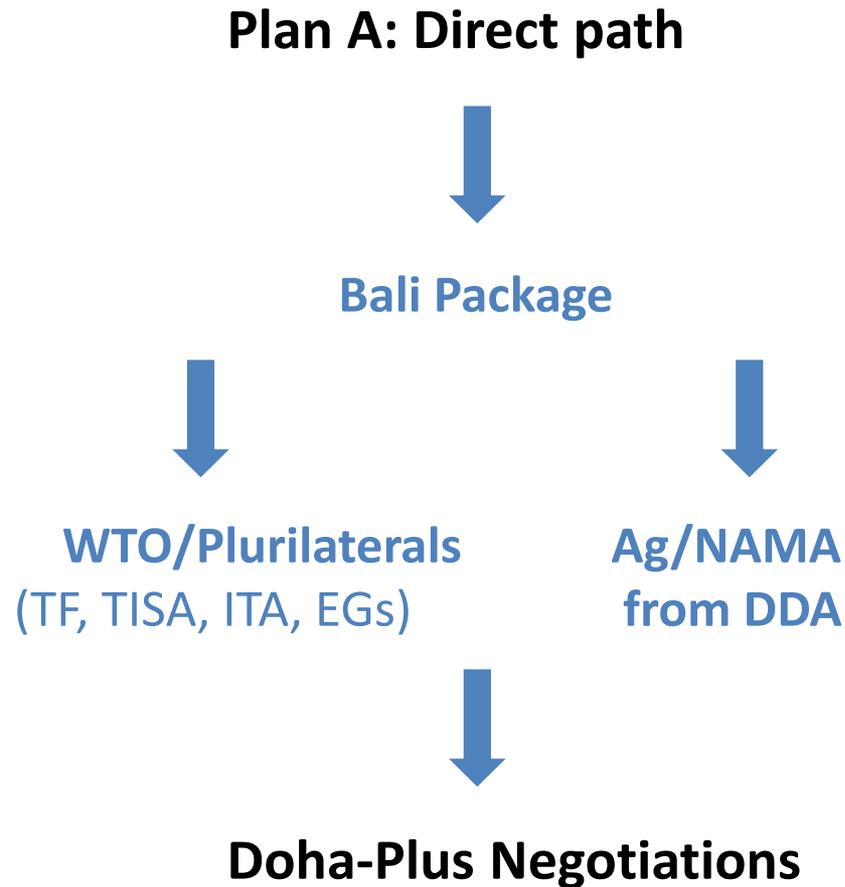
The rise of “mega-regional” trade partnerships

| | TPP | TTIP | RCEP |
|---|------------|-------------|-------------|
| Number of countries participating | 12 | 29 | 16 |
| Aggregate share of world GDP (%) | 38 | 46 | 29 |
| Aggregate share of world exports (goods + services) (%) | 24 | 25 | 30 |
| Realistic completion date* | 2014 | 2015-16 | 2016-18 |

* Author's estimates.

Source: IMF, Direction of Trade Statistics (DOTS), 2013.

First option for WTO recovery



Plan A: direct path

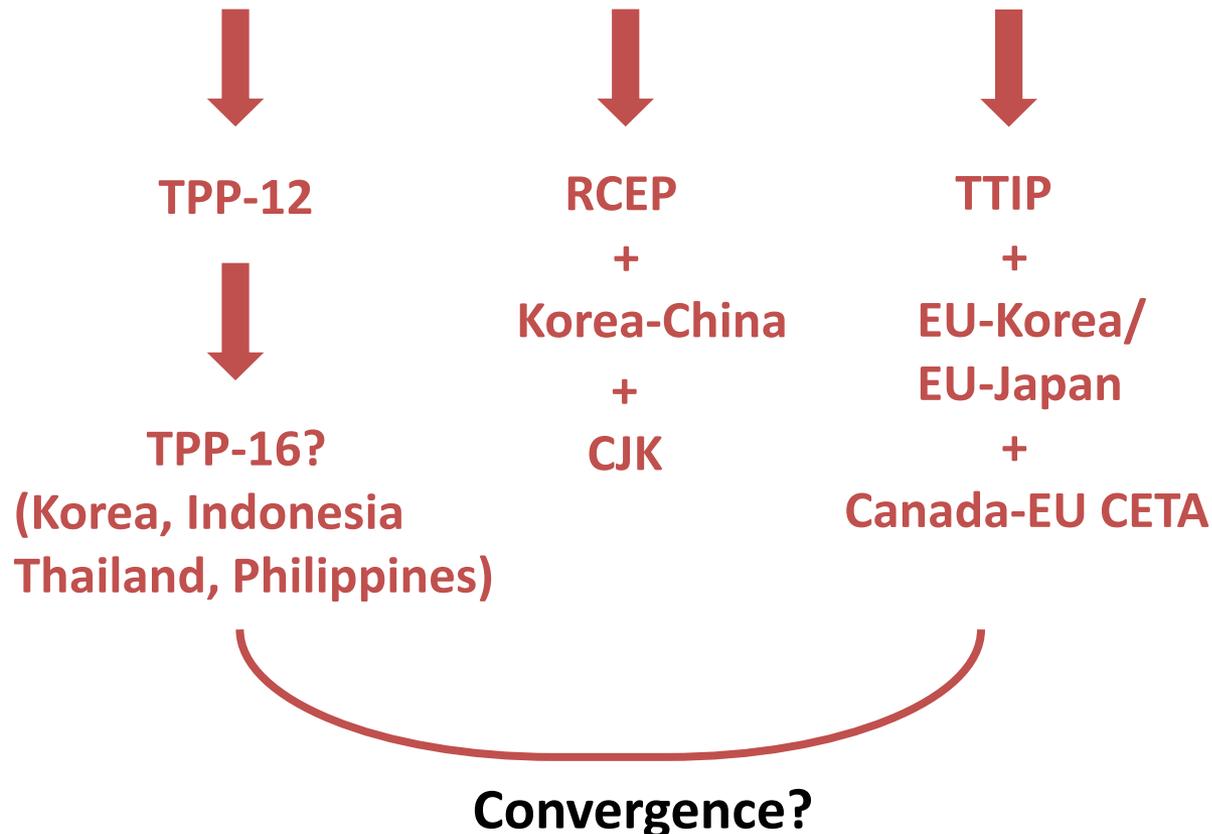
- The Bali Ministerial in December 2013 demonstrated that WTO talks can produce results.
- The Bali deal should propel work on an ambitious and balanced WTO Recovery Package.
- Progress is needed on at least some plurilateral deals coupled with specific benefits for the least developed countries (LDCs). Major trading nations need to lead these talks:
 - For US and EU, means real constraints on farm subsidies and real new access for LDC exports.
 - For China, means committing to broader liberalization than other developing countries.
 - For all the BRICs, means advancing services negotiations as a means to unblock the negotiating impasse on agriculture and NAMA.

Big trade deals in the making

- Bali agreement on trade facilitation needs prompt implementation; TISA, ITA and EGs should advance quickly in 2014 to complement and reinforce the DDA:
- **Trade Facilitation Agreement**
 - Moving goods quickly and cheaply means more trade and higher incomes. Average world tariffs 5% *ad valorem*, but average trade costs 10% *ad valorem*.
- **Trade in Services Agreement**
 - Expanded services trade should drive world commerce but is hindered by high barriers. Shifting resources to services in developing countries would unlock substantial gains.
- **Expanded Information Technology Agreement**
 - Trade in IT products has been key driver of global economic growth; global IT exports tripled between 1996-2010. Expanding ITA coverage and membership would further augment these gains.
- **Environmental Goods Agreement**
 - Fourteen countries, accounting for more than 85 percent of the \$950 billion in global trade of the covered EGs, negotiating tariff cuts.

Second option for WTO recovery

Plan B: Mega-regional to Multilateral (M2M)



Plan B: Mega-regionals to Multilateral

- Multilateral agreements had always been developed in GATT/WTO rounds. Could a similar result emerge from the convergence and linkage of bilateral and mega-regional pacts?
- Could the TPP, TTIP and RCEP – each of which represents a sizeable share of world output and trade – catalyze a M2M process that revives WTO negotiations?
- What features link or set the mega-regionals apart?
- How could mega-regionals supplement Plan A efforts to conclude WTO deal in coming years?

Mega-regionals: How much convergence?

1. Complementary agendas but not common content:

- TPP and TTIP: much like KORUS FTA with comprehensive liberalization of goods/services and WTO-plus rules on investment, competition, regulatory issues, etc.
- RCEP: less ambitious re scope and depth of trade reforms; special preferences and exceptions for poorer members.

2. Different time zones:

- TPP-12 nearing completion; TTIP/RCEP in early stages of multi-year negotiations.

3. Overlapping membership:

- 7 of 16 RCEP countries in TPP; 4 others interested (Indonesia, Korea, Philippines, Thailand), so could result in TPP-16 in the medium term.

4. Possible areas of convergence:

1. TPP-TTIP rulemaking, incl. some regulatory issues
2. TPP-RCEP toward TPP rulemaking
3. Interim convergence within Asia: via Korea-China, CJK pact; between Asia and Europe: via EU-Korea/EU-Japan

New precedents for the world trading system?

- Negotiators learn by doing, and RTAs have often served as laboratories for developing new disciplines not yet covered by WTO.
- TPP reforms and rulemaking precedents:
 - Environment and labor provisions
 - Competition policy and state-owned enterprises
 - E-commerce and data flows
- TTIP efforts on services (likely) and agriculture (unlikely):
 - Coordinate US-EU positions on TISA talks
 - Bilateral agreement on domestic farm support would help spur WTO deal.
- RCEP will help its developing members better prepare for multilateral reforms via incremental liberalization of goods and services; innovative approaches to capacity building.

Conclusions

- Successful multilateral negotiations are crucial for a well-functioning WTO.
- Two options could revive progress on comprehensive WTO negotiations:
 1. Plan A: builds on the results from Bali to reinvigorate WTO negotiations in 2014. WTO members should supplement DDA work on agriculture/NAMA with initiatives on services, EGs, info tech products et. al. to craft an ambitious and balanced WTO package.
 2. Plan B: charts a novel but more uncertain progression of talks, building on mega-regional initiatives and the bilateral pacts that link them together.
 3. Plan A & B are complementary and should be pursued simultaneously.