

Mega-regional Trade Agreements:

Game-Changers or Costly Distractions for the World Trading System?

Insight Report

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Agenda

1 Background

- GAC on Global Trade and FDI
- Objectives of the report

2 Executive summary - Key messages

3 Highlights of the report

- The rationale behind mega-regionals
- The impact of mega-regionals
- Facilitating the relationship between mega-regionals and the multilateral trading system

1

Background

Background

GAC on Global Trade and FDI

The focus of the **Global Agenda Council (GAC) on Global Trade and FDI** is on identifying and understanding key issues driving world trade and FDI, with a view to exploring new approaches to enhancing governance of these issues

Previous reports have looked into:

- the case for a multilateral agreement on investment,
- global value chains and its implications for developing countries and trade policy,
- preferential trade agreements and the world trading system, and
- a plurilateral approach to WTO reform and new issues

Background

Objectives of the report

To explore the impact mega-regionals may have **on countries that are not part of the negotiations**

- There is no single view on this and it is not the purpose of the report to present one

To highlight opportunities and challenges in **promoting the coexistence** of mega-regionals –should they come to fruition- with the multilateral trading system

- Relevance of consciously facilitating the relationship between mega-regionals and the multilateral trading system

2

Key messages

Key messages

1 of 6

Negotiation of mega-regional agreements are different from negotiations of other bilateral and regional agreements: they involve more partners, from different levels of development and different regions, covering larger volumes of trade, and aiming at reaching agreements of a deeper nature on a wider scope of issues

- TPP and TTIP stand out as potential new pillars of trade governance, complementary to the multilateral trade system
 - Affect a share of at least a quarter of world trade in goods and services and of global FDI
 - At least two economies party to the agreement are hubs in GVCs (as evidenced by their share of trade in intermediate goods and tasks in the region)
 - Coverage goes deeper and beyond existing WTO rules, RTAs and BITs (addressing a minimum of areas and regulatory reform essential to 21st century world markets)
 - Parties to the agreement are engaged in multiple RTAs with third-party economies and enjoy extensive trade and investment exchange with a significant number of non-members

Key messages

2 of 6

If current negotiations are successful, new rules will shape trade and investment flows, underpin global governance on 21st century trade issues and facilitate the proliferation of GVCs

- Their emphasis on promoting broad liberalization, reducing non-tariff barriers and addressing regulatory hurdles would unleash new opportunities and bring about more growth to the world economy
- They may also bring more dynamism to the multilateral trading system, spearheading a virtuous circle of enhanced rule making and trade liberalization
- Mega-regionals may tidy up the spaghetti bowl of deep RTAs, unilateral reforms and BITs

Key messages

3 of 6

Or they may not –much will depend on specific provisions and the type of preferences they will create

- Not all preferences are equal
 - Hard preferences, i.e. preferences imply discrimination
 - Soft preferences, i.e. preferences that lack “discrimination technology”
 - Non-preferences; i.e. reforms that act like multilateral liberalization
- The greater their discriminatory nature, the higher the friction and fragmentation risks they entail
- Evidence is that almost all RTAs have led to “reverse trade diversion”

Key messages

4 of 6

The impact of mega-regionals on non-members is not a minor issue as about 160 nations are not part of the negotiations

- Countries' diverse reactions to these negotiations may determine, at least in part, the impact of these agreements on individual non-members, as well as on participating nations
 - Do nothing
 - Reject, withdraw, obstruct
 - Enact autonomous reforms
 - Join them
 - Compete with them
 - Re-engage in the WTO
- Mega-regionals may impact Africa, the Asia-Pacific and Latin America in different ways
- The broader question of the geopolitical impact that mega-regionals may have in today's world demands reflection

Key messages

5 of 6

Several measures can help ensure that mega-regional agreements complement rather than undermine the multilateral trading system

- Consciously crafting agreements that are open to additional members and that create more integrated and contestable markets
- Improving transparency, exchanges on best practices and reviews of the systemic impacts of these agreements –by the WTO, official institutions and/or think tanks
- Strengthening the role and maintaining the centrality of the WTO in the trading system
 - An ambitious post-Bali multilateral agenda
 - Open plurilaterals

Key messages

6 of 6

Conclusion of TPP and TTIP cannot be taken for granted

- There are big negotiating challenges ahead, and domestic political divisions in participating countries to be bridged
- If mega-regionals fail, the consequences on the potential of trade and investment to continue driving world growth and prosperity will be considerable

3

Highlights of the report

- The rationale behind mega-regionals – Karan Bhatia
- The impact of mega-regionals – Uri Dadush
- Facilitating the relationship between mega-regionals and the multilateral trading system – Gary Hufbauer

Q&A

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