

ESASCD 2006/2007
Master in Cooperation and International Economic
Integration

Trade Negotiations Module
Regional Trade Negotiations

Multilateralism vs regionalism?
Trends and key features

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Outline

- Definitions and principles
- Trends
- Challenges and opportunities
- North-South RTAs...and the EU
- South-South RTAs
- WTO compatibility-GATT Art XXIV



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Trade policy fora

Unilateralism

Multilateralism: WTO (GATT, etc.)

rules + liberalisation process:

- principle of non-discrimination (MFN)
- special and differential treatment (SDT)
- GATT art XXIV, GATS art V, Enabling Clause

Preferential treatment:

Unilateral: Generalised system of preferences (GSP)

Bilateral / regional agreements:

- reciprocity: FTAs, CUs, Association Agreements

Definitions and principles

- FTA – CU – Common Mkt (common institutions)
- Static effects: Trade Creation vs Trade Diversion (more likely if: comp adv specialisation-fact endowm complementarity, product differentiation&overlapping D) + reallocation of factors
- Dynamic effects: investment, ec scale, competition, spillovers (training / tech transfer)



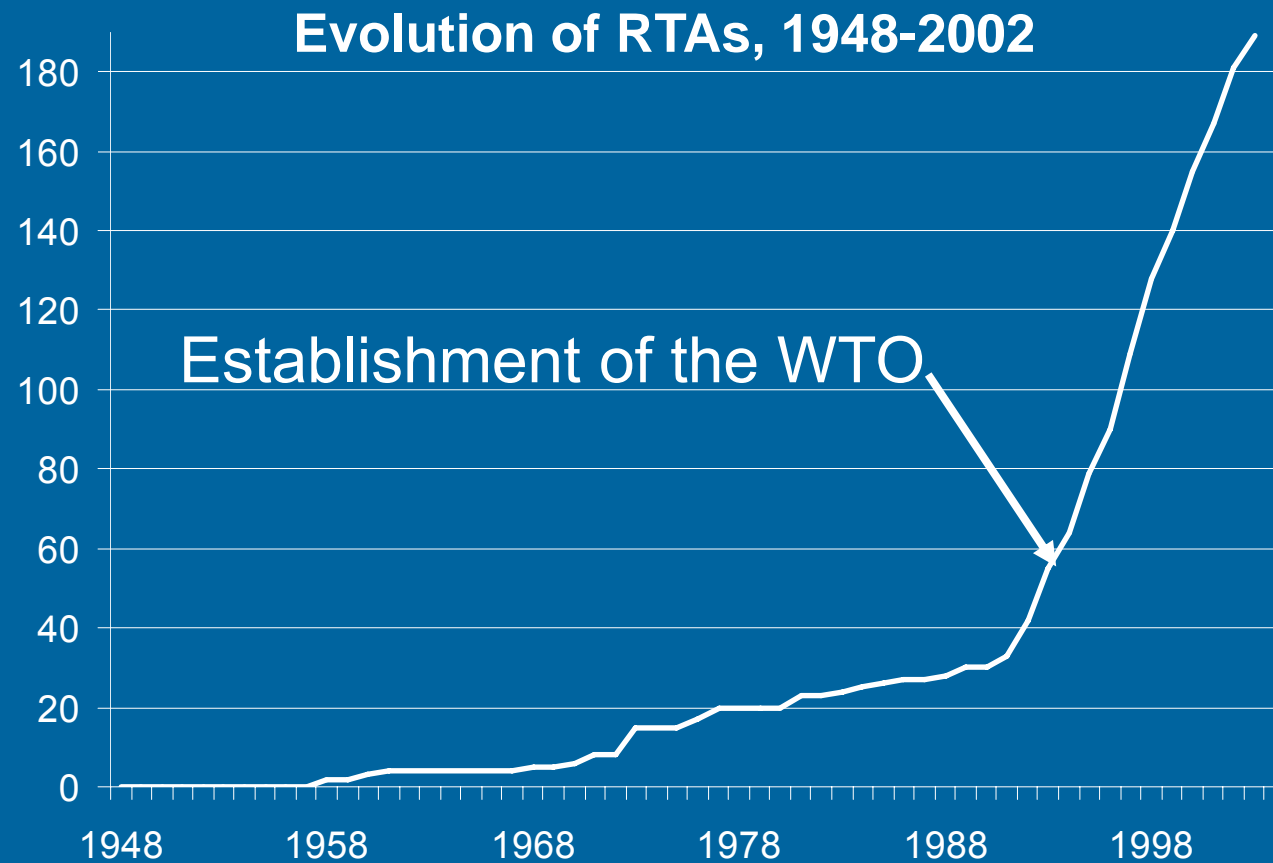
New wave of regionalism

Regional Trade Agreements (RTAs):

- Bilateral (75% of notified; 90% under negotiations) / Regional / Reg 2 Reg
- Regional / Cross-regional

- Also due to sluggish multilateral negotiations...2004 to 2005 43 RTAs notified to WTO
- Total: 170 notified-20 ratification
-70 negotiation

The number of RTAs has increased sharply over the past few years...



Source: WTO Secretariat



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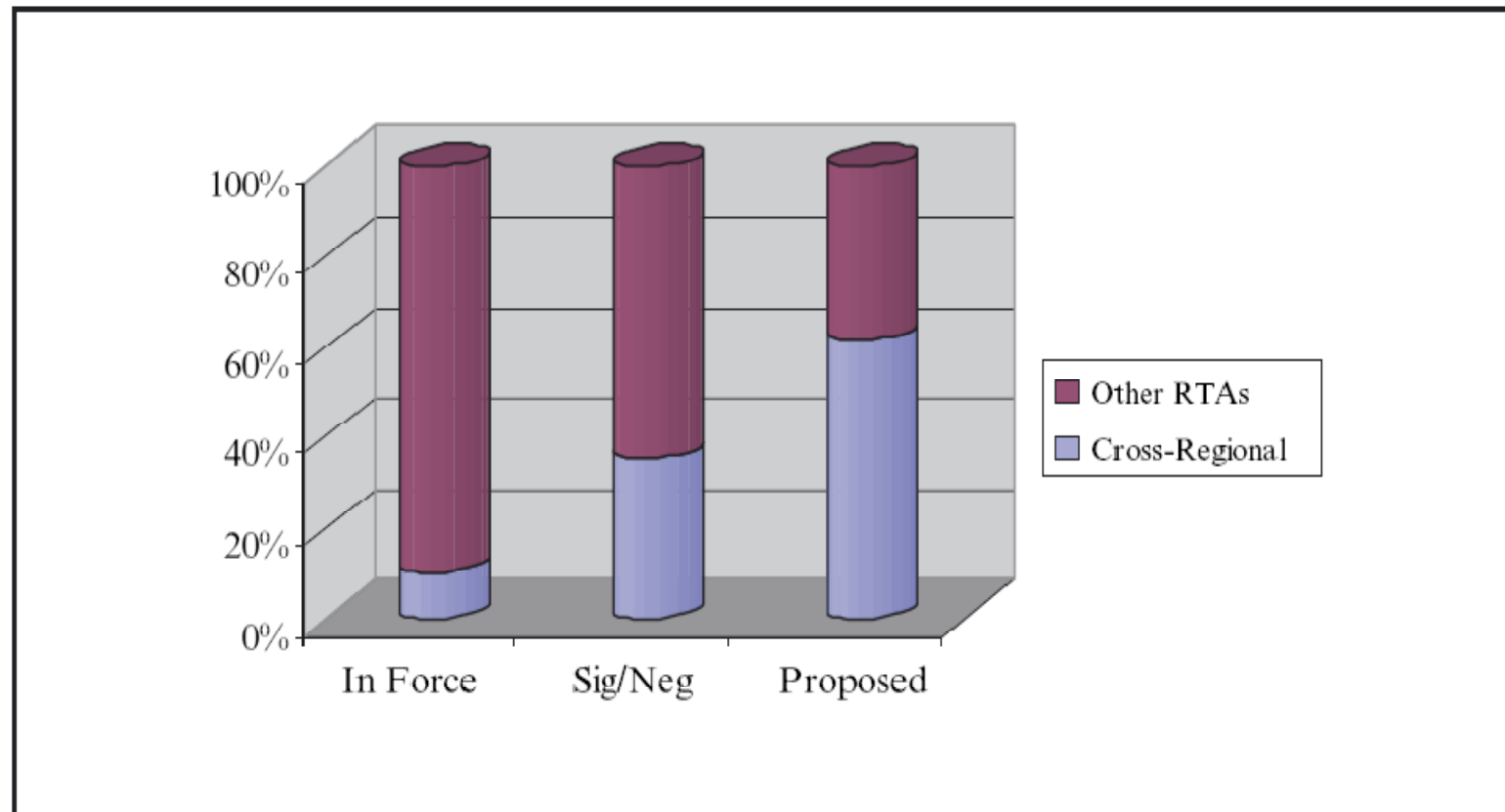
e.g.:

- EU-Mediterranean countries
- EU-Chile
- EU-Mexico
- EU-South Africa
- US-Jordan
- US-Israel
- US-Singapore
- Canada-Chile
- Canada-Costa Rica



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Chart 5: Cross-Regional RTAs, as a percentage of total RTAs as of February 2005



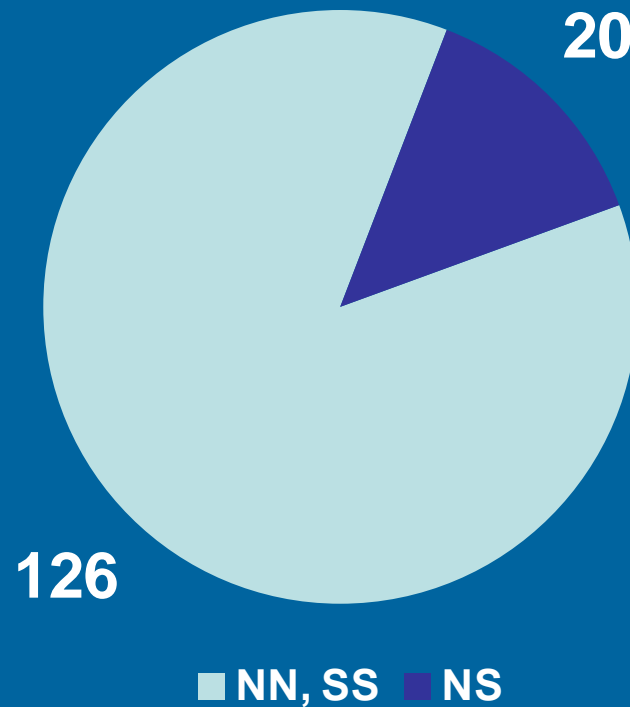
Challenges and opportunities for the MTS

- RI could be building bloc (EU explicit) or derail multilateralism (WB advocates against proliferation of preferences)
 - RTA easier (simpler; common aims/institutions, easier to harmonize behind-border measures, more time for adjustment, regional scale economies; easier to predict losers)
- ...but if regional blocs become protectionist: war; distortion/diversion in a globalised economy; regional champions can be rent-seekers
- Other objectives: domino effect (insurance against financial instab or trade wars); security; international bargaining power; locking in/credibility/signalling, common institutions are cheaper

Challenges and opportunities for DCs

- Advantages: temporarily addresses erosion of preferences (ACP); in principle less complex; regional partners & development levels
- RI more political objectives (SADC example)...is it the best tool?
- Major risks from North-South RTAs: generally more ambitious than WTO, FTA++; bargaining power; asymmetry (South less prepared to bear costs, enabling conditions)

the number of North-South FTAs is still relatively small.

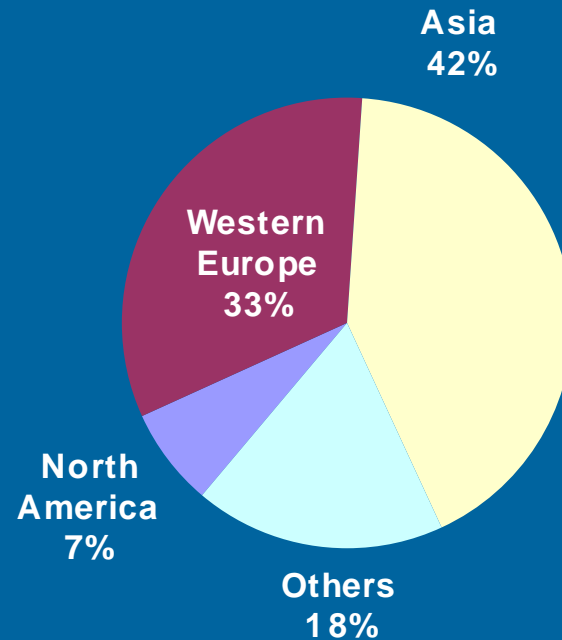


Source: WTO Secretariat

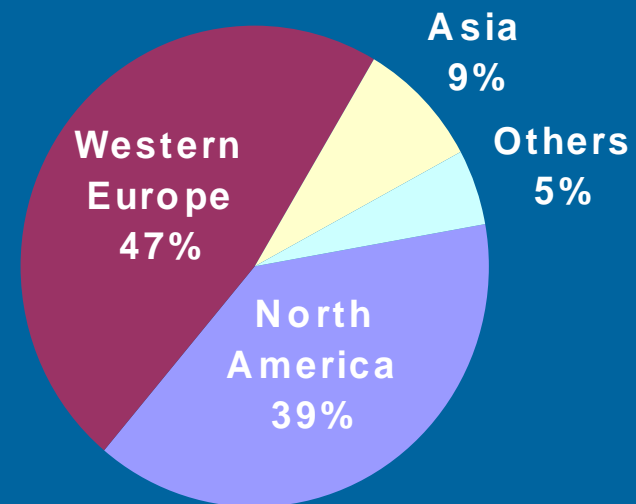
However, trade with northern partners remains crucial for the South, in particular the LDCs...

Merchandise exports LDCs by destination, 2001

Agricultural products



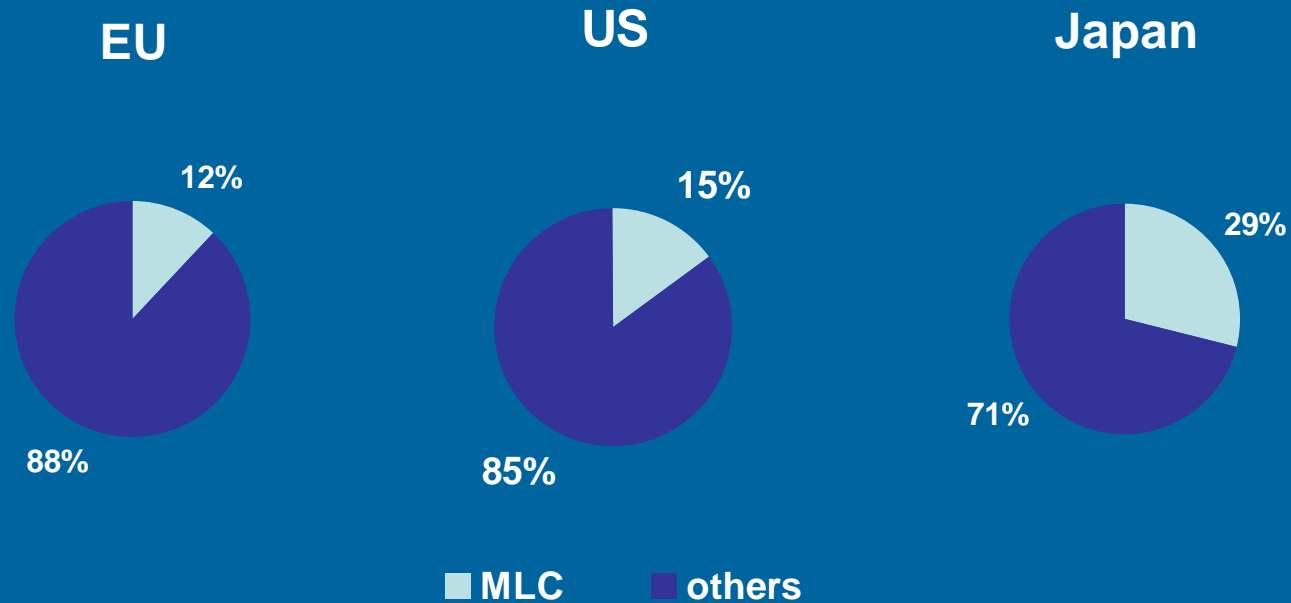
Manufactures



Source: WTO Secretariat

...While trade with Southern partners remains of lesser importance for the North

Merchandise exports to middle and lower income countries (MLC), 1999



Source: OECD

At the level of the regions, asymmetry in trade-dependence

	% of regional exports to EU	% of regional imports from EU	% of total EU exports to region	% of total EU imports from region
CARICOM	12,7 %	21 %	0,4 %	0,3 %
Mercosur	17,5 %	18 %	2,5 %	2,3 %
EAC	40 %	26 %	0,0 %	0,0 %
Pacific	11 %	1 %	0,0 %	0,0 %
ECOWAS	31 %	41 %	1,2 %	1,1 %
CEMAC	38 %	60 %	0,0 %	0,0 %
COMESA	35 %	33 %	1,3 %	1,2 %

Source: IMF and Eurostat

General trends in North-South RTAs

- Move away from trade preferences, towards **reciprocal** RTAs
- North-South RTAs build on Southern regionalism:
 - threat or opportunity?
- Developed Countries are diverse, so are North-South RTAs
 - US ≠ EU approach
 - diverse menu (e.g. EU FTAs differ)
 - linkages to politics, strategic support, aid, etc.
- Tensions when diverging agenda:
 - WTO vs. RTAs (e.g. Singapore issues)
 - among RTAs (S-S, with US, with EU, etc.)
- N-S RTAs
for integration of DCs into world economy?

The EU: model and promoter

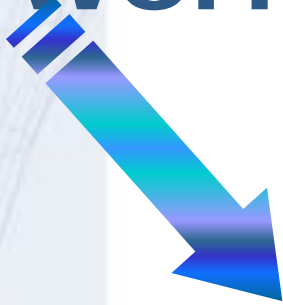
- EU experience : best known example (successful); model vs. anti-model...(UEMOA vs ASEAN); fallacy of transposition; domino effect
- EU officially pushes:
 - wants to 'drive' global integration
 - type of integration: Deep (Rules, Services, IPRs, Singapore Issues)...
 - Regionalism as step for multilateralism ('60s Customs Union-'92 Single European Market also NTB and services)

EU support to RI

- Direct support to RI:
 - Experience sharing
 - Aid
 - Political cooperation
 - Economic cooperation
- Conclusion of bi-regional agreements
- Fine line betw. support – influence - impose
- Defence of EU interests
 - Signalling
 - regulatory aspects



4. EU Trade policy - How it works



Towards a new generation of FTAs: “WTO++”

- opening markets for trade in goods
- + investments, services, rule-making, standards, non tariff measures

>> EU-Chile an example

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ecdpm

Quality of DCs institutions & Trade policy process

- Institutional race against the clock (multiple negotiations)
- Institutional development needs: Political leadership, capacity, ownership (inclusiveness), accountability(transparency), and a long-term vision...
- trade capacity-building programmes (top of the agenda since DDA...EU at different levels) enough as long term solution??
- Effectiveness in general: short term, S driven, national level?

South-South RTAs

- S-S trade increasing fast ; and is going to be crucial for South...there the highest barriers
- S-S RTAs increasingly important...(SACU-SADC) Mercosur, Asian countries very active, EPA debate, Tripartite dialogue (Brazil-South Africa-India)
- UNCTAD XI (São Paulo 2004) launched the third round of trade negotiations ('89) under the Global System of Trade Preferences Among Developing Countries (GSTP) : "package of substantial trade liberalization commitments" to promote economic complementarities among them.
- The trade of the 43 GSTP members is about 55% of all developing-country trade.
- The "Committee of Participants" to the Agreement, administers the System in Geneva with the technical support of the UNCTAD secretariat.
- China and the Group of 77 invited to accede to the Agreement and to participate in the new round of negotiations, which is expected to conclude in two years.

WTO - compatibility

reciprocity

- FTAs / RTAs:
 - ✓ Enabling clause: DCs
 - ✓ GATT Article XXIV & GATS Art.V
- non-reciprocity:
 - Enabling Clause: GSP (DCs) – EBA (LDCs)

GATT Art. XXIV

- substantially all trade (SAT) - ???
 - no exclusion of major sectors
 - 1) tariff lines (Australian formula); or
 - 2) total value of trade among partners:
 - EC: average of 90% - asymmetry
 - affected by:
 - level of protection
 - balance of trade
 - special case: end-rate \neq 0 (e.g. TDCA)

GATT Art. XXIV

- transition period:
 - ✓ 10 years
 - ✓ exceptional cases: 12 years
 - ✓ in practice: up to 15 – 18 years...
- For Doha Round to be “development friendly”:
It must address the concern on SAT and long transition periods when gap in development levels is large among membership of RTAs.

**For more information on ACP-EU
trade relations, please refer to:**

**www.acp-eu-trade.org
www.ecdpm.org**



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