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Mega-Regionals, Excluded Nations and the WTO post-Bali

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Background

- Doha deadlock: ‘Elephants’ cannot agree
  - Negotiating set too small; status quo not too bad (BATNA…); neither US/EU or BRICS in the market for significant liberalization
  - China “fear factor” & geo-politics
- Shift by US (and EU) to “mega-regionals”
- Aim: “21st century agreements” – FDI, SOEs, state aid, IPRs; data protection, digital trade, etc.
  - Focus on regulation as source of trade costs and market segmentation

Further steps down a well-trodden road

- EU: Long-standing strategy
  - ACP—EPAs; Association & Partnership agreements; EU-Korea; EU-Canada; now TTIP, ….
- US: TPP—2nd major effort (previous: FTAA)
- "Plurilateral" trade in services negotiations
- RCEP, AEC etc. in East Asia
- Tripartite in Africa (SADC, COMESA, EAC); Eurasian Customs Union, many more

MFN vs. non-MFN clubs

- PTAs ≠ critical mass "plutilaterals" like the ITA
- Most countries <u>not</u> part of the new PTA initiatives
  - PTAs ≠ open regionalism
    - Most are geographic in nature/design
    - A Trade in Services Agreement will be open but it is not going to a multilateral agreement; MFN?
- Impacts of mega-regionals on non-members depends on what is negotiated—unknown at this point
- Experience to date with large <u>regional</u> deals has been very mixed – FTAA, ASEAN+, COMESA, etc.
- Some bilaterals seem to have better track record

Upsides and downsides

- ***Positive***: PTAs as laboratories—fora to make progress on rule-making and new forms of cooperation in areas not covered by the WTO
- ***Negatives***: (i) opportunity cost of "non-WTO"; (ii) trade diversion costs; (iii) global systemic costs
  - Diversion: Most tariffs now low; there are already many PTAs in place that imply preferential access
  - But the new blocs may define different rules of the game and negatively affect excluded countries
  - Diverging approaches likely; multi-tier trading system, especially if mega-regionals succeed and China stays out

Options for “excluded” nations

- Re-vitalize WTO process—finish DDA; expand it; kill it off and start fresh
  - Does the Bali deal signal a change in dynamics?
- Jump on the trains that appear to be moving
  - Conclude/deepen own PTAs
  - Participate in those PTAs that are open (e.g., TISA)
  - Connect with the (members of) mega-regionals
- Kick start the car that is stuck: employ the WTO “machinery” to better effect

Some options to kick-start the WTO option(s)

1. Use WTO mechanisms to learn from PTA experiences
2. Use DSU to enforce key aspects of own PTAs
3. Leverage the transparency function—cut across WTO "silos" by cooperating with business
4. Pursue small group efforts to discuss new areas for cooperation/rule-making
5. Use the WTO plurilateral agreement option — embrace more variable geometry

1. Learning from PTAs

- Much of what is at issue in mega-regionals revolves around regulatory policies
  - Product standards; services policies; border management & security; privacy/data/the Cloud, etc.
- Hard to negotiate using first difference techniques
  - Need agreement on – and application of – principles ("good practices")