

Mega-Regionals, The WTO, and country response

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Story Line

- Mega-regionals, a response to mega-trends
- Modest effect on market access, big potential impact on rules
- Success of mega-regionals uncertain, but there will be important implications for the WTO
- ...And all countries will have to respond

The Essence of Mega-Regionals

- Big
- Deep and comprehensive
- Trans-Regional
- Explicitly aim to push the envelope on rules

TPP and TTIP stand out...

TPP

12 countries

40% of world GDP

**Over a quarter of
world trade**

TTIP

28 countries

45% of world GDP

**Almost a third of
world trade**

39 countries
60% of world GDP
Over 50% of world trade

The Avalanche



M-Rs May Result in More “Competitive Liberalization”

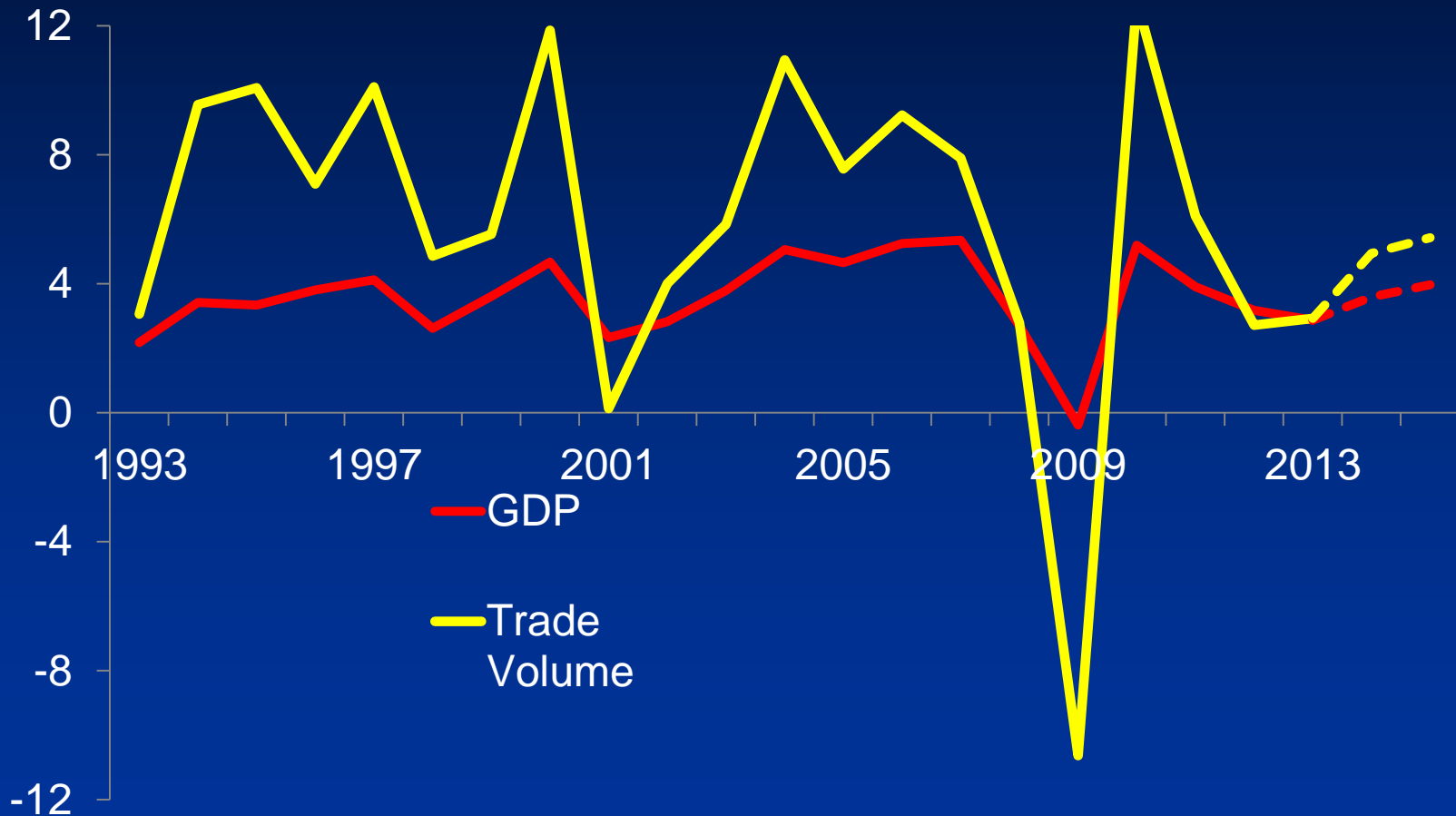
- Eu-Japan
- Japan-Australia
- RCEP
- China-US and –EU BITs
- Korea-TPP ?
- Turkey-TTIP ?
- Etc.

Mega-Regionals Respond to Mega-Trends

- Doha Pessimism + Slowing trade
- Murky picture on protectionism
- Rise of the rest
- Trade as Production
- Big new (and old) trade agendas

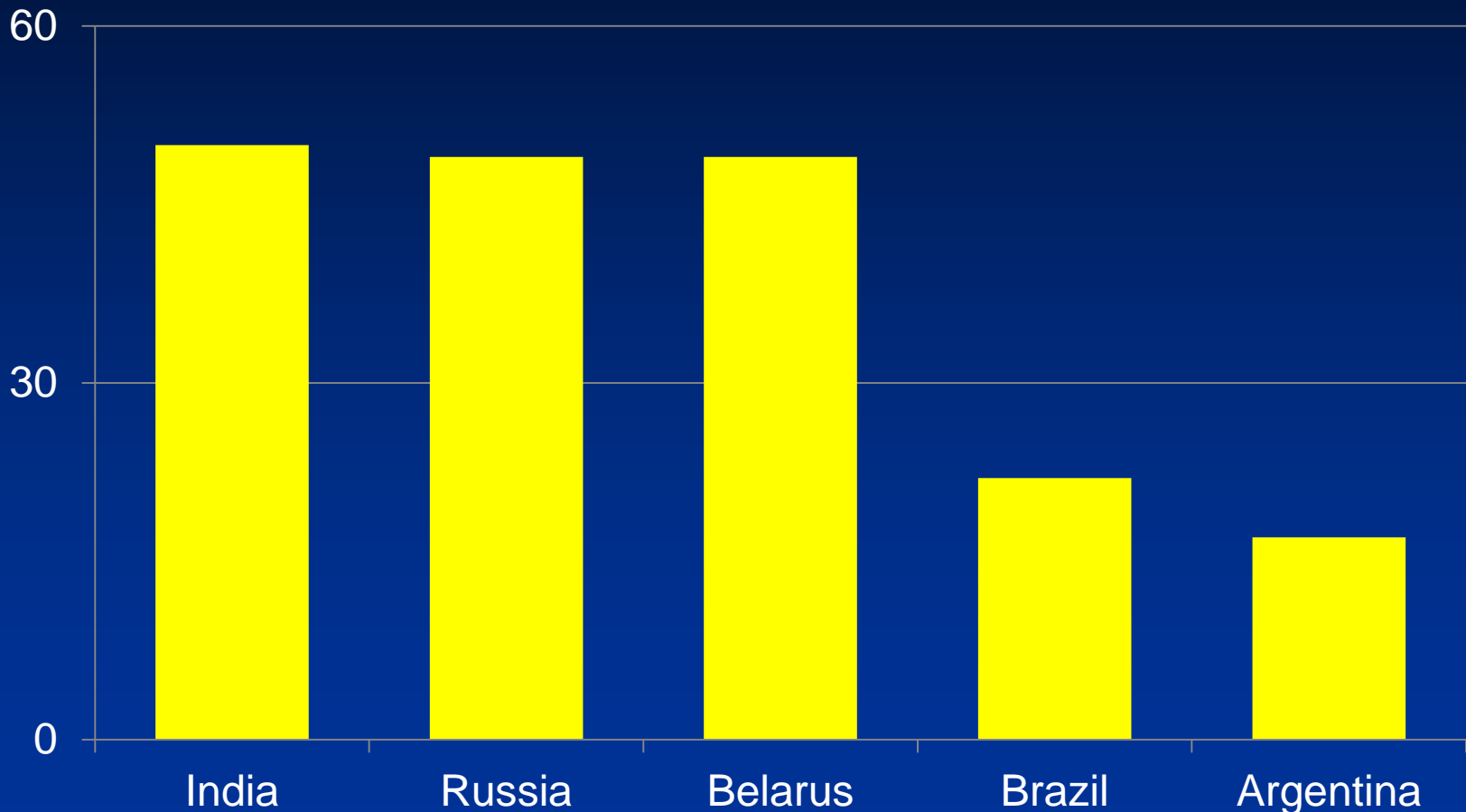
Trade Volume and GDP

Annual Percent Change in Volume of World Trade and GDP
(USD, constant prices), 1993-2013



Murky Picture on Protectionism

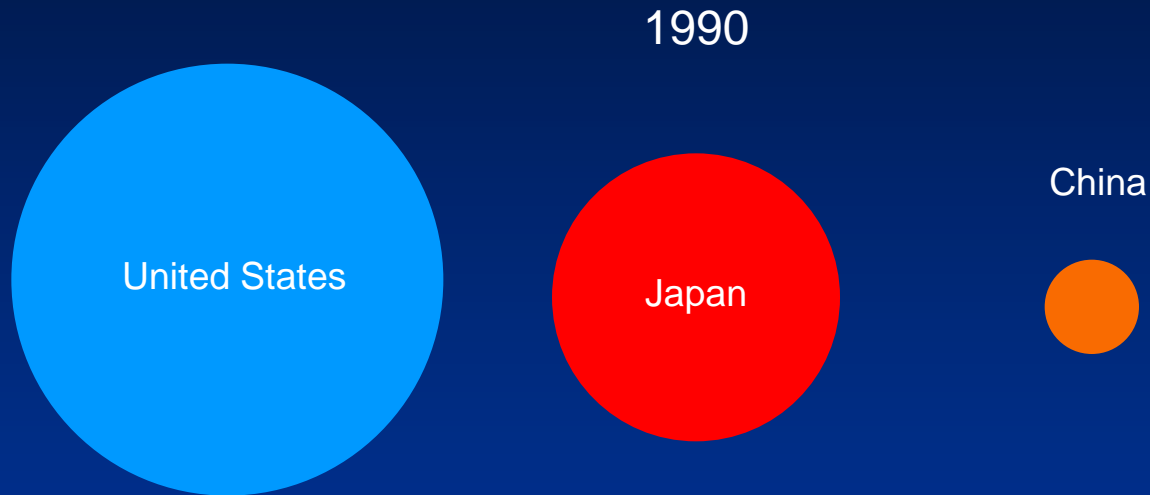
**Countries Implementing the Most Protectionist Measures
Mar. 2013 - Mar. 2014**



Source: Global Trade Alert

Rise of the Rest

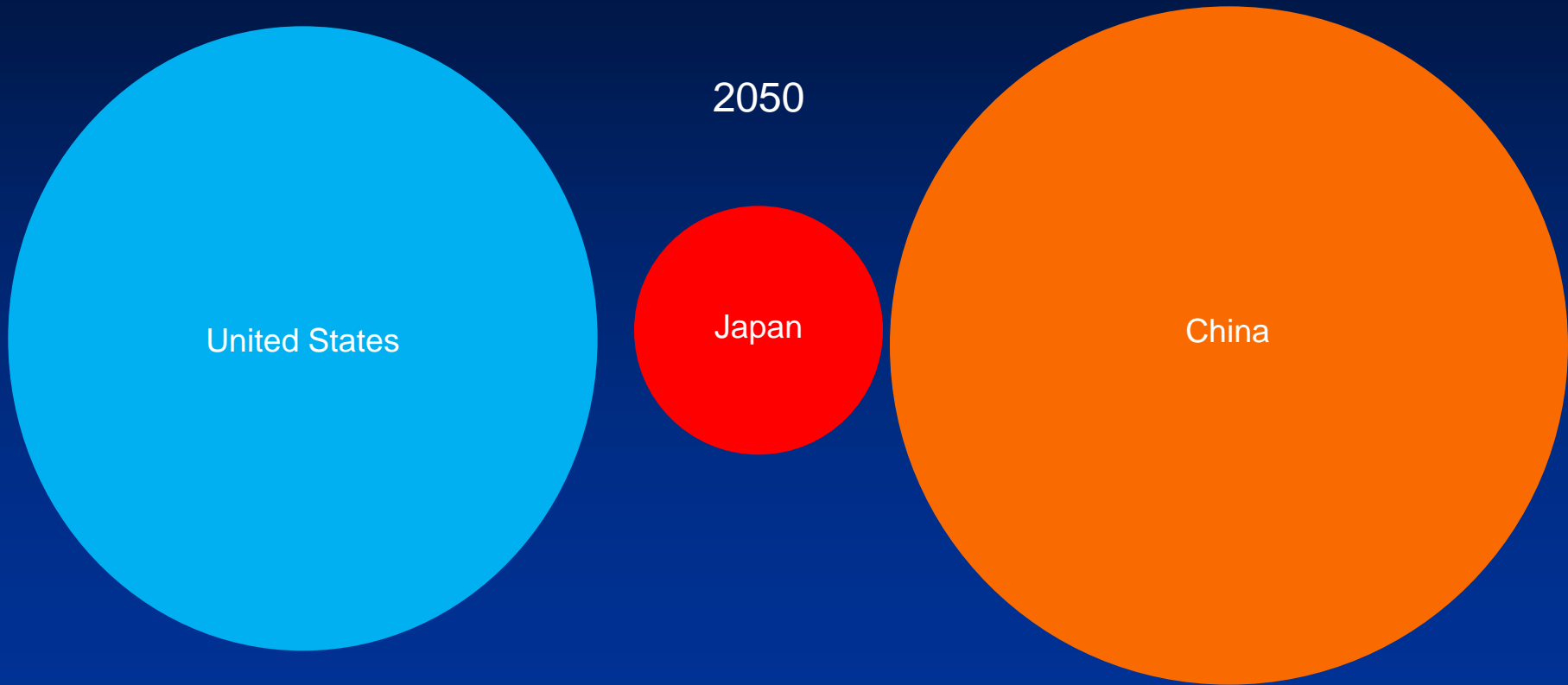
Circle represents relative size of economy
Real U.S. dollars



Source: World Bank.

Rise of the Rest

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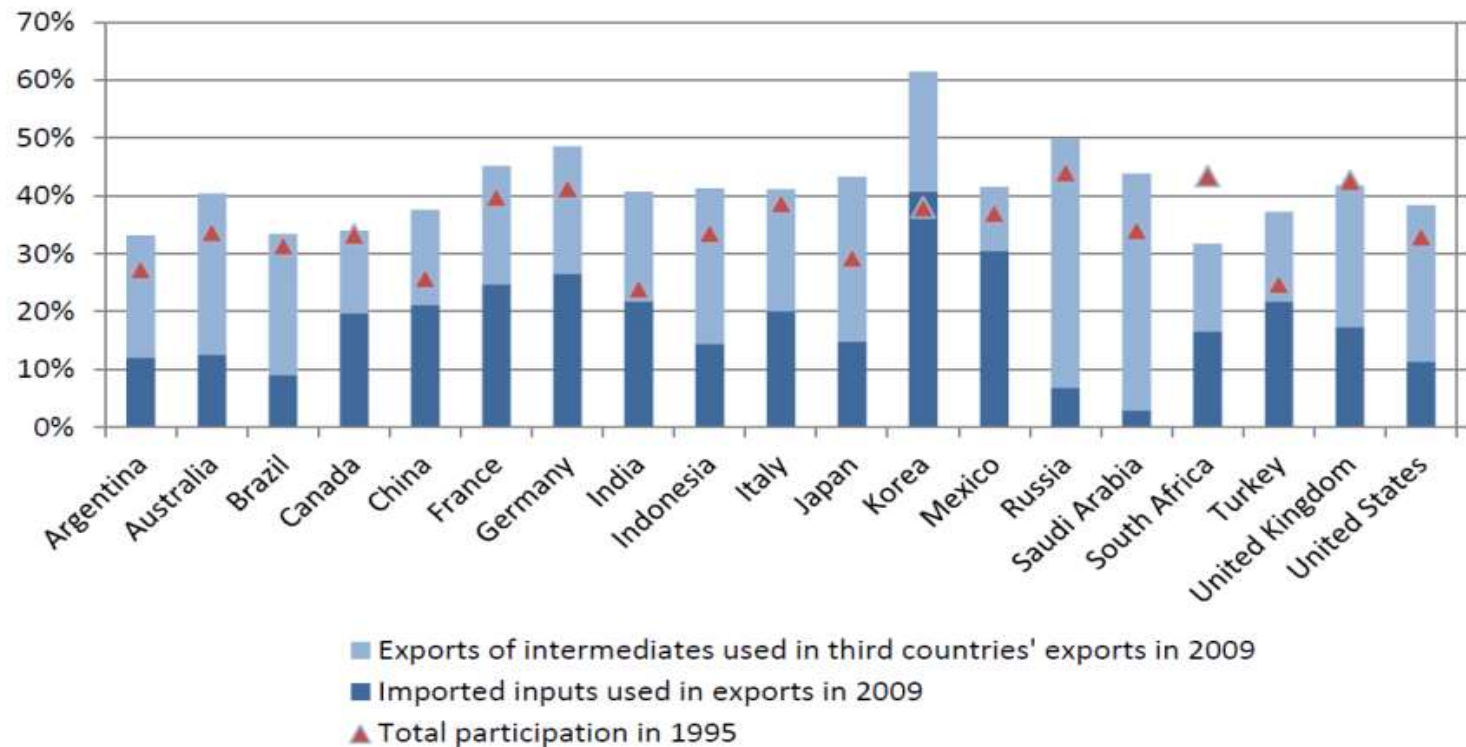
Source: "Juggernaut."

6 developing economies on the way to becoming the world's largest

2010	2050
USA	China
China	USA
Japan	India
India	Brazil
Germany	Mexico
Russia	Russia
Brazil	Indonesia
UK	Japan
France	UK
Italy	Germany

International Integration of Production

Figure 2. Vertical specialization (G20), 1995 vs. 2009



Source: OECD (2013).

International Integration of Production Raises the Stakes on Trade Policy

- Security of Investment and IPR
- Logistics/Trade Facilitation
- Easy and predictable access to imported inputs
- Security of Market Access in third countries
- Access to world class services
- Data Security
- Mobility of Workers, etc.

M-Rs Aim for Enhanced Rules

- IPR (longer patent lives, etc.)
- Investment/ISDS (policy space?)
- SOEs (competition, subsidies)
- Government Procurement (market access)
- Regulation and NTMs (transparency, etc.)
- E-Commerce (internet access, taxation)
- Labor (core labor standards)
- Environment (level playing field)

M-Rs Will Do Little to Advance the Doha Agenda

- Developing countries: tariffs in manufactures largely untouched; same for services liberalization and national treatment.
- Tariff peaks in advanced countries will be reduced but on a preferential basis
- Agriculture subsidies not addressed
- Movement of workers, a minor feature
- Needs of LDCs and LICs unaddressed at this stage

Gains from TPP (Cheong)

- Near 1% of GDP :NZ, Mexico
- Near ½%: Singapore, Malaysia
- Near 0: US, Japan, Canada, Australia, Chile, Peru, Viet Nam
- Negative 0.01%: China, India, EU, ROW

Note: NTB elimination may add 0.75% of GDP
(Peterson Institute)

TTIP Gains (CEPR)

	GDP Increase	Exports Increase
EU	0.5% (0.1%)	6%
US	0.4% (0.04%)	8%

Note: Numbers in parenthesis refer to tariffs only.

TPP and TTIP Obstacles

Common Challenges: Economic weaknesses in advanced countries, tough nuts, complexity, US internal divisions (no TPA);

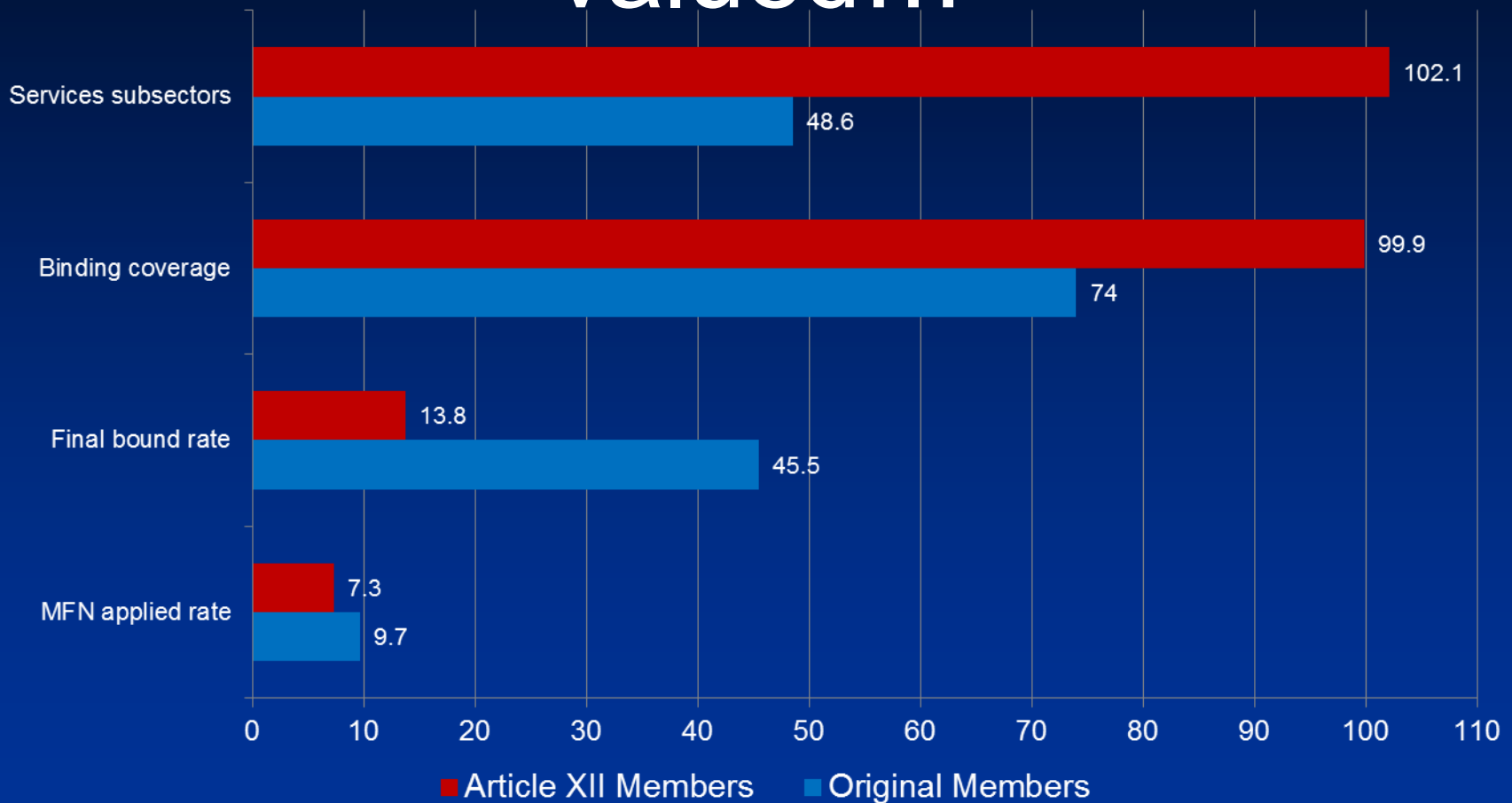
TPP: Unbalanced negotiations?

TTIP: Clash of negotiating cultures, politics of regulatory reforms, divergent national views in EU (eg audio-visual)

WTO: Pessimistic View

- Doha stuttering, loss of relevance
- Gap between advanced and developing countries widens as M-Rs progress
- WTO falls behind on new issues
- Dispute settlement mechanism is less relevant

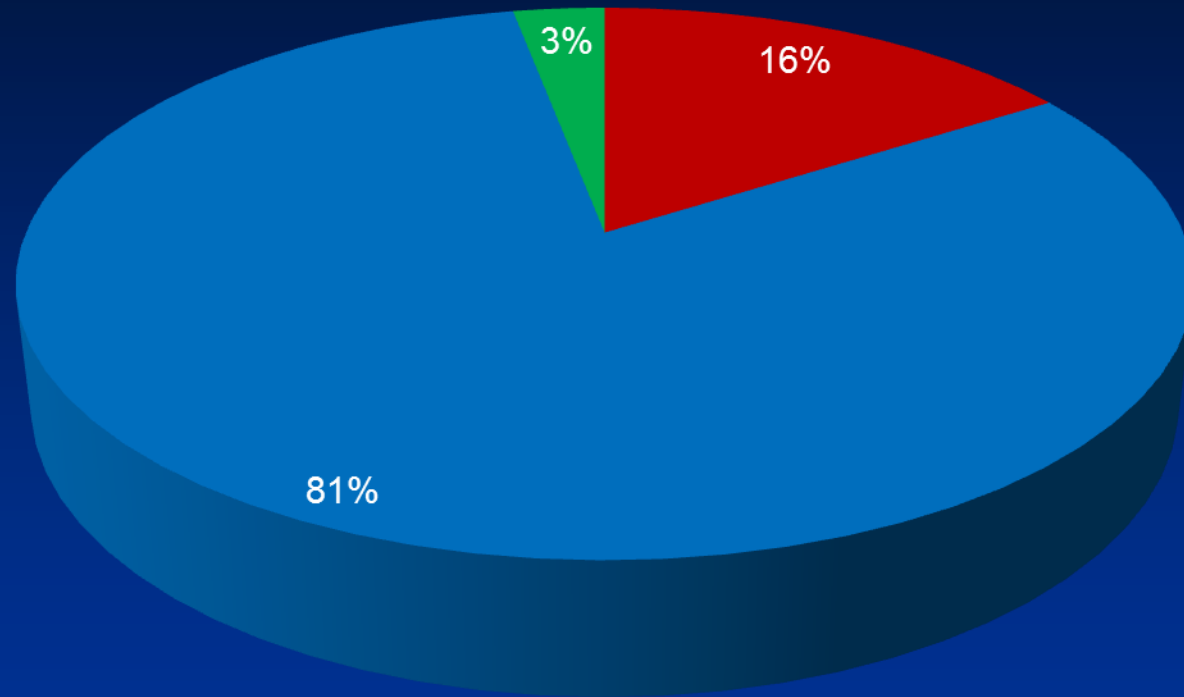
...yet, membership is highly valued...



Source: WTO Secretariat

...and the WTO's Membership is now almost universal

(Share of World Imports in 2012)



■ Article XII Members ■ Original Members ■ Rest of the World

A More Sanguine View of the WTO is Justified

- WTO has enhanced relevance: near-universal membership; its jurisprudence underpins all other agreements; and more intense trade links require its disciplines
- M-Rs leave many gaps to be filled and these gaps will grow in importance as the excluded countries grow rapidly
- Bali shows that new approaches are possible

Excluded Country Response

- 1. Monitor (How significant and when?)
- 2. Analyze : impact on export interests in sectors where tariff preferences and non-tariff barriers matter; rules on SOEs, IPR, Government Procurement, ISDS
- 3. Project : overall impact
- 4. Strategize – kind of response

4 Pure Strategies

Autonomous reforms

Docking Stations ?

Regional Agreements

WTO re-engagement

Thank You!

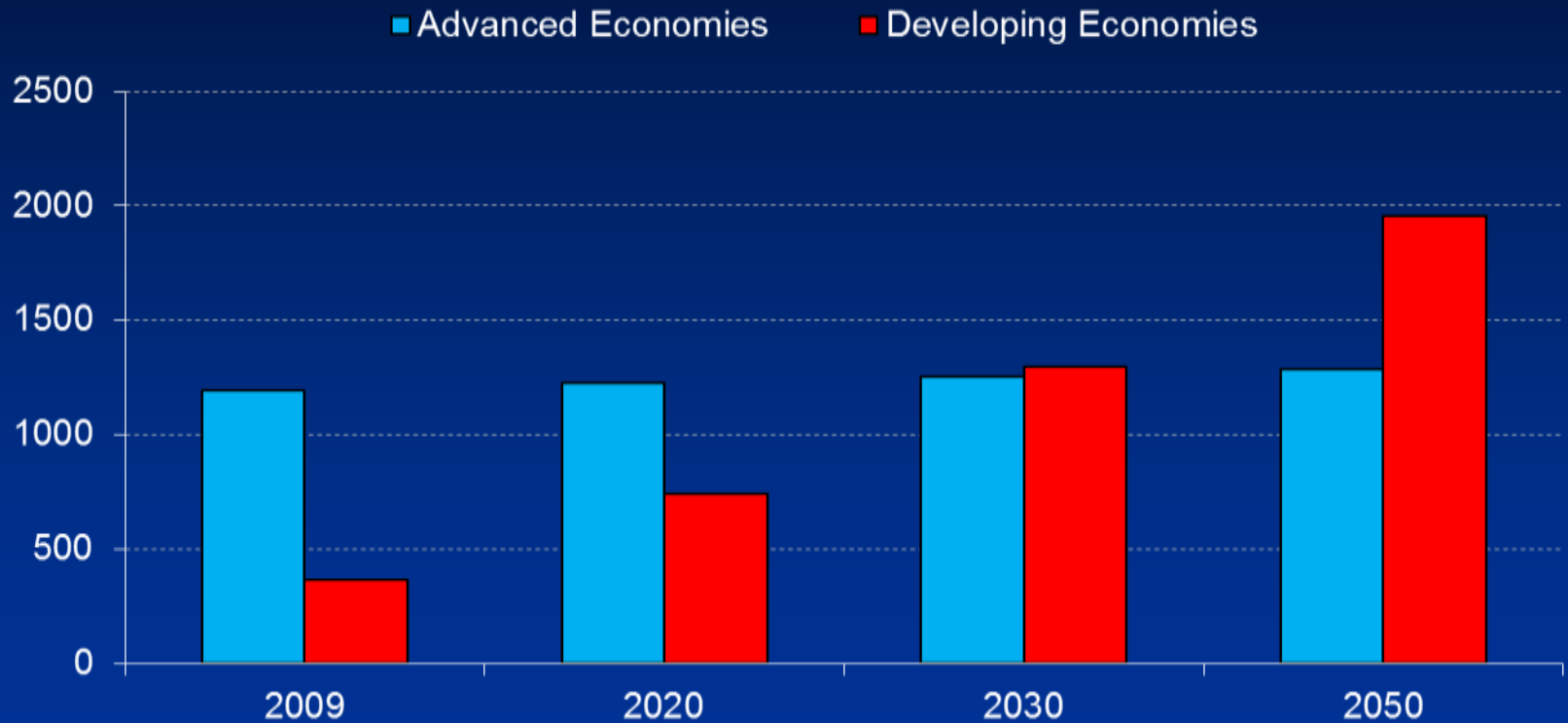
Managing the Risks

- Realism
- TPA
- China (& BRICS) are encouraged to engage, and do so
- WTO Reforms

A New Global Middle Class

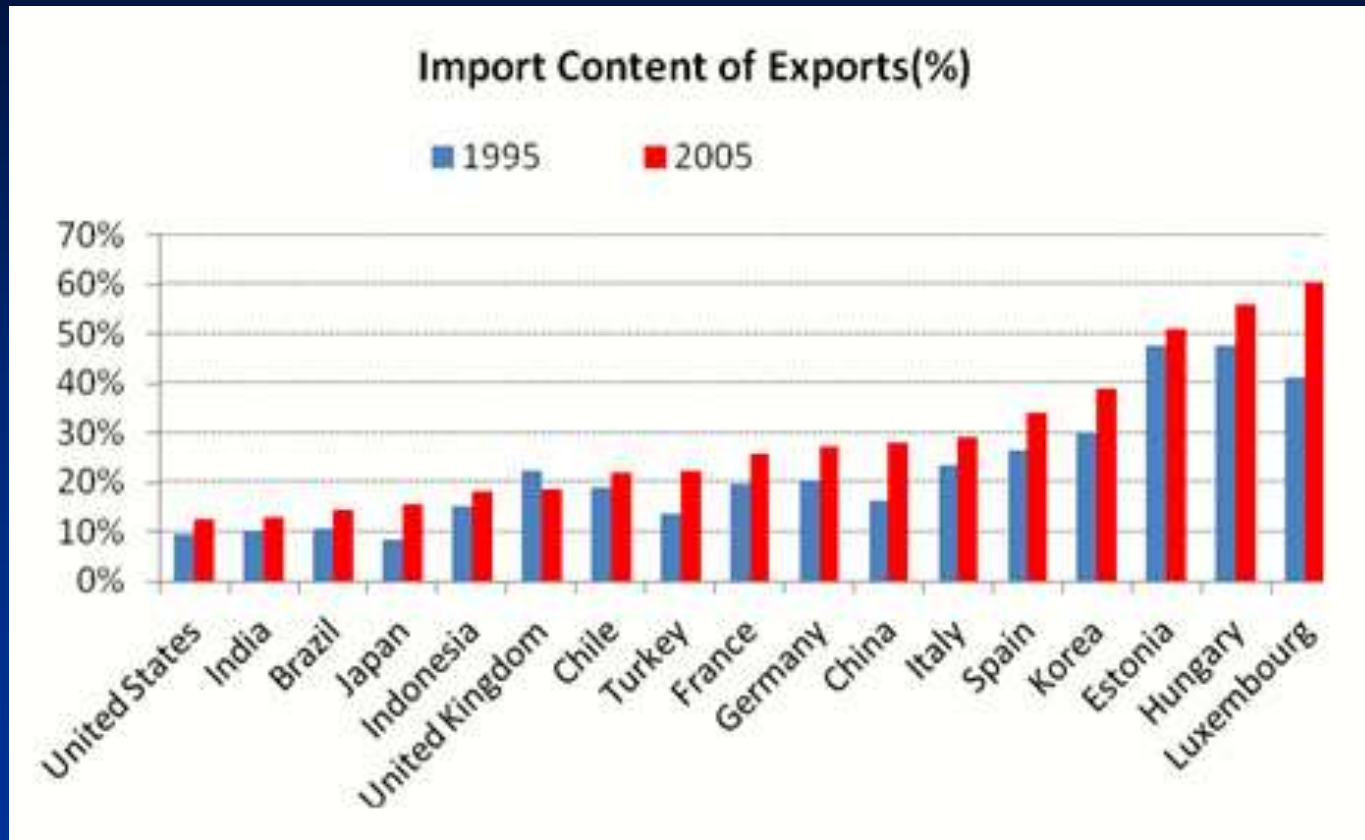
Size of the middle and rich class

Millions of people



Source: "Juggernaut."

Increased Importance of Imports in Production



Source: OECD IO Database

Francois, CEPR, 2013

- Trade-restrictive effect of NTBs is 8 times larger than tariffs
- Reducing them, even by 10%, yields significant gains, including for countries not party to the agreement
- NTB surveys suggest that barriers to US FDI in EU are large, and even larger for investors from ROW

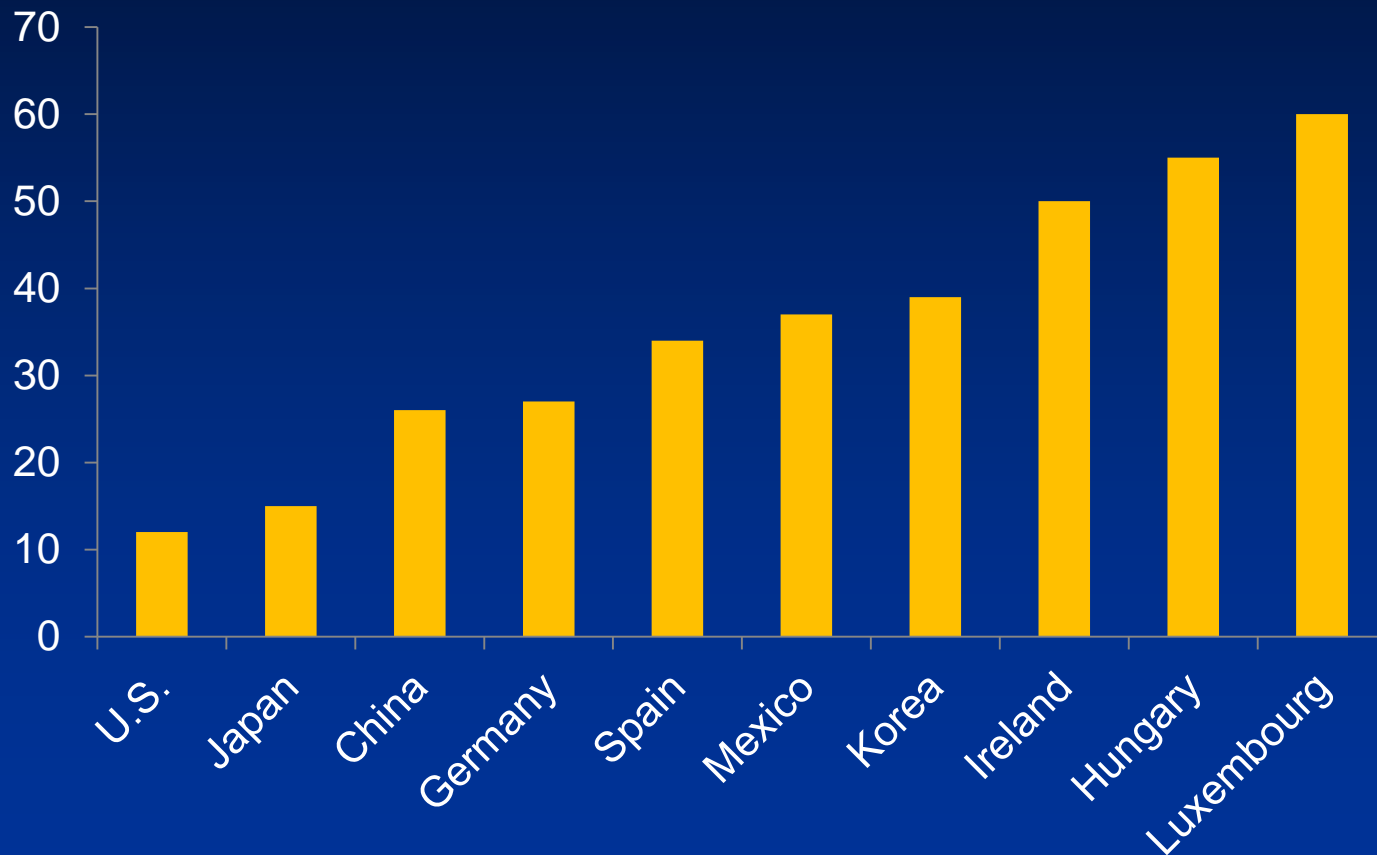
Feasibility: TTIP Issues

Issue	Importance (Most:5)
Regulation: Overall	4.32
Regulation: Manufactured Goods	4.11
SPS Measures	3.91
Tariff Elimination/Reduction	3.9
Regulation: Financial Services	3.74
Data Protection & Privacy	3.71
GMOs	3.70
IPR Protection	3.68
Access to Procurement Markets	3.57
Pharma Testing & Approval	3.51
Subsidies, SOEs, Domestic Ownership	3.42
US Energy Export– Reduce Restrictions	3.16
Geographic Indicators	3.15
Investment Liberalization	3.10
A/V: Quotas & Ownership Restrictions	2.95
Environmental Standards	2.94
Labor Standards	2.37

Source:
Bertelsmann
Foundation and
Atlantic Council

....And in Exports...

Import Content of Exports, Percent



Source: OECD IO Database

The Effect on Small Countries

- Will naturally gravitate toward US/EU (Asians less so)
- Use “docking stations”?
- Influence on global trade agenda wanes
- Modest trade diversion
- Adopt “global” standards

Joint Interests

- Financial Regulations
- Services
- IPR protection
- Pharmaceuticals
- Regulatory obstacles
 - E.g. Rules that prevent European airlines from flying on US routes.

Feasibility?

- Regulation tough (harmonization or mutual recognition)
- Tough nuts in tariffs
- Government procurement
- Divided Congress/ No TPA
- Euro-Crisis
- Equally Matched, Tough opponents

Some EU Offensive Interests

- Geographical Indicators
- Government Procurement
- Data Protection and Privacy

How will the Megaregionals
affect BRICs, small
countries, WTO?

The Effect on China

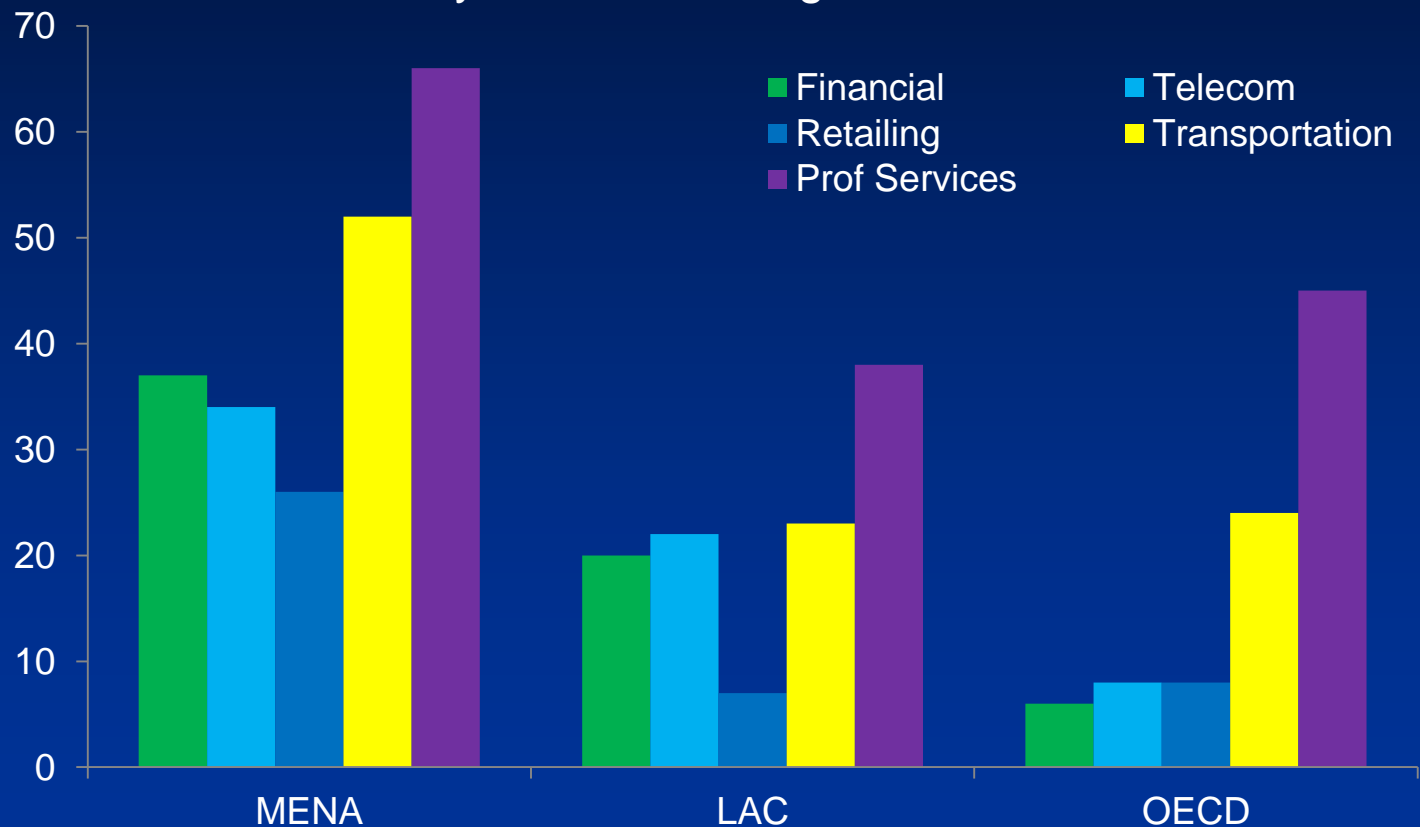
- Big trading partner— will dominate
- Effect smaller than it seems in quantitative terms (low trade diversion)
- Exclusion is politically thorny nevertheless
- Reaction: Regional Comprehensive Economic Partnership (RCEP)
- Reaction: China can pick & choose

The Effect on other BRICS (Brazil, Russia, India, South Africa)

- Effects potentially more serious
- Not as competitive as China— more painful
- Relatively passive and prone to marginalization

Barriers to Trade in Services Remain High

Index of Services Trade Restrictiveness,
by Sector and Region 2008-10



Source: Borchert, Gootiz, and Mattoo 2012

Some US Offensive Interests

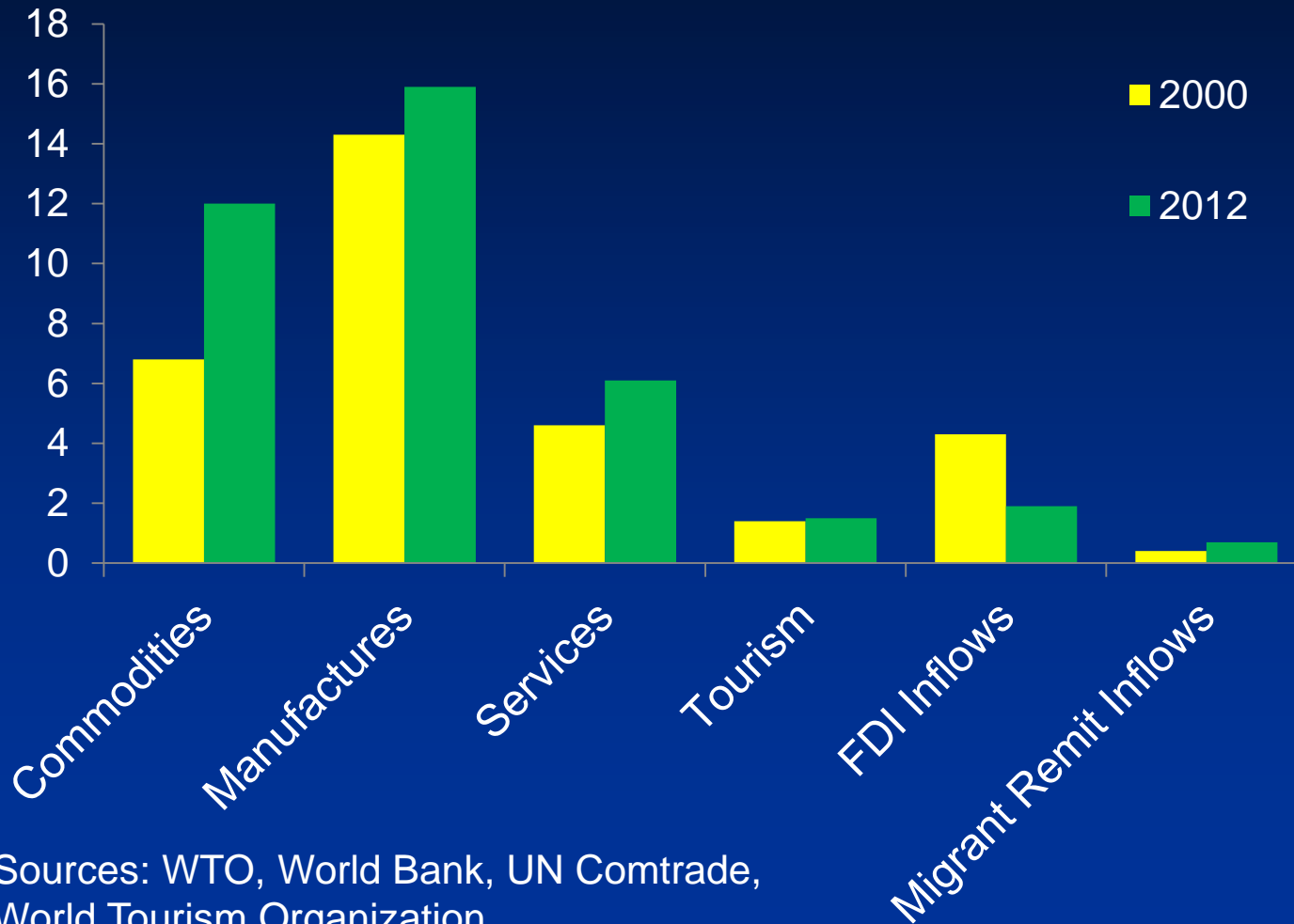
- Genetically Modified Organisms
- Sanitary and Phytosanitary Measures
- Audiovisual

The Promise

- Tighter Alliances (Liberal Democracies)
- Improved Security
- Leadership of “the West”
- Uniform, advanced, global standards
- More open trade and FDI
- Stronger intellectual property rights
- A boost to competitive liberalization

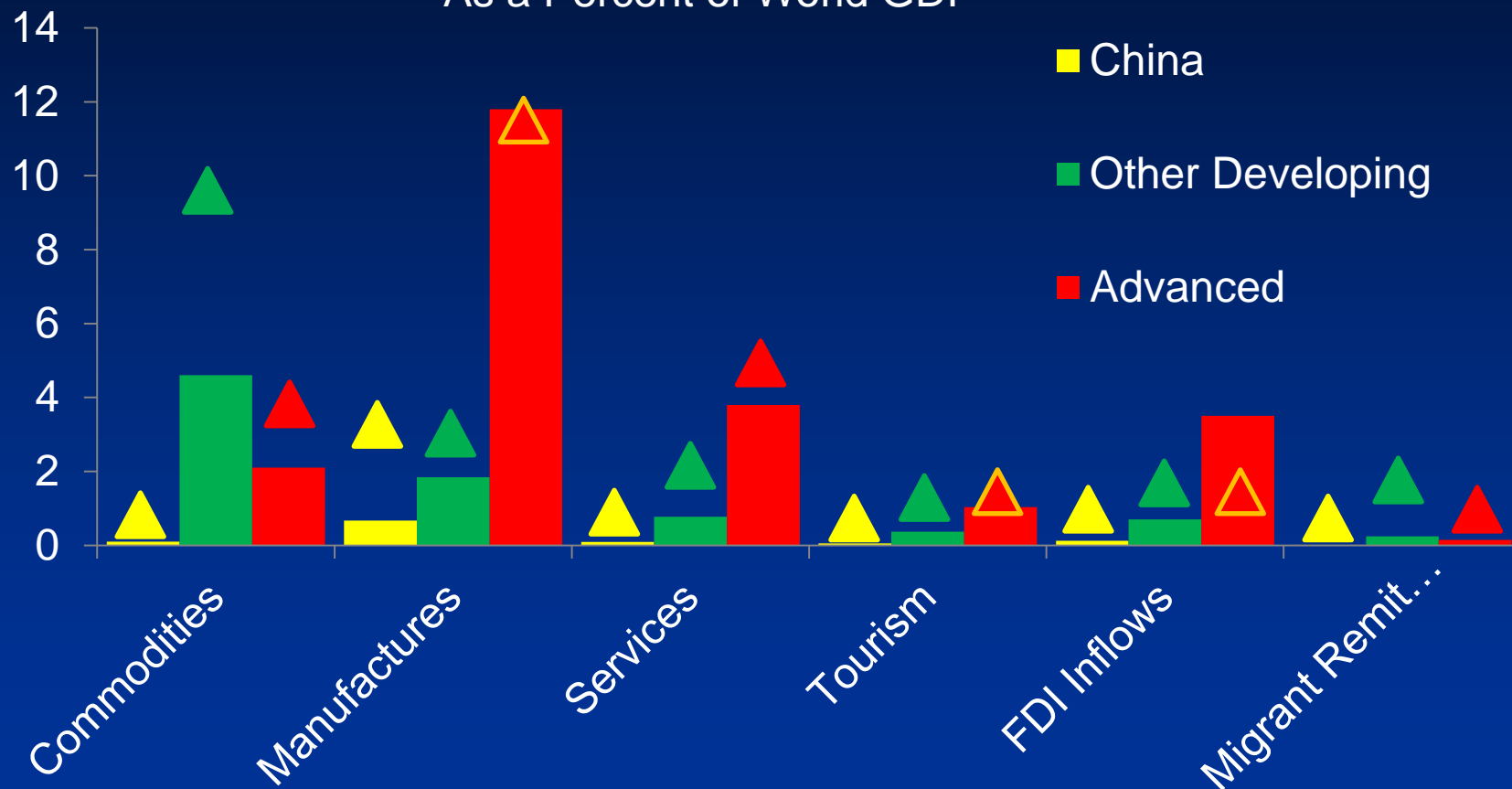
World Exports

As a Percent of World GDP



Advanced and Developing Exports, 2000/2012

As a Percent of World GDP



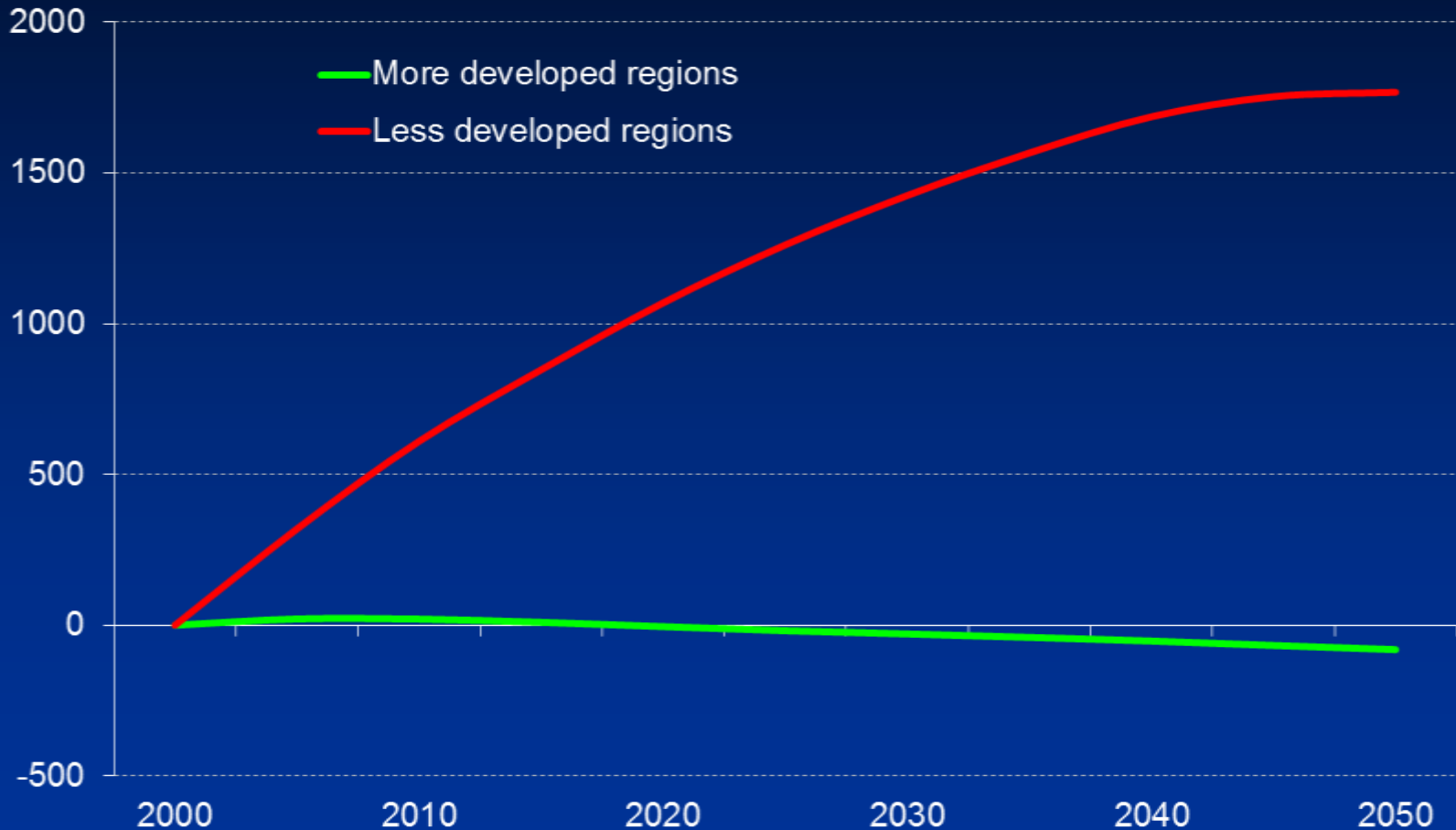
Note: Triangles indicate values in 2012.

Sources: WTO, World Bank, UN Comtrade, World Tourism Organization

Demographic Imbalance

Change in Labor Force Since 2000

Millions of people



Source: UN Population Division.