

Can RTAs Help to Revitalize the Multilateral Trading System?

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Regional Trade Agreements (RTAs) are increasingly becoming an important cornerstone of the international trading system. They make it possible to reap the benefits of reliable access to world-class

inputs (imports) and larger markets (exports), while tailoring the adjustment needs to the capacities of the RTA partners. Yet there has always been a question as to what extent RTAs are helping or hindering global trade integration. In this article, we will argue that recent developments and the emergence of advanced, “deep” RTAs raises the prospect of regional agreements being important building blocks for future multilateral accords. It is within this overall context that our work in the Organisation for Economic Co-operation and Development (OECD) is seeking to inform policy on how best practices in RTAs can be diffused more widely and coherently among

trading partners, and ultimately culminate in multilateralization.

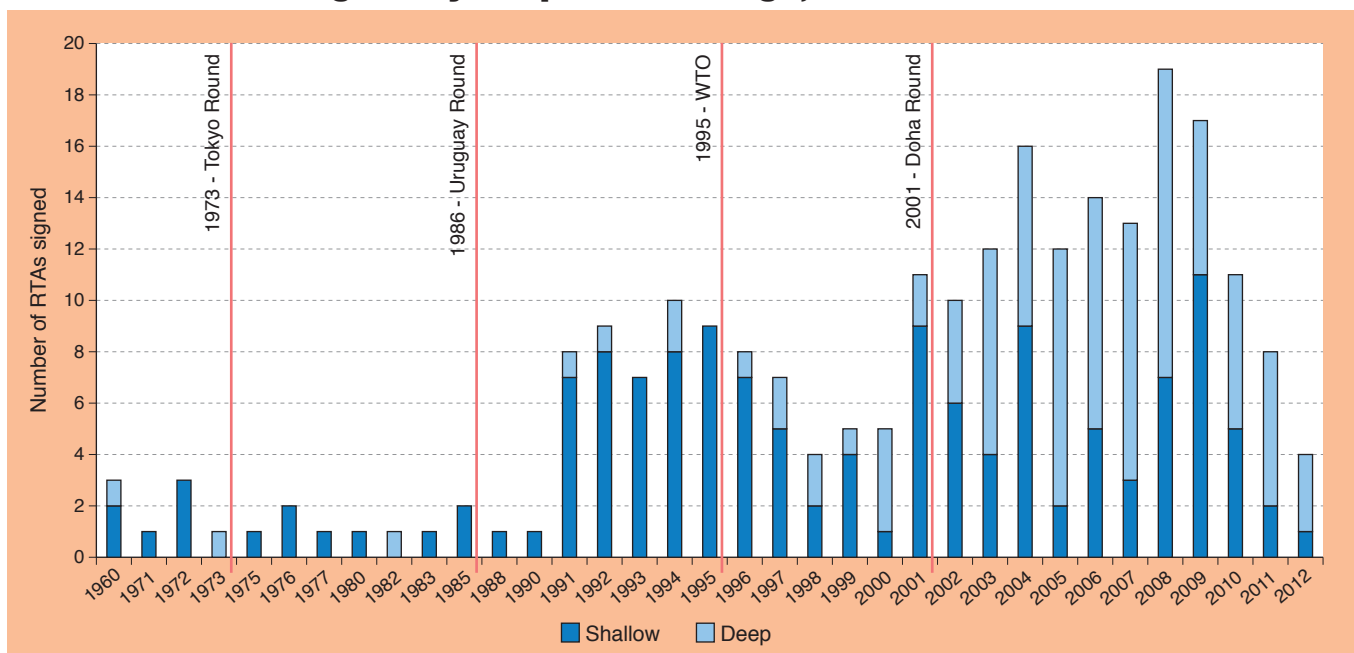
At the time of writing, there is a dense web of over 300 RTAs in force, while a score of others are in the process of ratification or negotiation. All but one of the 157 members of the World Trade Organization (WTO) are parties to an average of no less than 13 RTAs. The impetus towards regionalism is likely to become stronger if progress towards the conclusion of the WTO’s Doha Round continues to elude negotiators. Stalled multilateralism, however, is not the main cause of rising regionalism. Paradoxically, the proliferation of RTAs has gone hand-in-hand with the launch of the Doha Round in 2001. This suggests that countries see RTAs more as a complement to, rather than a substitute for, multilateral trade negotiations. The aim must be to make these mutually reinforcing and coherent efforts.

Changing Anatomy of RTAs

The recent proliferation of RTAs has been accompanied by noticeable shifts in the anatomy of regional agreements. Recent RTAs have not just increased in quantity, but more importantly in

CHART 1

Number of RTAs signed by scope of coverage, 1960-2012



Source: OECD Secretariat, based on WTO RTA database and other sources

depth, scope and quality. The coverage of recent RTAs has both deepened (WTO-plus) existing disciplines in the WTO, and also ventured beyond them to important policy areas that are not governed under the WTO agreements (WTO-beyond). A new generation of RTAs is providing testing grounds for developing new disciplines of increasing relevance to international trade relations, such as anti-corruption and anti-bribery, e-commerce and digital trade, as well as regulatory convergence.

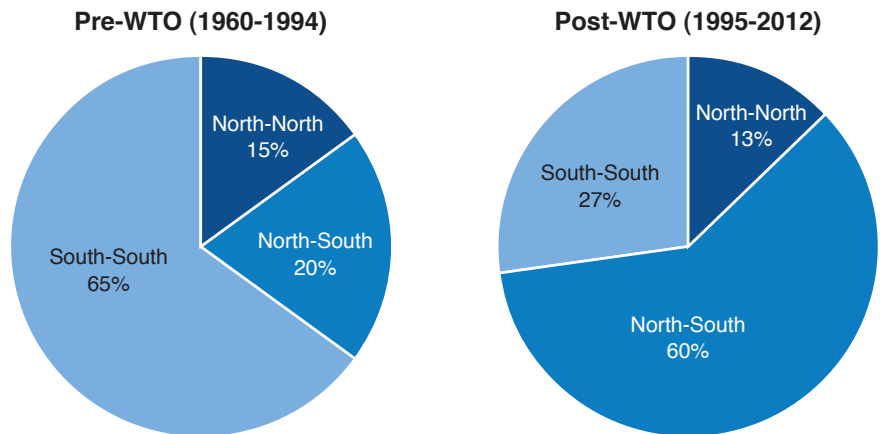
Regional negotiations over the last decade have been critically marked by a drive to open services markets. Up to the mid-1990s, only seven RTAs contained chapters on services; since the entry into force of the North American Free Trade Agreement (NAFTA) in 1994, services have come to the forefront of regional negotiations. Notifications of services RTAs to the WTO have grown more rapidly than those focusing only on merchandise trade. Almost 60% of RTAs signed since the beginning of the decade cover services agreements, compared to only 16% prior to the 2000s. Most RTAs that cover services contain comprehensive disciplines on investment, movement of business persons, and competition policy, as well as sector-specific disciplines, such as financial services.

At the same time, there is a drive towards consolidating the web of multiple and sometimes overlapping systems of existing bilateral agreements into larger, more uniform plurilateral configurations. The Trans-Pacific Partnership (TPP) represents the most ambitious effort in this regard, both in “taming the tangle” of bilateral arrangements and moving towards a “high-quality, 21st century” RTA. In Latin America, the Latin-Arch Forum harmonized existing RTAs between 11 countries; following that, a newly launched Pacific Alliance has emerged to deepen disciplines among a sub-group of countries. In Africa, the Tripartite Free Trade Area brings together three large regional agreements — COMESA, EAC and SADC — into a large plurilateral forum of 26 countries representing 56% of continental GDP. Interestingly, plurilateralism is not only emerging around the axis of a region, but also around a sector: the International Services Agreement (ISA) aims to go beyond the General Agreement on Trade in Services (GATS).

The new wave of RTAs has also witnessed a change in the composition of the trading partners in RTAs. Prior to the

CHART 2

Composition of trading partners in RTAs, pre- and post-WTO



Source: OECD Secretariat, based on WTO RTA database and other sources

establishment of the WTO in 1995, South-South RTAs made up the majority of RTAs (65%) in operation. At present, RTAs group countries at diverse levels of income: six out of 10 of today’s RTAs are among North-South partners. The share of North-North RTAs has remained consistently low. In addition, there is a great variation in terms of the total trade of OECD countries that is covered by existing regional accords. For the United States, less than half (46%) of its total exports are with RTA partners. For small economies, like Chile, trade with RTA partners represent more than three-quarters of its total exports (83%). For Japan, less than 20% of its total trade is with RTA parties.

Thinking “Multilateralizing Regionalism”

While RTAs may usefully complement multilateral negotiations in certain areas, they are not substitutes for the global trading system. Several reasons compel governments to chart their regional trade strategies as building blocks, rather than alternatives, to the WTO. Today more than ever, global trade requires global responses and global agreements. Most trade today is in intermediate inputs — over 50% of global goods trade and over 70% of global services trade. Firms are importing world class inputs in order to improve their productivity and competitiveness, in both domestic and export markets, and regulatory divergence in regional trade agreements may hamper countries’ ability to effectively participate in this growing trend. In addition, issues such as the environment and food security, as well as many others, cannot be fully internalized within

bilateral or plurilateral cooperation.

Furthermore, it is worth noting that, with few exceptions, the dispute settlement mechanisms in regional arrangements have proven to be far less effective than the Dispute Settlement Understanding (DSU) of the WTO. Indeed, parties to RTAs continue to deploy the WTO as the primary mechanism to settle trade disputes. The implication is that new disciplines developed within RTAs may not have the same levels of enforcement and predictability that they would enjoy under the WTO. For these reasons, regional commitments are likely to have “less teeth” than those hosted under the multilateral system.

In this context, it is important for policymakers and negotiators to consider how RTAs will be best suited to support and enhance the multilateral trading system. Recent OECD work has been aimed at distilling successful WTO-plus practices that are widespread across RTAs and that might represent useful models for multilateral negotiations. Canvassing the best practices from RTAs can also facilitate convergence among regional approaches and reduce the “spaghetti bowl” of trade regimes, while guarding against possible inconsistencies with multilateral rules and potential discriminatory effects.

How Multilateralizable Are WTO-plus Measures?

One of the main findings that emerge from OECD work is that RTAs are increasingly less about extending preferences, and more about developing new rules and procedures that may not be sufficiently disciplined under the WTO. A case in point is e-commerce, where RTAs have effectively addressed a set of issues concerning digital products that are not covered in the WTO and are essential for modern trade. Another area where RTAs have advanced multilateral rules relates to export restrictions, which are critical to global concerns on access to both hard and soft commodities, including food. While WTO rules have traditionally targeted restrictions on imports, barriers to exports have been largely neglected. Furthermore, a large arsenal of WTO-plus measures relates to more procedural and institutional aspects of non-tariff measures, such as strengthening transparency mechanisms, instituting open decision-making procedures for domestic regulations, and establishing sanctions and other measures to combat corruption and bribery.

A corollary of the above is that modern RTAs are more multilateral-friendly than previously thought. Indeed, many of the behind-the-border measures that are being tackled through RTAs are

applied on a non-discriminatory basis, and therefore are unlikely to generate trade-diverting effects. This is notably the case of many services commitments, where liberal rules of origin and the difficulty of discriminating among trade partners tend to multilateralize commitments even in the absence of most-favored nation (MFN) provisions. In addition, a large parcel of WTO-plus commitments shares the characteristics of public goods, in particular that they are non-excludable. The implication is that such regional WTO-plus measures are *de facto* being applied on an MFN basis already, even if they may be *de jure* preferential by virtue of being inscribed in a regional agreement. All in all, the quasi-absence of preferences in many WTO-plus obligations being undertaken in RTAs should render their generalization and extension on an MFN basis possible at relatively low economic and political costs. Similarly, a high level of similarity among WTO-plus measures in RTAs might facilitate convergence multilaterally.

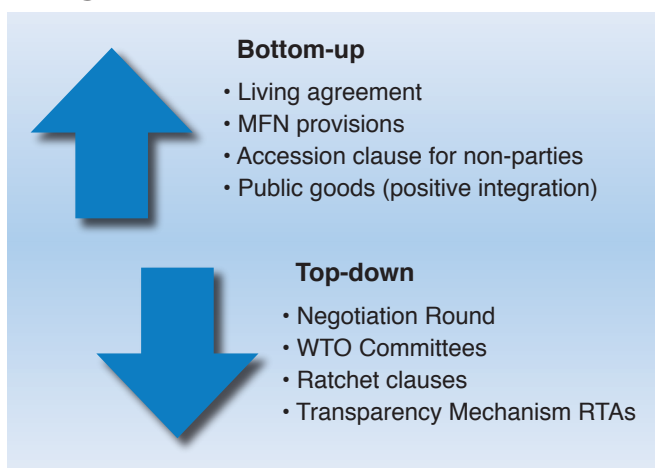
Multilateralization of WTO-plus provisions may follow several paths. First, bottom-up multilateralization may extend RTAs WTO-plus commitments more widely to non-parties of an RTA, an approach that has been experimented with in e-commerce and services RTAs by including MFN provisions and other clauses. Similarly, some RTAs have included provisions that allow for new members to join the RTA. Second, top-down multilateralization could become a viable avenue if WTO members would consolidate the gains from RTAs and use them as a basis for multilateral discussions. Bottom-up and top-down consolidation efforts are not mutually exclusive, but rather, reinforcing.

Plurilateralism: New Building Block?

The bottom-up approach described above seems to be the one gaining the greatest traction. In particular, the recent shift towards plurilateralism can breed new “building block” synergies. Firstly, these initiatives seek to consolidate and synchronize the existing web of bilateral relationships into larger and more coherent configurations. However, key questions remain. What will happen to existing bilaterals between members of the plurilateral? Will they be superseded by the new plurilateral or not? Phasing out existing trade treaties is likely to raise legally complicated and politically sensitive issues. The more likely scenario, therefore, is that the new plurilaterals will co-exist side-by-side with bilaterals. This has the potential of creating confusion for customs officials and businesses as to what agreement applies in what circumstance. Hence, rules for cohabitation will be needed to ensure that the new layer of

CHART 3

Multilateralization approaches for RTAs



Source: OECD Secretariat

plurilateral agreements does not jeopardize the coherence and predictability that is sought.

Plurilateral agreements are also seeking to identify a range of “new age” issues that can enhance the effectiveness of international trade cooperation. The TPP can be credited for introducing a new set of horizontal issues, namely on regulatory coherence, small and medium-sized enterprises, competitiveness and development. The Tripartite FTA has focused its cooperation on cross-border infrastructural and logistical development. The Pacific Alliance has slated the movement of business persons and transit of migration as one of its core objectives. All of these efforts appear to have a broad appeal across regions and countries, and could potentially result in “building blocks” for revitalizing WTO negotiations. On the other hand, pushing the WTO-plus envelope on controversial issues that some countries may not be prepared to undertake may risk alienating key regional partners and fragmenting trade relations further.

Finally, and encouragingly, emerging plurilateral accords are being negotiated under a new paradigm of “living agreement” — a term coined under the TPP to denote a dynamic scope and membership. This includes an open accession policy, extending the commitments to non-party members who wish to join the negotiations. The question will of course arise: who can join (e.g., will non-Pacific countries also be welcome?), and crucially, what will be the terms of the (re)negotiation? At this time, it is hard to discern the extent to

which the TPP may attract new signatories after the negotiations are concluded. Yet new membership will be the key for realizing significant welfare gains from the trade partnership. Hence, for the TPP to unlock the trade potential of the region, and ultimately culminate in the multilateralization process, it will need to attract key partners, such as China, India, Indonesia, Thailand and South Korea.

Concluding Remarks

A fundamental concern that the ongoing proliferation of RTAs raises is how regionalism can revitalize rather than weaken the multilateral trading system. This question is all the more pressing in face of the enduring impasse in the Doha Development Agenda (DDA) negotiations. Recent work at the OECD points to a range of features in a new generation of RTAs that can generate dividends for the global trading system. First, a large range of WTO-plus measures in modern RTAs are non-discriminatory, and can therefore be diffused more broadly at relatively low economic and political costs. Second, there is widespread homogeneity of WTO-plus measures across a critical mass of RTAs, thereby facilitating convergence. And third, RTAs are introducing features that could allow the extension of benefits to non-parties, including on an MFN basis. Moreover, bottom-up consolidation efforts are actively proceeding through plurilateral initiatives that seek to reduce regulatory divergence and “tame the tangle” of overlapping RTAs. These elements have the potential to yield high effective synergies between approaches at the regional and multilateral levels.

The OECD is contributing to the reflections on “multilateralizing regionalism” by systematically examining emerging WTO-plus disciplines in recent RTAs, assessing their impact on trade flows, and distilling potential best practices that could be useful for policymakers and negotiators. A collection of the latest OECD papers on regional trade agreements can be found at: www.oecd.org/trade/rtas

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