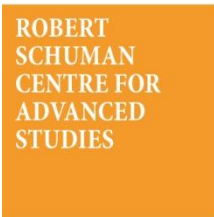




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Sustaining Multilateral Trade Cooperation in a
Multipolar World Economy

Bernard Hoekman

European University Institute
Robert Schuman Centre for Advanced Studies
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World Economy**

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Abstract

The deadlock in the WTO Doha Round has been accompanied by an increased focus on the negotiation of preferential trade agreements, including so-called 'mega-regionals'. This paper discusses possible implications for—and possible responses by—excluded countries that have little prospects of participating in most of the mega-regionals. A number of complementary avenues are identified through which such countries might attenuate the potential downsides of preferential trade liberalization among large countries, as well some proposals that would expand the scope to pursue cooperation on regulatory policies in the WTO as opposed to PTAs.

Keywords

Multilateral cooperation, trade agreements, regional integration, developing countries, WTO

JEL: F13, K32

Introduction*

There has been sustained interest by developing and transition economies in the WTO, reflected both in the number of countries that have joined since its formation (over 30) and the 20 or so nations that are in the process of negotiating accession, and in their very active engagement and increasing influence in the day-to-day operations of the WTO, including the Doha Round talks.¹ The fact that the first round of multilateral trade negotiations launched under WTO auspices in 2001 was called the Doha Development Agenda (DDA) is one sign of the rising influence of developing countries in the WTO. The choice of name reflected a view held by many countries that it was necessary to address a perceived ‘development deficit’ in the disciplines of the institution and that more needed to be done to recognize and address the capacity constraints that reduced the benefits of market access opportunities and WTO agreements (Hoekman and Kostecky, 2009).

Key objectives for many low-income countries in the DDA included enhancing the effectiveness of provisions calling for differential and more favorable treatment of developing economies; improving preferential (non-reciprocal) access to major markets and expanding assistance to improve trade capacity; and ‘rebalancing’ the rules of the WTO by revisiting provisions and exceptions permitting high-income countries to use policies that were detrimental to developing country exports. Examples include tariff escalation, agricultural subsidy policies, and barriers to the cross-border movement of natural persons providing services. Results were achieved on the preferential market access and the aid elements of this agenda. Milestones included the Integrated Framework for Trade-related Assistance for Least Developed Countries, created at the Singapore ministerial meeting in 1997; improvements in preferential access to markets (such as the EU’s Everything But Arms program and the US African Growth and Opportunity Act), and the launch of the ‘duty-free, quota-free’ market access initiative for LDCs and the Aid for Trade initiative at the 2005 WTO Ministerial meeting in Hong Kong. But no progress was made in redefining the core rules of the WTO. As is well known, it proved impossible to get an agreement on a set of new reciprocal market access commitments and policy disciplines affecting trade in agricultural products, manufactures or services.

There has been much discussion and analysis of the reasons for the deadlock in the DDA. One important factor has been the active participation and engagement of developing countries and their insistence that issues that are important to them are addressed. Wolfe (2013) among others stresses changes in the structure of the world economy, and in particular the explosive growth of China, as a major reason the DDA agenda, as conceived in 2001 and restructured in 2003, became increasingly less relevant as time passed. A basic cause of the breakdown in the talks was the difference in what OECD countries, in particular the US, wanted to obtain from the large emerging markets, especially Brazil, China, and India (BCI), and what these countries were willing to offer and were looking for in return. The upshot is that the issues that were the focus of negotiation were not rich enough to allow a deal to be struck.² This does not imply that the potential economic gains from implementing what was

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¹ Membership in the WTO has expanded steadily since it was established in 1995, standing at 160 as of December 2013, following the expected accession of Yemen at the December ministerial in Bali.

² For example, India wants better access to services markets, but seeks to expand its ability to support domestic agricultural production. Brazil wants more liberalization of agricultural trade in OECD countries, including bio-fuels, but also wants to protect industrial activity from import competition. For much of the DDA, China took the position that it already made major commitments as part of its 2001 WTO accession. For most large firms in the OECD agriculture does not matter, while further liberalization of manufactures is important for only a limited number of industries given that average tariffs in major markets are low and firms appear to perceive the probability of governments raising tariffs to be low. While high

on the table are trivial – see e.g., Hoekman, Martin and Mattoo (2010) and Laborde, Martin and van der Mensbrugge (2011). But the potential gains did not generate enough political support to allow a deal to be concluded; the best alternative to a negotiated agreement (BATNA) was not perceived to be particularly bad. Indeed, it would appear from the actions taken by the US and the EU towards the end of the 2000s that better alternatives existed in the form of trade agreements that excluded BCI.

In parallel to the DDA deadlock, the US and EU turned towards the negotiation of new preferential trade agreements (PTAs) – the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP) and a Trade in Services Agreement (TISA) are major examples that are all under negotiation at the time of writing. Time will tell whether these efforts will succeed in going significantly beyond what is covered by the WTO. But with the majors “going regional” the WTO is unlikely to be forum for negotiating new policy disciplines in the next few years. These developments raise numerous questions regarding the possible consequences for developing (and other) countries that are either excluded or are “price takers” in the mega-regionals. The WTO as a multilateral institution is particularly important to small countries that do not have market power. A breakdown in the ability of the WTO to extend the reach of disciplines to new policy areas that generate negative spillovers may impact most detrimentally on the 100+ countries that are not included in the mega-regionals. While there are strong economic forces that are likely to keep markets open – e.g., the increasing role of global value chains and international production networks – rules of origin, regulatory convergence and mutual recognition among mega PTA members may create incentives for companies to locate in a bloc, or to source from firms located within a bloc.

This paper discusses possible responses that could be pursued in the WTO by countries that are not part of the new PTAs or that would prefer to see more done at the multilateral level to address the negative spillover effects of national policies or PTA-based initiatives. Section 1 starts with a bird’s eye view of some salient stylized facts that provide background and context. Section 2 discusses implications of these trends and changes in the trade environment. Section 3 presents a number of options that could be pursued by WTO members to attenuate the potential downsides of preferential trade liberalization among large countries, as well some proposals that would focus attention on regulatory policies in the WTO and prepare the ground for cooperation in areas that are not (yet) on the multilateral trade agenda. Section 4 concludes.

1. Some Stylized Facts and Trends post-2001

High growth in developing countries, especially China. One of the distinctive features of the post Second World War period has been the steady and sustained increase in international commerce. With the exception of a few episodes when the world went into recession, global trade has grown more rapidly than output year in, year out. The volume of trade increased 27-fold between 1950 and 2008, three times more than the growth in global GDP. The value of global trade in goods and services passed the US\$20 trillion mark in 2011 (WTO, 2012) or 59 percent of global GDP, up from 39 percent of GDP in 1990.³ This increase in trade was accompanied by rising real per capita incomes around the globe. Notwithstanding the 2008 global financial crisis (which led to a temporary collapse in global trade), for many developing countries economic growth rates in the period after the launch of the DDA were a multiple of those attained in the 1980s and 1990s (Table 1).

(Contd.) _____

peak tariffs remain for some products, the tariff agenda was not enough to mobilize a critical mass of OECD firms. Subjects that might do so – such as the prospect of significant liberalization of services trade – were never the focus of serious talks in the DDA. Services were taken up outside the WTO in 2012 with the launch of negotiations among a smaller group of countries on a Trade in Services Agreement (TISA). See Wolfe (2013) for a detailed discussion.

³ Trade openness ratios were calculated from the World Bank Global Economic Prospects database.

Table 1. Average annual growth rate of per capita GDP (constant 2005 US \$)

Developing country groups	1982-2012	2001-2012
East Asia & Pacific	7.2%	7.5%
Europe & Central Asia	1.8%	3.8%
High-income countries	1.8%	1.0%
Latin America & Caribbean	1.1%	1.9%
Least Developed Countries	1.5%	3.3%
Middle East & North Africa	1.5%	2.5%
Sub-Saharan Africa	0.4%	1.9%
South Asia	4.0%	4.9%

Source: Own calculations based on World Bank, World Development Indicators database.

The basic drivers of the boom in trade were a steep fall in trade costs, the result of technological change and major policy reforms, especially the adoption of outward- (export-) oriented policies. Average tariffs that were in the 20-30 percent range in 1950 (WTO, 2007), complemented by a plethora of nontariff barriers that were often more binding (including quantitative restrictions and exchange controls). Today the average tariff equivalent for merchandise trade has fallen to the 5-10 percent range (Kee et al., 2009). Effective tariffs for firms are often much lower than MFN rates as a result of free trade agreements and customs regimes that do not impose tariffs on imported inputs that are used to produce exports. China undertook a massive trade and investment liberalization program pre- and post-WTO accession (China joined the WTO in 2001), with applied tariffs declining to less than 7 percent today; all tariffs bound in the WTO at 9.8 percent on average and numerous services industries opened to foreign competition (Sally and Sen, 2011). Similarly, the average applied MFN tariff in India is now around 6 percent.

In 2010 China became the world's largest exporter in gross value terms, with a 10.4 percent share of global merchandise exports (WTO, 2013). The US remains the world's largest importer, followed by China. If the EU-27 is considered as a bloc (and netting out intra-EU trade), the EU is the largest exporter (15%), followed by China (13%) and the US (11%). These three entities are also the largest importers, accounting for 45 percent of global merchandise imports. Overall, including trade in both goods and services, China exports five times more than India.⁴ Much of China's trade growth occurred in the 2000s. When it joined the WTO, China accounted for 3.7 percent of global trade. This almost doubled to reach 6.7 percentage points at the end of the decade.

Growth in 'vertical specialization' and 'supply chain trade'. Much of world trade now comprises intra-industry trade and trade in intermediate inputs. This reflects a process of ever finer specialization by firms, made feasible by the reduction in trade and communications costs and the ability to invest in foreign markets. Firms can lower total costs by splintering the production process across multiple countries. One result is that imports make up an increasing share of the total value added embodied in products. The expansion in supply chain trade has been supported by cross-border movement of capital and knowhow. The global value of the stock of foreign direct investment (FDI) rose more than 6-fold between 1990 and 2008, substantially faster than the growth in trade, which increased 'only' 3.5 times over the same period.). The value of local sales by foreign-owned firms was some US\$26 trillion in 2012, as compared to \$18 trillion for world merchandise trade. A network of some 3,000 bilateral investment agreements (BITs) helped to provide a framework to support FDI (UNCTAD, 2013). One reflection of the growth in supply chain trade is that the share of manufactures in total exports of developing countries has increased from just 30 percent in 1980 to over 70 percent today.

⁴ Brazil and India are much smaller players in global commerce, ranking 22nd and 20th respectively in terms of merchandise trade volumes in 2010. India is a bigger player in trade in services, ranking 5th for both exports and imports, but still behind China, which ranks 3rd after the EU and the US.

Much of this trade is intra-industry and intra-regional – e.g., about half of all East Asian exports of manufactures go to other East Asian economies, often as part of a supply chain (Baldwin, 2012).

Diverging performance across countries. There is substantial variation across countries in trade growth and diversification. Many countries have not seen the shift towards intra-industry trade, vertical specialization and participation in international supply chains that has been a driver of trade growth in East Asia, Mexico, Turkey, or Central and Eastern Europe. Sub-Saharan African countries in particular remain heavily dependent on natural resources and agricultural products. And although there has been a sea change in trade policy everywhere, the poorest countries often tend to have higher barriers and trade costs, in part because a lack of “connectivity”, reflecting weaknesses in infrastructure. Since 2001, trade costs have fallen more in richer nations than in poor ones (Arvis et al. 2013). Trade costs for services are more than double those that apply to goods (Miroudot and Shepherd, 2012). This reduces the payoffs to preferential access programs and more generally the value of market access negotiations—the binding constraint is often the domestic business climate as opposed to import protection at home or abroad.

2. Implications for international trade policy cooperation

These trends and stylized facts help explain the deadlock in the WTO on the DDA. While a variety of factors explain the difficulty in concluding the DDA and the shift towards preferential trade agreements (PTAs), two that arguably are particularly pertinent are (i) the increasing heterogeneity across developing countries, with a number of large economies growing rapidly and attaining middle-income country status; and (ii) an increasingly perceived need to address spillovers created by policies that were not on the table in the DDA but that are important for international business decisions and operations.

High developing country growth rates during the 2001-2008 period reduced incentives to agree to lower tariff bindings—after all, trade was booming. But sustained high growth in large developing countries also implied that these economies had become more important markets and that better market access was of greater interest to exporters around the world. Relatively high tariffs in conjunction with high real growth in per capita income terms made OECD member countries less inclined to accept ‘less than full reciprocity’ in negotiations. Instead they insisted on significant liberalization by the large emerging markets. These countries were unwilling to do so absent greater concessions from the demandeurs, which they in turn would not consider. Many of the poorest countries were focused on obtaining concessions in areas that are of key export interest to them – often agricultural – and more generally improving access to markets on a preferential basis. Movement on policies distorting agricultural markets that were of most interest to LDCs, most notably cotton in the case of West Africa, proved impossible given the strength of the relevant domestic lobbies in rich countries.

While the deadlock in the DDA illustrates that tariffs still matter, the increasing vertical specialization of production and trade has changed the political economy of trade policy by reducing the effectiveness of import protection as a form of industrial policy. Taxing inputs implies an indirect tax on exports and thus impedes the ability of firms to be competitive in supply chain trade (Baldwin, 2012; Gawande et al. 2013). This helps to understand why there has been a relative increase in the use measures that restrict exports of natural resources that are upstream inputs into global value chains. This may act as a subsidy, making domestic processors and the chains they connect to more competitive. Governments appear to be making increasing use of subsidy-like policies that aim to reduce costs for firms located in their jurisdictions.⁵ These other types of trade-distorting policies were not on the table in the DDA (see e.g., Hoekman, Mattoo and Martin, 2010).

⁵ See the Global Trade Alert database at <http://www.globaltradealert.org/>.

More generally, the changing structure of global trade has led to a greater focus on the effects of policies on trade costs. Rather than provide firms with subsidies it is likely to be more effective and efficient to reduce costs directly. Much of this is a domestic agenda—e.g., improving transport and telecommunications infrastructure and related services. But often trade costs will in part be created as a result of explicit discrimination against foreign providers – e.g., a ban on foreign trucks or the use of financial services such as insurance – or, more frequently, differences across countries in regulatory standards for goods and services and associated certification requirements and processes. The fact that firms have to adjust products to the norms required in each jurisdiction segments markets, raises costs and thus consumer prices, and may imply that some varieties simply are not available in some markets, further reducing consumer welfare.

Both high-income and developing countries have been very active in negotiating PTAs, and there has been extensive research on the implications of this trend for the countries involved, non-members and the trading system.⁶ Most PTAs negotiated since the mid -1990s go beyond the WTO in terms of coverage. One measure of this additionality is the sectoral coverage of services. Van der Marel and Miroudot (2012) document that the average number of sectors subject to commitments in PTAs substantially exceed commitments in the GATS for the countries involved. However, the substantive disciplines (rules) that are included in many PTAs are often similar to those in the GATS, i.e., the depth of the associated commitments often does not go much beyond what PTA members committed to under the WTO (Fink and Jansen, 2009). In areas where there are no WTO disciplines, there often tends not to be rules in PTAs either—examples are safeguard provisions, rules on subsidies and domestic regulation (Horn, Mavroidis and Sapir, 2010). Two important exceptions are foreign direct investment and public procurement, policy areas that are not covered by general WTO disciplines.

This situation may well change as a result of the shift by the US and the EU towards negotiation of PTAs with each other and other large high-income countries such as Japan. Four major examples at the time of writing are the Regional Comprehensive Economic Partnership (RCEP), the Trans-Pacific Partnership (TPP), the Trade in Services Agreement (TISA) and the Transatlantic Trade and Investment Partnership (TTIP).⁷ TTIP is a bilateral EU-US initiative, although in practice it will be quadrilateral given that Mexico and Canada are part of the NAFTA and both countries also have bilateral trade agreements with the EU. Developing countries are participating in the RCEP, TPP and the TISA talks, but the first two of these are regional arrangements and thus by design exclude the majority of developing countries, while the TISA is limited to a group of “really good friends of services” which again does not include the majority of developing nations.

Countries that are participating in the RCEP, TPP and TISA include economies that have actively pursued a ‘global integration’ strategy, liberalizing trade, seeking inward FDI and promoting participation by local firms in international supply networks. But many ‘global integrators’ are excluded from the RCEP and TPP negotiations as a result of geography (they are not Pacific countries); because they were not invited or because they decided not to participate. A large number of developing countries, including the poorest ones (the LDCs), have remained outside these new initiatives and many would not want to be involved even if they were able to (as is the case with TISA, which in principle is open to any country).⁸ Instead, many of the countries in this set emphasize the

⁶ Freund and Ornelas (2010) survey recent empirical research on the relationship between PTAs and the WTO.

⁷ At the time of writing (November 2013), RCEP involves 16 countries: the 10 members of ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam) and six countries with which ASEAN has a free trade agreement (Australia, China, India, Japan, Korea, and New Zealand). The TISA includes Australia, Canada, Chile, Chinese Taipei, Colombia, Costa Rica, Hong Kong China, Iceland, Israel, Japan, the Republic of Korea, Mexico, New Zealand, Norway, Panama, Paraguay, Pakistan, Peru, Switzerland, Turkey and the US. The TPP spans Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the US and Vietnam.

⁸ In practice the ability to participate is conditional in the sense that countries that did not join the talks early on will find it more difficult to be accepted in the ongoing negotiations on the substance of an agreement—once the talks have

need for concluding the DDA, continued application of the ‘less than full reciprocity’ principle, and the need to safeguard ‘policy space’ to be able to intervene in trade.⁹

Non-members may lose from the shift to mega-regionals and away from the WTO for new rule-making by a subset of the major traders. For these countries the DDA deadlock and the pivot by the US and EU towards mega-regional initiatives means no multilateral progress on market access and new rules in areas that are of importance to them.¹⁰ A challenge for the 100+ countries that are excluded or not participating in the current mega-regionals is to identify actions to reduce potential downsides and/or to benefit from these initiatives. This is an important question not just for all the countries in Africa, the Middle East, Central and South Asia that will never be part of the TPP or TTIP. It is also very relevant for those countries in Latin America and East Asia that could be but are not part of the TPP discussions. These include not just China, but also six ASEAN member countries, including Indonesia, Philippines and Thailand. And it applies to all developing countries when it comes to the TTIP and the large number of countries that decided to stay out of the TISA talks.

Classic trade diversion costs generated by preferential removal of tariffs under TPP or the TTIP are likely to be limited because average tariffs in most of the countries participating in these initiatives are low.¹¹ The same may be true of a TISA given the likelihood that regulatory changes will be applied on a nondiscriminatory basis because in practice it is difficult to apply regulatory policies on a discriminatory basis. However, this does not apply in areas where there are tariff peaks. More generally, there is potential for both de jure and de facto discrimination following agreement to reduce the market segmenting effects of differences in regulatory policies. How significant this will be will depend on whether third country firms will be able to benefit from access to the larger market created by the PTA by demonstrating that their products or services comply with the relevant regulatory standards. In practice it may be difficult to exclude third-country firms from benefiting from initiatives that lower the fixed costs of enforcement of regulation in member countries.¹² But such exclusion can easily occur if third countries do not have access to recognized certification systems and therefore have to continue to incur market-specific conformity assessment and inspection costs.

One potential response by excluded nations is to seek to join the mega-regionals. As mentioned, for many if not most countries that will not be possible given the regional nature of these PTAs.¹³ Another response is to pursue PTAs in turn—with Brazil, China, India, and other large developing economies such as Indonesia and Turkey. This can help generate greater trade with countries that are likely to continue growing more rapidly than the EU and US, and where traditional barriers to trade are substantially higher. If such PTAs result in meaningful preferential liberalization, the associated trade diversion could become an incentive for a renewed effort to conclude a multilateral deal at the WTO, in part by eroding the power of the interest groups in BCI that currently resist market opening on a MFN basis. However, to date the PTAs involving BCI have tended to be shallow, with substantial

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advanced and the outlines of an agreement agreed among participants, new countries will likely have to wait until the ‘original’ TISA countries have finalized an agreement and then negotiate their accession.

⁹ As mentioned in the Introduction this negotiating strategy has had some positive results in addressing some of the perceived ‘development deficit’ that motivated the design of the DDA, including more duty-free, quota-free (DFQF) access, the Aid for Trade (AFT) initiative and the Enhanced Integrated Framework for the LDCs. See Hoekman (2012).

¹⁰ Examples are tariff escalation or the elimination of support for cotton production in OECD nations. As the latter have made clear that any deal on agricultural policies or tariffs will need to be balanced by market access concessions by BCI, there is little that small developing nations such as the cotton-4 (Benin, Burkina Faso, Chad and Mali) can do beyond advocacy.

¹¹ In part such additional costs will be low because the US has PTAs with most of the other TPP countries.

¹² The literature investigating the effects of regional harmonization of standards has found that this may benefit excluded countries, but that this is conditional on the capacity to satisfy the norms and mechanisms that are adopted by a PTA. See e.g., Chen and Mattoo (2008) and Shepherd (2007).

¹³ TISA is an exception.

exceptions and exclusions to safeguard sensitive products and industries and no disciplines on the use of industrial policy-related instruments and regulatory regimes.

Given their (pro-claimed) goal to be high-quality, “21st century” agreements that address the regulatory causes of market segmentation and reduce the cost-raising effects of domestic policies, another response is to focus resources on understanding what members of the mega-regionals actually do and to learn from the initiatives that are pursued. Achieving the objectives that the countries participating in the new PTAs have set themselves will not be straightforward. There will be much to be learned from the experience obtained in implementing these PTAs.

Another possible response is to consider what can be done to reduce the incentive to use the PTA route for countries that want to go beyond existing WTO disciplines, and to encourage greater use of the WTO to discuss and agree on measures to reduce regulatory trade costs. Greater willingness to support cooperation on regulatory matters *inside* the WTO by subsets of the membership could reduce the proliferation of PTAs given that one motivation for pursuing the PTA track is to deal with policy matters that are not on the table in the WTO. Currently PTAs are regarded by policymakers and analysts as the default option for the pursuit of cooperation on a policy matter if no consensus can be found in the WTO. Moving beyond this dichotomy by pursuing alternative options that already exist or could easily be created in the context of the WTO could help reduce the fragmentation of the trading system over time and do more to assist all WTO members to learn and benefit from initiatives and experimentation that is pursued among smaller groups of members.

What follows presents four proposals that are examples of options that could be pursued in the WTO without major institutional changes: (1) using WTO mechanisms to assess the (spillover) impacts of policies and enhance understanding of how (differences in) regulatory regimes affect competitiveness; (2) increasing the transparency of what is done in PTAs and identifying ‘good practices’ that could be pursued by non-members as well; (3) extending the benefits of PTA provisions to LDCs; and (4) making greater use of opportunities for plurilateral agreements and cooperation under the umbrella of the WTO.¹⁴

3. Some Specific Proposals

3.1. Addressing policy spillovers more effectively: WTO as convener and focal point

As mentioned, the agenda for international trade cooperation increasingly concerns the effects of regulatory policies that generate negative pecuniary spillovers for trade and investment. Frequently, a multiplicity of regulatory norms and related enforcement requirements that are imposed independently by different government agencies generate excess costs for firms—in the sense that costs of compliance are greater than what is necessary to attain the underlying social or economic objectives. Many of these regulatory policies apply equally to local and foreign firms and products, but even if they do they will usually increase trade costs more for foreign than for domestic suppliers simply because regulations differ across countries and/or because foreign firms are subject to a multiplicity of requirements that are redundant (duplicative). More generally, regulatory policies may needlessly raise costs across the board – for domestic and foreign firms – and thus the price of goods and services for firms and households.

¹⁴ The options discussed in what follows are process-oriented as opposed to substantive in the sense that the focus is not on specific policy areas and issues that arguably should be priorities for WTO members to address. There are many papers that do the latter – see e.g., Baldwin (2012) and Mattoo and Subramanian (2009). Rather than enumerating my own list of issue areas, the aim of the next section is to focus attention on process and approaches that WTO members could use to help them identify areas for potential cooperation, opportunities to make existing agreements more effective and to improve the common understanding of initiatives that are pursued outside the WTO.

Given that regulation and domestic policies are increasingly the source of market segmentation, some degree of positive integration (agreement on common rules or mutual recognition) may be needed to achieve joint increases in economic welfare (e.g., Antras and Staiger, 2012). Determining what would do so is not straightforward. Regulatory measures often cannot simply be abolished or their impacts on trade reduced by x percent as can be done for tariffs or taxes. In principle they fulfill a specific social or economic purpose, even if the effect is to restrict trade. Addressing the trade effects of regulation requires first an understanding at the national level of the effects of prevailing policies and the likely impacts of alternative welfare-enhancing reforms. Many reforms will not require actions by other governments (trading partners), but international agreements may help mobilize political attention to an issue and overcome resistance by vested interests. International cooperation may also help governments identify beneficial reforms. But such cooperation may not be very effective if it is pursued through reciprocal exchanges of policy commitments – the standard modality of trade negotiations – because parties generally will be unwilling to change policies if they believe these to be effective. Building a better understanding of the status quo and its impacts, knowledge of the approaches and processes used in different jurisdictions, and potential gains from reforms may be a necessary condition for cooperation on regulatory matters.

The WTO is geared towards the negotiation of enforceable commitments. This is its primary strength: binding disciplines reduce uncertainty for traders who know that the dispute settlement mechanism can be used to ensure that governments live up to what they sign on to. A precondition for agreement on binding international rules is a shared recognition that the negative spillovers associated with a policy (set of policies) are significant and that a proposed set of (enforceable) disciplines will result in greater efficiency (lower costs). At present there is no such recognition among the WTO membership at large when it comes to policy areas that can generate market segmentation, raise costs, impede innovation or otherwise give rise to negative spillovers. This suggests a need to work towards putting in place the preconditions for stronger forms of international cooperation—by improving the transparency of applied policies; supporting independent analysis of the effects of policies; and establishing mechanisms through which governments can consult and exchange information. Hoekman and Mattoo (2013) suggest the formation of “knowledge platforms” that would bring together different government agencies, regulators and stakeholders to assess/analyze the impacts of prevailing policy regimes and act as a focal point for agreement on beneficial reforms. Such platforms would facilitate knowledge exchange and build on existing networks of regulators and industry associations. In the case of low-income countries they would also provide a vehicle to connect with the donor community and development agencies that can provide support for implementation of reforms.

The WTO, as do other trade agreements, tends to take a “silo approach”, addressing policy areas in isolation.¹⁵ This is reflected in the structure of the organization—three different multilateral agreements, with a plethora of policy instrument- or area-specific committees that are charged with overseeing implementation of the agreements, and a secretariat that is organized into divisions that are “mapped” to the different agreements. For businesses this policy-specific focus may reduce the relevance of WTO agreements in terms of impacts in lowering trade costs. From the perspective of international supply chains and production networks a variety of policies may matter. The marginal effect of disciplining or changing one policy instrument may be reduced if the cost-raising effects of others are not addressed in parallel (Hoekman, 2013). Figuring out what policies have the greatest impact on trade and investment, and which policy areas ideally need to be considered jointly, requires substantial preparatory work.

¹⁵ This observation pertains to the implementation of agreements, not necessarily to their negotiation. A premise of the “single undertaking” approach in WTO negotiations is that a package deal that involves a number of policy areas and thus associated issue linkages will ensure that a Pareto-improving outcome. See e.g., Sebenius (1983) and Conconi and Perroni (2002).

No mechanism exists in the WTO that provides a “knowledge platform” function or that is designed to discuss complementary sets of policies and identify how they interact to impact on trade costs and investment location decisions. Given the complexity of today’s organization of global trade and investment flows this may explain why business appears to less engaged in and supportive of the WTO than was the case during the Uruguay Round. Creating platforms that allow (encourage) looking across the various policy silos that all have an impact on supply chain trade, that help identify what policy areas should be prioritized and whether there are important “gaps” in the existing coverage of WTO agreements would at a minimum be informative. But better knowledge may also support unilateral action by governments seeking to improve the competitiveness of firms located in their jurisdictions and, over time, such engagement could prepare the ground for new agreements or the deepening of existing disciplines.

Business needs to be an integral part of any cross-cutting transparency and learning processes in a way that goes beyond “consultations” and “dialogue”. One reason is that the business community can provide the data that are needed for objective assessments of the impacts of policies and for measuring the progress over time in reducing the negative trade and investment effects of regulatory policies. A constraint in this connection is that business may be hesitant to make relevant data publicly available for fear of adverse reactions by government agencies or worries about revealing useful information to competitors. Conversely, governments may discount information provided by business because of perceptions that firms will seek to remove any policies that raise their costs even if the underlying measures are implemented efficiently by the administrative bodies responsible for enforcement of policy. The WTO secretariat could play a role in addressing these concerns by acting as an objective intermediary and depository of data provided by business, and assuring WTO members that these are relevant and appropriate in measuring and assessing the impacts of regulatory policies.¹⁶

Hoekman (2013) suggests one option to move towards operationalizing greater engagement with business on trade and investment-related policies: establishing “supply chain councils” that would focus on a selected number of specific production networks. These could be limited to a purely informational mandate, tasked to identify the most binding regulatory policy constraints that impact negatively on supply chain trade (SCT), including the effects of policy-induced uncertainty that generate a need to hold excess inventory and engage in other forms of costly “self-insurance.” It would be impossible to establish councils for all the major types of international production networks given the enormous heterogeneity that prevails in the market place. But identifying a number of ‘representative’ supply chains/networks for a set of products that are important for a broad cross-section of the WTO membership should be feasible and help to improve the understanding of policymakers how a broad variety of regulatory policies impact on the operation of the chosen chains and networks.

The process of “mapping” supply chain trade costs and inefficiencies to regulatory policies will require inputs from both business and the research community. Supply chain managers within firms may not understand or be interested in determining the various sources of costs and uncertainty, implying a need for collaboration with analysts. One can imagine various outputs of such a process. One could be a proposed action plan to address the policy-based sources of excessive SCT costs. Another output could be to identify performance indicators and quantitative baselines that would help both to motivate the need to pursue reforms and allow a determination of whether progress is made over time to reduce trade costs. Examples might include the time it takes for consignments to satisfy all border management processes, or the share of transactions that are physically inspected, or the variance in the average time that is required for regulatory approval to be obtained. One reason why metrics matter is because of the scope for policies to substitute for each other—removing one source

¹⁶ Such a role is played by other international organizations for other types of data – e.g., the ICC for data on trade finance and the World Bank for firm- and household level survey data.

of redundant or duplicative regulatory cost may not have an effect if other policies continue to impose excess costs.

An important question for governments in determining whether to go down this track is to determine if the WTO is the best place to do it. Are WTO members willing to engage with the business community on trade and trade-related regulatory policies? Would other fora be more appropriate? Clearly the type of exercise that is being suggested can be pursued by other organizations. Indeed, to some extent organizations like the World Bank undertake similar types of activities. Thus, any assessment of national trade competitiveness will do much of what is being proposed here. Analysis of the business environment and investment climate is regularly undertaken by the World Bank for its clients or by the OECD for its members. This suggests a need for bringing these organizations into the envisaged process. This has value given that the national officials that work with these organizations are often not the ones responsible for trade policy, and even if trade officials are aware of the diagnostics and follow-on activities, the national delegations in Geneva often will not be. Conversely, the teams that undertake the diagnostics and policy analysis for the World Bank, OECD or regional development banks often will not consider the implications of their findings for design and operation of the WTO. Whether policies or SCT frictions that are identified are covered by the WTO may not be a matter of interest, even though this would be relevant information for WTO delegations. The same is true as regards the interactions between policy areas that impact on trade costs. A regulatory regime for road trucking that significantly reduces competition and the average quality of services may nullify much of the expected reductions in trade costs from an effort to reduce customs clearance times. There has been much talk about policy coherence – doing more in the WTO to bring in the methodologies and approaches used to assess trade competitiveness could be one way of enhancing coherence.

While there is much that other organizations can bring to the WTO in terms of assessments of policies and regulatory regimes and their impact on investment incentives, the products and activities that they undertake are not a substitute for the proposed supply chain approach. The latter differs in important ways from the modus operandi of institutions such as the World Bank. One difference is that by their nature a supply chain approach to analysis must be multi-country. The competitiveness diagnostics that are done by the World Bank and other development institutions are generally country-specific. Supply chains are by nature multi-country, and the assessments of SCT frictions that will emerge from the proposed process will focus on policies in a number of countries. This characteristic provides one rationale for making this a WTO-centered process. Another rationale is that one function of the WTO is to address international pecuniary spillovers. Policies of trading partners that affect access to export markets or the availability and cost of imported inputs such as natural resources are generally taken as given in competitiveness diagnostic assessments. Bringing a SCT focus to the WTO would allow the effects of all policies along the supply chain to be identified and discussed and thereby become a potential focal point for actions aimed at internalizing some of the externalities that are identified.

How would such a supply chain approach be implemented? One locus within the WTO for moving in the proposed direction is the Trade Policy Review Mechanism. However, this has the same feature as World Bank and other organizations' analyses of policies in that the focus is country-specific (or customs union-specific in cases where WTO members have a common trade policy). Given that an objective of the proposed exercise is to focus on a broad set of policies that impact on international trade and investment (SCT) – i.e., to cut across the various silos and identify gaps/overlaps – this is best pursued through an inter-agency taskforce with involvement of WTO secretariat staff drawn from different divisions, including the economic research division, working with a sample of business and business associations that are willing to contribute to the exercise.

There are many ways in which the WTO can do more to engage with business. The approach advocated above differs from many proposals to emulate what is done in other organizations to provide business with a voice, e.g., in the OECD, where business is represented by a Business and

Industry Advisory Committee (BIAC). This is unlikely to do much in terms of learning and mobilizing attention on SCT frictions because by construction such advisory bodies engage on specific policies. It is important that business be able to express a view on policy matters, and an advisory business council would be an improvement over the status quo. But what is envisaged here goes significantly beyond the policy-specific advisory and advocacy inputs that characterize the role of BIAC in the OECD. The premise of the supply chain-centered process is that WTO members would benefit from creating mechanisms to engage with business and generate “real-world” feedback and input that allows them to better understand how regulatory policies interact to affect trade and investment.

3.2. Engaging with the PTAs: transparency and learning

The proliferation of PTAs offers the WTO membership as a whole an opportunity to learn from the different approaches that are being pursued. PTAs are in some sense laboratories. The experiments that are successful in specific PTAs may be transferable. Over time WTO members may come to the view that some of the processes and approaches that have proved successful in a PTA context should be embedded into the WTO. A precondition for such learning is transparency: WTO members need to have information on what is being done in the PTA context. Rather than seek to determine this individually, this is much better done by an agency such as the WTO secretariat that provides the information to all WTO members. Ideally signatories to the PTAs would agree to provide information and share their experiences with implementation with the broader WTO membership. But independent of whatever PTAs members are willing to provide in this regard, the WTO secretariat should be mandated to analyze and report on the specific processes or approaches that have been implemented in PTAs and assessing their impacts on economic outcomes.

An important contribution the WTO could make in this regard is to significantly expand what is done today by the Committee on Regional Trade Agreements (CRTA) and the Transparency Review Mechanism. Collecting and analyzing information on implementation of PTA disciplines would allow a much better understanding of what actually is being done in the PTA context, not just in terms of policy but in terms of institutional change and strengthening, specific types of cooperation and interactions between PTA members, and the investments that are undertaken as part of the implementation of PTA provisions. Current monitoring of PTAs by the secretariat focuses primarily on documenting the provisions of PTAs. This is not particularly informative for countries seeking to understand what is entailed in implementing those provisions and the outcomes that are generated. As in the previous proposal, bringing in and using firm and industry level data on variables of interest – such as trade costs, clearance times, etc.—would help WTO Members to better understand if and how PTA procedures and disciplines have an impact in improving economic outcomes and performance.

3.3. PTAs and LDCs

Special and differential treatment (SDT) is a core feature of the WTO, with the group of least-developed countries singled out to receive the most far-reaching preferences that high-income countries are willing to provide. Opinions differ regarding the effectiveness of SDT but in principle preferential access to markets is of value to the countries to which it is granted. One consequence of PTA-based liberalization of trade between members is that any market access preferences granted to LDCs are eroded. Given that new vintage PTAs span commitments on policy areas that go beyond the WTO, this well-understood form of preference erosion may be made worse by additional discrimination against LDCs because benefits may not, and presumably will not, be extended to non-members. The LDCs are not participants in the mega-regionals, both because most are very small/poor, and because they do not wish to participate.

One straightforward way of reducing any discriminatory impacts would be for PTA members to extend the benefits of what is negotiated to the LDCs on an unconditional, non-reciprocal basis. This can be done for both goods and for services, given the 2011 decision by the WTO membership to

adopt a waiver for the MFN requirement that is contained in the GATS.¹⁷ In the case of services and regulatory provisions, simply extending PTA benefits to LDCs may not be very meaningful however, given prevailing capacity and institutional weaknesses. One way of addressing this constraint would be for members of mega-regionals and to put in place an aid for trade (AFT) mechanism to assist LDCs improve their standards, regulation, etc. to the level that is required to benefit from what is agreed.

Such an initiative would help reduce the extent of any discrimination and could enhance the development dimension of the mega-regionals by targeting AFT in areas that would help bolster the capacity of firms and service providers from LDCs to benefit from PTA provisions. While it is desirable that LDCs be able to benefit from mega-regionals, it should be recognized that there are opportunity costs associated with allocating AFT to PTA-covered policy areas and pursuing whatever regulatory reform and upgrading that may be required – these may not be priorities for LDCs and it would be undesirable for scarce aid resources and personnel in LDCs to be allocated to non-priority areas. Although it is easy to call for PTA-associated AFT to be additional, in practice this is very difficult to ensure. Nonetheless, agreement that all benefits of the new vintage PTAs be extended to the LDCs would at least give these countries the opportunity to compete on a level playing field.

3.4 Plurilateral cooperation and Annex IV WTO agreements¹⁸

The WTO offers two mechanisms for Members to form ‘clubs’ to move forward on an agenda of common interest without necessarily extending the benefits to other WTO members: negotiating a PTA that is justified under Art. XXIV GATT and/or Art. V GATS, or conclusion of a Plurilateral Agreement (PA) under Art. II.3 WTO. The latter provision permits sub-sets of the WTO Membership to agree to certain disciplines applying to signatories only. In contrast to a PTA, which must cover substantially all trade in goods (Art. XXIV GATT), and/or have substantial sectoral coverage of services (Art. V GATS), PAs can be issue- or policy-specific.

Four PAs were incorporated into the WTO in 1995 as “Annex 4 agreements”: the International Dairy Agreement, the International Bovine Meat Agreement, the Agreement on Civil Aircraft and the Agreement on Government Procurement (GPA) (Hoekman and Kostecki, 2009).¹⁹ The first two of these agreements were not incorporated into the WTO for pragmatic reasons and are no longer in force having been superseded by the Agreement on Agriculture.²⁰ The GPA is a combination of market access commitments and rules in an area that was explicitly excluded from the coverage of the GATT and that continues to be excluded from the WTO. The Civil Aircraft agreement also has market access and rule-making elements, with the important difference that the liberalization commitments made by signatories apply on a MFN basis, in contrast to the GPA. Much of the Agreement on Civil Aircraft has been superseded by the WTO Agreement on Subsidies and Countervailing Measures and the GPA (which includes rules on public purchases of civil aircraft).²¹

¹⁷ The waiver permits WTO members to discriminate in favor of LDCs through granting preferential market access for services or in the application/enforcement of regulatory regimes.

¹⁸ This section draws on Hoekman and Mavroidis (2013) which undertakes a comprehensive comparison and assessment of the PA and PTA approaches to cooperation between subsets of WTO members.

¹⁹ Sometimes the Information Technology Agreement (ITA) is inaccurately depicted as a PA. It is not. It is a critical mass agreement that is implemented on a MFN basis through tariff commitments (bindings) of signatories. The same is true for other sectoral agreements for goods (e.g., so-called zero-for-zero agreements for certain chemicals, agricultural machinery, medical equipment, scientific equipment, and construction equipment) and services (e.g., the agreements on basic telecommunications and on financial services).

²⁰ The dairy and bovine meat agreements were terminated by decisions of the General Council on 31 December 1997 and 17 December 1997 respectively.

²¹ The genesis of the Civil Aircraft Agreement was an effort by the EU and the US to agree on more specific rules on permissible support for aircraft production and trade than those that applied under the GATT. Signatories to the Civil

The case for greater recourse to PAs as a way of allowing sub-sets of countries to move forward on an issue and permit progress to be made on rule-making under the umbrella of the WTO is not new – see e.g., Lawrence (2006) and Levy (2006). The argument has not had much traction because there is significant opposition to expanding the number of PAs in the WTO. For example, Brazil and India among others have opposed the idea of adopting an agreement on trade facilitation or on services on a plurilateral basis. This opposition contrasts with the general acceptance and pursuit of PTAs.

PTAs and PAs both permit but do not require discrimination. Both liberalize trade and/or define rules of the game for a sub-set of the WTO Membership that shares similar views and wants to go beyond prevailing WTO disciplines. Recent vintage PTAs often deal with issues that are not covered by the WTO,²² while any PA must by definition go beyond existing WTO rules. While PTAs must have substantial coverage of the trade between the partners to be WTO-legal, PAs can be limited to just one policy area. Another major difference is that Art. X.9 of the WTO Agreement stipulates that the Ministerial Conference of the WTO may decide to add an agreement to the existing set of PAs listed in Annex 4 “exclusively by consensus.” In contrast, with the advent of the Transparency Mechanism in 2006, there is no longer any effort by WTO Members to approve new PTAs (Mavroidis, 2011). Consistency with the WTO is instead left to be determined through dispute settlement: if a WTO member believes a PTA is inconsistent with the WTO, it can bring a claim to that effect and ask for a Panel to rule on the matter. The fact that there are no provisions or criteria on what is (should be) permitted in terms of sectors or their content/coverage implies that there is great flexibility in principle for those aspiring to establish a PA, but that utilization of this flexibility is constrained by the need to obtain approval by *all* WTO Members to move forward, even if many or most do not intend to join.

Another difference between the two instruments is that PTAs tend to be closed clubs – most PTAs do not include an accession clause. Those that do often limit this to countries that are geographically proximate. This helps explain the proliferation of PTAs – a new agreement tends to be negotiated between members of any given PTA and non-members. PAs in contrast are “open” – in principle no WTO member can be excluded from a PA once it has been negotiated and accepted as an Annex 4 agreement. Thus, insofar as WTO members can satisfy whatever conditions apply for membership (i.e., conform to the disciplines that constitute the substantive provisions of the PA) they cannot be excluded. Indeed, a rationale for negotiating a PA in the first place is to encourage wider membership over time – that has certainly been the goal of the signatories of the GPA.

Transparency of PAs is ensured through the process of notification to the General Council and the need for the Council to approve any PA that is brought forward. If approved, a PA will result in the establishment of the types of WTO bodies that assist Members in the implementation of agreements, such as a Committee, with regular (annual) reporting on activities to the Council, and documentation that is open to all WTO Members. Moreover, disputes under a PA must be submitted to WTO Panels (and eventually the Appellate Body). This ensures that case law regarding plurilaterals will develop harmoniously with case law regarding the multilateral WTO agreements. These are all arguably features of PAs that make them more attractive than PTAs from a trading system perspective.

Objections raised against PAs include worries that they will focus on controversial issues such as labor standards; that PAs will erode MFN; that the rules that are negotiated will be precedent-setting; that asymmetric negotiating capacity will bias disciplines towards what powerful countries want; and that PAs will reduce the prospects for issue linkages needed to conclude deals policies that are

(Contd.) _____

Aircraft Agreement agreed to eliminate import duties on a specific list of civil aircraft-related products on a MFN basis (because the products involved are covered by the GATT).

²² Horn et al. (2010) distinguish between WTO+ and WTO-X obligations in PTAs: the former cover matters that are fall under the current mandate of the WTO but where commitments in the PTA-context are more comprehensive (e.g., deeper than MFN tariff cuts); the latter refer to policy areas currently not addressed by the WTO (e.g., cooperation on macro-economic policies).

supported by strong vested interests. The salience of many of these concerns depends on the substance and coverage of a PA. If the PA is WTO-X (that is, deals with a new issue—say an agreement on certain climate change-related policies), it may be precedent-setting but there is no issue of fragmentation or undercutting MFN as this currently does not apply. This is not the case for so-called WTO+ PAs – i.e., agreements that deepen existing rules. WTO+ agreements that involve discriminatory market access concessions are likely to be problematical from a trading system perspective as they presumably imply targeted, narrow discrimination of the type that the WTO rules on PTAs were intended to prevent. WTO+ PAs that involve regulatory commitments and cooperation may be discriminatory in effect but this is more likely to be a side effect of whatever is jointly implemented—e.g., mutual recognition of regulatory standards and practices.²³ This suggests that if a PA involves a set of common rules and aims at regulatory cooperation/convergence for a policy area that is not covered by the WTO, there is less cause for concern about potential detrimental consequences for the trading system. Greater willingness to accept such PAs might on the margin result in fewer new PTAs and facilitate a process through which specific dimensions of PTAs dealing with regulatory policies could be incorporated in the WTO and gradually be multilateralized over time.

A constraint in pursuing the plurilateral route is that the incorporation of a PA into the WTO requires unanimity (“exclusively by consensus”). Greater use of PAs arguably will require a relaxation of this rule (Tijmes-Lhl, 2010). While presumably intended to ensure that any PA is consistent with multilateralism, consensus is arguably too strong a constraint. A rationale for the consensus rule may have been concern about countries putting forward subject areas simply because of the DSU or for ‘strategic’ reasons – e.g., controversial issues like labor standards. However, consensus is not needed to provide assurances that efforts to introduce PAs on controversial matters that are only weakly trade related can be blocked. Relaxing the consensus requirement – for example through agreement that “substantial coverage” of world trade or production is sufficient (Hufbauer and Schott, 2012)²⁴ or acceptance that a two-thirds majority suffices – would still ensure that controversial issues can be rejected while removing the ability of a limited number of countries to block a PA that the majority of the WTO Membership finds acceptable. The Enhanced Cooperation Agreements that are foreseen in the EU context to permit a subset of EU members to move forward in a policy area only require participation by 9 out of 27 member states in instances where consensus cannot be obtained (Hoekman and Mavroidis, 2013).

²³ An example would be a PA on trade facilitation that involves signatories committing to specific actions that ensures reciprocal “green channel” treatment for goods (such as risk assessment practices, collection and sharing of data on consignments). This implies better market access conditions for signatories of the PA, but this is conditional on a having put in place an agreed set of procedures, having made the necessary policy reforms and investments, etc. As non-members satisfy the preconditions for establishing the capacity to implement the specific commitments required for club membership they should be able to participate and benefit from the provisions of the PA.

²⁴ They suggest a minimum coverage of 40 percent of world trade as opposed to the norm of 90 percent that empirically has defined the feasibility of critical mass agreements in the GATT/WTO.

3. Concluding Remarks

Two developments have played an important role in inducing major trading nations – in particular the US – to shift to a PTA-centered trade strategy: the rapid rise of BCI, especially China, and the increasing complexity of the policy agenda affecting international production networks and supply chain trade. The changes that have occurred in the structure of the world economy as a result of both policy reforms and technological advances—reflected in production fragmentation and geographic splintering of value chains—have increased incentives for countries to lower trade costs and levels of import protection (Gawande, Hoekman, and Cui, 2013). But, as has been observed by many analysts, another result of the increase in cross-border investment and fragmentation of global production is that many more policy areas become a source of potential spillovers. Many of the relevant policy areas – including investment, subsidies, environment, procurement, data protection and privacy policies were not on the table in the DDA.

Time will tell whether the mega-regional agreements that are under negotiation at the time of writing will make substantial progress in crafting disciplines in such areas. We have yet to see any major developing country (BCI) conclude a deep PTA with another large nation, developed or developing. This situation may change, but the fact that the large emerging economies have not been active (or successful) in negotiating deep PTAs with each other or with the large OECD nations suggests that the WTO will remain an important vehicle to engage on and address trade issues. The lack of progress in the DDA should not be taken to imply a lack of relevance of the WTO. Multilateral negotiations have become more complex *because* developing countries have interests that are pursuing and objectives they want to achieve. PTAs may well be more effective mechanisms to address certain policy matters, especially of a regulatory nature or involving the liberalization of politically sensitive areas such as the movement of people. But to date they have not addressed subjects that feature prominently on the DDA agenda, e.g., agricultural policies, and that are important to BCI and other developing countries.

As argued by Wolfe (2013) among others, at the end of the day it is likely that BCI and the US, EU and Japan will come back to the multilateral negotiating table simply because BCI are not part of the mega-regional initiatives. Thus, eventually the majors are likely to re-initiate efforts to address policy spillovers and engage in rule-making in the WTO context. Much can be done in the interim to use the WTO to better understand the effects of regulatory policies on trade and investment, to learn about what is done in the PTAs and whether this is worth emulating, and more generally to engage more on regulatory policy spillovers in the WTO. The proposals sketched out in this paper would support such processes. A key feature of the proposal is to shift the balance of WTO activities a bit more towards substantive engagement with the business community – arguably a core constituency of the organization – so as to focus more on the effects of policies in generating supply chain trade frictions, whether these are covered by the WTO or not .

Insofar as the new vintage PTAs generate innovative approaches to deal the market segmenting effects of (differences in) regulatory policies, they can help all countries identify approaches that can usefully be emulated. All WTO members have a strong interest in understanding what these PTAs end up doing/achieving. Using the WTO infrastructure to document, analyze and assess the approaches that are implemented by PTAs to reduce barriers would help ensure both transparency and potentially inform a process of learning about what works and what does not, and identify specific features of cooperation in PTAs that can and should be multilateralized. Plurilateral agreements offer a vehicle for gradual multilateralization given the likelihood that many WTO members will not be ready to adopt the disciplines and mechanisms in question at any given point in time. They allow for gradual expansion of membership as countries deem that it is in their interest to participate.

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