

**Mega-regional Trade Agreements:  
Strategic Implications for the African, Caribbean, and Pacific Countries**

A Report Submitted to the ACP MTS Programme

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## **Executive Summary**

For many years the World Trade Organization's (WTO) Doha round negotiations have been in the doldrums, with little apparent prospect of success for the single undertaking that lies at its foundation. In the wake of the ninth WTO ministerial conference in Bali, in December 2013, there is renewed optimism that the WTO can deliver, and that something could still be made of the round. The time is therefore right for member states to strategically reappraise their positions in the round, in the context of their overarching domestic and regional trade strategies.

Central to any appraisal is the new geopolitical reality represented by the free trade agreements (FTAs) being negotiated by the major industrial powers. Led by the United States of America (USA), the Trans Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) are wide in scope, deep in ambition, and laden with many implications for non-party states and for the global trading system. Partly a product of the impasse in the WTO, these potential agreements have also sucked negotiating energy out of the WTO, reducing the focus on bringing the Doha round to a conclusion. These FTAs are also a product of the geopolitical rise of China, to the point where it is not far from asserting leadership of the global trading system. Therefore, the USA and its European Union (EU) counterparts are also driven by their own geopolitical imperative of locking in access to key markets and regions, a thrust that has direct implications for ACP member states. Not surprisingly China, and other major developing economies, are responding with initiatives of their own, such as the Regional Cooperation in Asia and the Pacific (RCEP) negotiations. Hence there is renewed impetus behind FTA negotiations across the world.

The paper explores these issues. The first section defines the term "mega-regional" FTA, focusing on those which involve three or more countries; constitute a quarter of world trade or more; and entail deep, behind the border regulatory commitments. By this definition the scope of the paper is confined to analysing the TPP and the TTIP. It then reviews the various publicly available impact assessments on those two negotiations, from the standpoint of their potential economic impacts on ACP countries. Generally the studies concur that the effects of tariff liberalization on negotiating member states will be modest. Similarly there is some concurrence that trade diversion impacts on outsiders will also be relatively small, particularly for the ACP since they do not directly compete with those party to the talks although some countries are likely to suffer from preference erosion in key commodities, limited by the fact that tariff barriers in the EU and US markets are already low. Nonetheless, some studies argue that trade creation impacts may outweigh those of trade diversion, yielding net positive gains. All studies concur that removal of non-tariff barriers to trade, particularly through regulatory harmonization, will have the most significant impacts both on parties and non-parties, although the effects are very difficult to measure let alone predict. Some worry that standards will be raised so high that non-parties will be locked out of erstwhile markets; others argue that mutual recognition backed up by extension of conformity assessments will increase market access substantially. Either way there is concurrence that regulatory standards negotiations are very much here to stay as part of the modern trade diplomacy landscape; a fact that the ACP member states have to adapt to.

The next section unpacks the regulatory agenda in play in both the TPP and the TTIP. This is a detailed assessment, and the issues vary from negotiating area to negotiating area so the reader is invited to read those sections of interest to him or her. Suffice to say that the agenda is very complex and wide-ranging, and is no doubt stretching the capacities of Asia-Pacific countries participating in the TPP in particular. Clearly the ACP countries are some distance – depending on the sub-region – from being able to absorb such complexity

never mind implement the outcomes. Therefore, it is an agenda that bears close watching. The key to understanding how it may unfold is undoubtedly the TPP negotiations, since these are ahead of the TTIP by a long way. While the USA by no means has things all its own way in the TPP negotiations, and the final outcome will not be as ambitious as those found in a “typical” US bilateral FTA, the USA will undoubtedly press its negotiating template on the EU to the extent possible. We have tried to highlight where these templates differ in important respects.

The third section briefly elaborates potential outcome scenarios for these two mega-regionals. It is important to understand how they will unfold, since under these scenarios the strategic implications for the ACP would vary substantially. In the full success scenario the forces of competitive liberalization would march on triumphant, and the regulatory agenda would manifest strongly in the WTO and in demands for reciprocity from the ACP bilateral or regional settings down the line. The ACP would find this difficult to resist. Under a partial success scenario, the one we regard as most likely, important aspects of the regulatory agenda and trade impacts described above would manifest, but western hegemony over the global trading system would not have been decisively reasserted. This would offer a “balance of power” prospect to the ACP, nuanced according to sub-region and degree of exposure to Chinese influence in particular. But the search for reciprocity in bilateral trade relations would be moved up the radar screen of the major developed countries, with attendant implications for preference schemes. If the failure scenario manifests then the implications just described would manifest much quicker and with more intensity. Furthermore, and particularly if the current Chinese economic reform programme is successful, ACP countries would have face up to a China dominated trading system earlier, perhaps, than previously anticipated.

The final section then lays out policy options for the ACP in light of the scenarios described. The thread running through them is that the “do nothing” option does not seem to be available, since all scenarios entail major changes to the status quo, and none we can think of that would result in positive gains to inaction. Hence we urge ACP countries to grasp the regulatory and trade reform nettle, at three levels. The key is the unilateral level. We recommend that each ACP member state conduct its own regulatory reform review in light of what is on table in the mega-regionals, and calibrate domestic reforms accordingly and sensitive to capacity and political economy constraints. At the regional level we advocate, where feasible, a sequenced approach: prioritise regulatory integration tailored to regional realities; then negotiate FTAs with small, less threatening developed countries in order to pioneer approaches and harness domestic implementation institutions to the effort; then conclude reciprocal arrangements with the major powers. Of course this is an ideal type scenario, nonetheless it strikes us as being the most sensible strategic approach given the institutional weaknesses manifest in most ACP states. Finally, in the WTO we advocate a policy of constructive engagement through participating in working groups established to explore new regulatory issues, and preparing the groundwork for their subsequent incorporation by negotiation into the multilateral trading system. That process of incorporation is most likely to involve plurilateral approaches, so that the single undertaking principle will have to be revisited and potentially abandoned. Since the WTO remains central to defending ACP trade interests we therefore advocate that ACP states conditionally support plurilateral negotiations, ensuring that their interests will be accommodated by withholding consent until such time as concrete and enforceable undertakings are in place.