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GLOBAL TRADE GOVERNANCE AND G20: A RESPONSE TO MEGA-REGIONAL TRADE AGREEMENTS WITH REFERENCE TO CHINA AND TURKEY

'Trade and investment are crucial elements for sustainable growth and job creation'. This is an almost universally accepted motto and Chinese presidency of G20 reiterates it, too ². However, protectionist measures are implemented persistently ³, investment growth is sluggish ⁴ and governance regimes in trade and investment is 'fragmented' ⁵, while WTO multilateralism is argued to lose its centrality ⁶. The G20 is the right platform to respond to these challenges by upholding multilateral regimes. G20 represents a 'critical mass' for global trade and investment flows and provides a legitimate forum if it is inclusive by acknowledging the needs of the rest of the world. However, we must admit it is paradoxically the same G20 members who sit in alternative platforms to re-write the rules of the game for the regulation of global trade. Some even go further claiming to build up 'game-changers' for the multilateral trading system.

¹ <http://www.tepav.org.tr/en/ekibimiz/s/1338/Sait+Akman>

² *G20 2016 China: G20 Summit 2016, China* document underlying the priorities of China, p.9.

³ According to a recent WTO Report on G20 Trade Measures (Mid-May and Mid-October 2015) there are 1,244 restrictive measures recorded since the onset of the crisis in 2008, and only 282 have been removed so far. See, https://www.wto.org/english/news_e/news14_e/g20_wto_report_oct14_e.pdf However, an independent study by Global Trade Alert (GTA) documents more (almost 7,000) governmental measures since the first G20 Leaders Summit. Almost 75% of G20 exports face at least one new trade distortion, according to GTA figures. See *The Global Trade Disorder – The 16th GTA Report*, CEPR Press, 2014, available at: <http://www.globaltradealert.org/sites/default/files/GTA16.pdf>

⁴ Global foreign direct investment (FDI) inflows fell by 16 per cent in 2014 to \$1.23 trillion, down from \$1.47 trillion in 2013. See, UNCTAD World Investment Report, 2015, p.2.

⁵ The number of RTAs proliferate but without eliminating precarious circumstances about their predatory implications for non-members; international investment agreements over 3000 make a complex web of rules.

⁶ R. Baldwin, "21st Century Regionalism: Filling the gap between 21st century trade and 20th century trade", CEPR Policy Insight, No.56, May 2011.

In this context, the negotiation of mega-regional deals such as the Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP) presages the start of a new era in the global trading system.

The US -being a Pacific and an Atlantic power- is located at the crossroads of both arrangements. The challenges by the rise of emerging economies (mainly China) led the US to respond to the shift of power so it can maintain its position in global markets. On the other hand, the 'frustration by Washington' ⁷ with the deadlocked Doha Round inspired new avenues-apparently not competing with the WTO- to secure open markets with new rules and regulations under a new architecture.

The EU, for its part had a sharp U-turn towards bilateral deals with sizable economies and finally a mega-deal with the US to promote economic growth; to improve jobs and to allegedly contribute to the development of global rules.

As a response to the US and EU initiatives largely excluding China, the latter's move was a proposal to foster a *Regional Comprehensive Economic Partnership* (RCEP) which includes ASEAN countries, Australia, Japan, Korea, New Zealand, India and China, and excludes the US.

Based on geopolitical considerations i.e. to manage globalisation so that it happens on American/European terms or economic aspirations such as fostering transnational collaborative production and global value chains, the mega-deals bring some major questions to be replied:

- What could and should be possible responses to mega-regionals?
- How to make them complementary to the multilateral trading system?

These are crucial challenges the G20 agenda must take on board considering the potential of mega-deals as new pillar of trade governance. It is argued the mega RTAs are largely to constrain China. Therefore, 'the perception of China -as the current holder of presidency of the G20- *vis-à-vis* these initiatives will mostly determine the magnitude of the reaction of the international community' ⁸. Same is true for Turkey, the preceding G20 leader and currently in the Troika, to bring a creative approach to the above questions. Turkey is in the vicinity of the EU through its 'customs union' link which puts the former into an asymmetrical situation under EU's free trade agreements, and becomes most vulnerable in the case of TTIP. It may push Turkey 'to be isolated from the processes of new-rule making' ⁹ and becomes costly in the medium to long term if TTIP is not inclusive. For Turkey, TPP does not represent an immediate concern as its trade links with TPP members are shallow and probably its negative welfare implications will be rudimentary. But it will be definitely essential in the long term in restructuring its trade strategy under the world of 'new generation trade agreements' endowed with more comprehensive rules.

⁷ D. Hamilton, 'America's Mega-Regional Trade Diplomacy: Comparing TPP and TTIP', *The International Spectator*, 49(1), 2014, p.84.

⁸ B. Aran, 'Global partnership quests: new contentious dynamics in trade and prospects for Turkey in an age of TPP and TTIP', IPLI/TEPAV Turkey Policy Brief Series, No. 11, 2013, available at: <http://cms.cintacs.com/Content/Userfiles/orig/54186994d56ec8094c5b1252.pdf>

⁹ supra, Aran, p.7.

To discuss possible responses and to propose measures to facilitate the relationship between mega-regionals and the WTO system, however we need to have a closer look at the mega-RTAs in terms of their ambitions and implications very briefly. This is vital for providing a balanced assessment without political prejudices.

A switch from multilateralism to regionalism in trade and investment governance

WTO multilateralism has not delivered significant achievements in trade liberalization during the past two decades – but some minor exceptions ¹⁰. The stalemate in the WTO Doha Round and discord over the development agenda among main players have fostered an increased focus on the negotiations through multiple “tracks” including the “regional” avenues, i.e. the regional trade agreements (RTAs) ¹¹. Most of these agreements go beyond the WTO’s remit in terms of coverage and deepness, presenting a new platform to change world trade rules and to bring further trade opening.

RTAs are expected to deliver the best practices in areas that have not been appropriately handled at the multilateral level; such areas include trade in services, investments, technical standards, and regulatory issues (referred to as WTO+ and WTO-X matters). This is manifest among a set of smaller number of actors sharing similar concerns. The transaction costs for negotiating a wider agenda shall be lower compared to the grand bargain under the WTO negotiations which requires ‘consensus’ among all players under a ‘single undertaking’, i.e. no one gets anything until everything is settled. Thus, RTAs provide venues with more practical, result-oriented approaches, while mega-deals offer the possibility for the hubs in the driving seat to impose robust and binding provisions in as diverse areas as the labour standards, environment, intellectual property issues, FDIs, food security so on ¹².

Despite it, a positive correlation between RTAs and their influential role in further opening markets and in setting universally acceptable rules has not been empirically tested in a persuasive way. This requires further investigation.

On the other hand, the RTAs are expected to have welfare-enhancing effects mainly for the participating members. A true assessment of the implications of mega-deals are not straightforward, as negotiations continue in TTIP and very complex set of provisions are

¹⁰ A consensus on the signing of Trade Facilitation Agreement (TFA) at Bali in December 2013 (still waiting for adoption by the Member States) as well as the extension of the ITA and elimination of agricultural export subsidies as agreed in Nairobi in december 2015 can be regarded as major outcomes.

¹¹ The proliferation of RTAs are structured through a differentiated but closely connected types: *Bilateral FTAs* such as US-South Korea, EU-Singapore, EU-India, Australia-China, Canada-EU so on. *Consolidated RTAs* where existing RTAs are expanded by new membership or by merging with other RTAs; and *Mega-regional RTAs*, i.e. TTP, TTIP and RCEP. See, R. Melendez-Ortiz, in ‘Mega-regional Trade Agreements: Game Changers or Costly Distractions for the World Trading System?’, WEF, 2014, p.13.

¹² M. Barroso, former president of European Commission, raised in his official statement for TTIP in June 2013 that ‘these [TTIP] negotiations can be a **game changer**’, [http://europa.eu/rapid/press-release MEMO-13-569_en.htm](http://europa.eu/rapid/press-release_MEMO-13-569_en.htm) thus consolidating his previous statement in February 2013 ‘this negotiation *will set the standard* – not only for our future bilateral trade and investment, including regulatory issues, but also *for the development of global trade rules*’, [http://europa.eu/rapid/press-release SPEECH-13-121_en.htm](http://europa.eu/rapid/press-release_SPEECH-13-121_en.htm)

adopted in the recently concluded TTP. However, global challenges by mega-RTAs will be greater:

- the higher the risks and the consequences of *discriminatory impact*,
- the more restrictive and stringent the *regulatory measures* for extra-TTIP trade,
- the more closed to the idea of the *accession of non-members*.

The most anticipated impact of mega-RTAs relates to the risk of discrimination against third-country exports. Discrimination here leads to *trade diversion*, i.e. the substitution of lower-cost imports from third countries with the higher-cost imports of RTA (let say TTIP) members due to differential tariff treatment. Such discrimination can lead to welfare losses, the magnitude of which depends on global trade patterns and competition dynamics. It seems that labour-intensive sectors are more vulnerable.

It has been contended that the harm done by trade diversion and preference erosion can be compensated through *spillover benefits*. Some studies ¹³ have shown that in general equilibrium analyses, third countries also gain from the implementation -in the case of TTIP through the elimination of cost-increasing trade measures between the US and the EU either *directly* through less stringent conditions in two different TTIP member markets; or *indirectly* if third countries adopt harmonised TTIP standards. This will be the same for non-TPP countries like China for instance when they accept TPP standards. However its positive impact will be mitigated if the third parties resist to or cannot easily adopt the standards.

Finally, the mega-deals are expected to be *open to membership* for outsiders. TPP, for example is in principle open to the participation of any APEC country. So it does not preclude Chinese entry. Yet, it does not guarantee an automatic accession process. Currently, China is argued to insufficiently meet TPP criteria in terms of issues like state aids, intellectual property protection, governmental controls ¹⁴. It will be naive to assume China will approve, like in the case of Vietnam, binding commitments on labour standards. In the case of TTIP there are no clear provisions for accession. Turkey's quest to participate is blurred as TTIP has no 'docking' clauses similar to one that is proposed in the context of TPP ¹⁵. Furthermore, an open mega-RTA shall not be attractive for non-members if the only precondition for joining is to adopt all the 'Acquis', i.e. to accept all norms and requirements in TPP or TTIP.

Overall it can be argued that the success of mega-deals depends on how they counter these challenges – that is, to reduce the risk of discriminatory impact; provide less-stringent regulatory

¹³ See, for example Lejour et.al. 'Economic Incentives for Indirect TTIP Spillovers', *CEPS Special Report*, No.94 (TTIP Series no.2), October 2014.

¹⁴ *supra*, Hamilton, p.86.

¹⁵ K. Kirişçi, 'TTIP and Turkey: Geopolitical Dimension', in D. Hamilton, *The Geopolitics of TTIP*, Center For Transatlantic Relations, Washington DC, 2014.

measures for third countries; bring flexible mechanisms to boost spillover effects; and to make the system more open and credible for all ¹⁶.

Responses from China and Turkey

It is probable that key third countries like China, Turkey or others that expect TTIP or TPP to become a global rule-setter are unlikely to adopt a 'wait-and-see' policy. One possible response would be to *challenge the mega-deal* by a counter strategy. The prospects of RCEP, including China, Japan and India can be a geopolitical rival or initiatives like One-Belt-One-Road or Shanghai Cooperation Organisation can be referred to. However, they are far from satisfying the needs of China to benefit from market access in TPP or TTIP. This can only be a partial response to mega-regionals ¹⁷.

The next option is to '*docking*' itself into mega-regionals but it is very improbable that many countries like China, Indonesia or Colombia will accept the TPP-acquis and norms in entirety, while incumbents will not be ready to open the doors for nextcomers without further commitments. Integration to TTIP by Turkey, Mexico, Canada, and EFTA members seem to be beneficial by virtue of their previous agreements with the US and the EU. But it is difficult to envisage how stringent will be the rules and standards (i.e. regulatory measures) in TTIP and the eventual cost of adjustment to be accrued by newcomers, especially in the areas of services, agriculture, environment so on. In the case Turkey, this is a compelling issue.

Another point that can be raised in the context of mega-regionals in G20 is to *revitalise the WTO negotiations*. However, this is not a realistic option currently when we consider the fact that it is the same countries that are foot dragging in several key negotiation areas, particularly in agriculture, NAMA modalities etc. Adopting a post-Nairobi agenda, even on limited areas seem to be politically unfeasible while TPP has already been completed (and wait for ratification) and TTIP partners are determined to continue. Nevertheless, it does not preclude G20 members, to shape mega-regionals to complement rather than undermine multilateral trading system. After all, the WTO is a rule-based system which provides a universal 'public good' for everyone. Mega-regionals can go more comprehensive, deeper and faster than the WTO but it does not (and should not) make them alternatives to multilateralism.

Chinese G20 presidency with Turkey in the Troika could be a good opportunity, if not missed:

- to reconsider on how to craft more *open mega-regionals* with *exchange mechanisms on best practices* in order to multilateralise several WTO+ and WTO-X issues;

¹⁶ M. S. Akman, S. Evenett, and P. Low (2015), *Catalyst? TTIP's Impact on the Rest*, CEPR and TEPAV publication (VoxEU.org book), available at: [http://www.tepav.org.tr/upload/files/1432112973-6.Catalyst TTIP s Impact on the Rest.pdf](http://www.tepav.org.tr/upload/files/1432112973-6.Catalyst%20TTIP%20s%20Impact%20on%20the%20Rest.pdf)

¹⁷ U. Dadush, in 'Mega-regional Trade Agreements: Game Changers or Costly Distractions for the World Trading System?', WEF, 2014, p.29.

- to bring *confidence building measures* – such as improving capacities of third countries to adopt higher standards, development of their infrastructure, or steps to enhance regulatory cooperation – facilitate the realisation of indirect spillovers ¹⁸.
- to make *impact assessment* of TTIP and TPP to integrate outsiders to improve mutual benefits; and finally
- to *restore the WTO centrality* to make it more relevant to global challenges in trade and investment issues, in the context of sustainable development goals.

¹⁸ M. S. Akman, 'Could TTIP become an all-inclusive project? Some remarks concerning alternative responses', in Akman, Evenett and Low eds., 2015, p.56.