

MULTILATERAL TRADING SYSTEM AND THE NEW GENERATION FREE TRADE AGREEMENTS



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by
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EU in world trade and the trading system

- The EU is the largest trading entity in the world:
 - In **manufactured** goods
 - In **trade in services**
 - In **Foreign Direct Investment (FDI)**

But its trade policy changes...

- Global developments that affected trade patterns and production networks, as well as the EU's competitive position...
 - GATT / WTO negotiations **reduced tariff protection** tremendously (i.e. EU bound and applied tariffs at low levels)
 - Increasing rivalry from **emerging economies** (Far East Asia, BRICS so on)
 - Changing nature of global production networks (**global supply chains**)

Two shifts in EU trade policy

- **1. typology of actorness:**
 - Actors involved in trade policy changes in terms of their interests, perceptions, expectations, and degree of involvement (*Young and Peterson, 2006*)
- **2. conduct of trade relations:**
 - In terms of *behavioural repositioning* from defensive to offensive outlook.
 - In terms of the venue of trade relations (*venue change*) in order to satisfy broader and changing objectives...

These two shifts are not totally independent of each other, but are actually intertwined.

Two shifts in EU trade policy

- Traditional conceptualisation of trade policy largely confined to exchange of goods in manufacturing, and agriculture to some extent, with utmost attention devoted to '**border measures**'...
- Trade policy largely neglected issues in trade in **services, and trade-related business practices**...
- In time, European business was diversified to focus on a **proactive policy approach** embodying further market access abroad, dealing with not only tariffs, but **domestic regulatory issues (Outward-oriented)**

Two shifts in EU trade policy

- Not all actors favoured market access and market-opening regulations; nor they supported the idea of liberalisation (**Inward-oriented**)
- Among them are:
 - **1. senile industries** losing their competitive structures (older-type of actors)
 - **2. globalisation-bushers:** who felt insecure about unpredictable implications of global markets (i.e.)
 - Environmental NGO's (shrimp-turtle case)
 - Consumer organisations (beef hormones)
 - Public health concerns (GMOs)

Actors: mercantilist in nature



Outward-oriented
actors asking for
extensive **market**
access

Inward-oriented
actors looking for
mechanism to deal
with **market failures**

A common vision of actors for an **expanded** and **activist policy** approach

Policy expansion

Regulatory influence

...reflecting efforts by the EU to manage globalisation so that **'it happens on European terms, with trading partners conforming to Europe's ways and standards'** (*Jacoby and Menuier, 2010*)

8

Expanding trade policy agenda...

- *Trade, Growth, and World Affairs* communication:



in order to keep its competitive edge to achieve its overall objectives of smart, inclusive, and sustainable growth, **trade policy must broaden its scope**'...



Policy expansion to serve **EU 2020** objectives

- ‘It is clear that the most important contribution to the **EU 2020 objectives** would stem from non-tariff issues, notably in **behind-the-border trade initiatives**, such as regulatory issues, non-tariff barriers, intellectual property rights, government procurement, trade and environment, to name but a few.....’ (L. Cernat, European Commission’s Chief trade economist, in VoxEU, 2012).

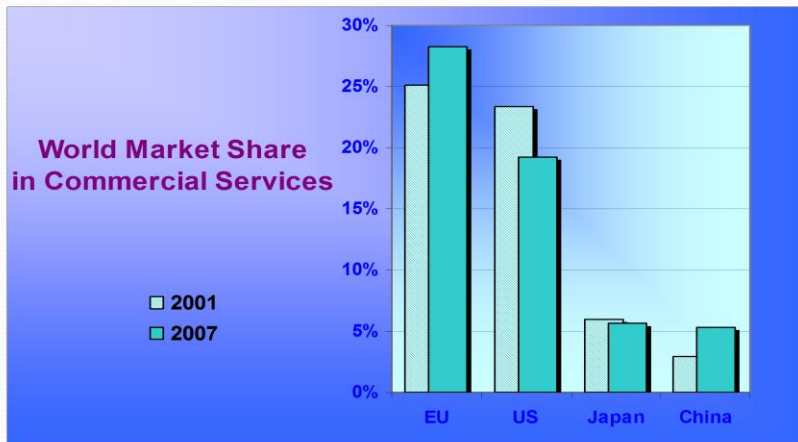
Expanding scope (trade in services)

- The EU-27 is the world's largest trader in services while its share 26.6 % in 2009, bringing a positive trade balance of about 109 billion dollars.
- 18 EU member states ranked among the top 40 exporters of services.
- The EU entered into a complex structure of negotiations in services :
 - **WTO** (Doha Round based on GATS)
 - bilateral agreements (i.e. **FTAs**)
 - **plurilateral deal** (*International Services Agreement*).

11

EU performs well in services exports

- EU needs liberalisation in 'trade in services'



Source: M.R. Madsen DG Trade, *European Competitiveness and EU Trade Policy*

12

Expanding scope (Singapore issues)

Trade and investments

Trade and competition

Government procurement

Lisbon Treaty and trade agenda:

Art. 207 of TFEU

- **Competence of the Union** in trade and trade-related areas increase extending into issues:
 - **Trade in services**
 - **Trade-related intellectual property rights**
 - **Foreign direct investment**

Regulatory influence

- An expanded (deep) agenda brought forward the need for a **regulatory mechanism** in conducting relations with the partners:
 - **trading partners** of the EU to **harmonise their laws and procedures**, if not to adopt common disciplines with the EU's domestic rules...
 - to ensure that **external challenges** brought about by globalisation have as **little negative, disruptive effect upon European citizens** as possible...

Regulatory influence

WTO + issues:

areas that are within the mandate of current WTO regulations and negotiations

WTO - issues:

areas that are not within the mandate of current WTO regulations and negotiations

Conduct of relations

1. Behavioural repositioning

- **Policy activism:** inspired by *Lisbon Strategy* (its competitiveness agenda) and as reflected in *Global Europe* and *Europe 2020* strategies, centred on:
 - Market access strategy
 - Sustainable and undistorted supply of raw materials/energy
 - Targeting up-markets with more investment on innovation and R&D

Conduct of relations

2. Venue shift (from multilateral to bilateralism)

- Failed attempt to address **Singapore issues** into WTO's Doha Round agenda in Cancun, **2003**.
- WTO system regarded not to provide an embracing and adequate institutional framework for policy expansion, 'the natural-fit between the EU and WTO was broken' (M: Baldwin, 2006), even though the EU has preserved its hope until recently, and not blocked the deal.
- Concerns of domestic actors reflected in rising EU **FTAs**

18

Different terms, changing concerns, switched venues

Term	Main strategy document	State of affair in WTO	aims / emphasis	priority issue	venue
Santer-Brittan 1995-1999	1996 communic.	1996 Singapore	Market access (non-reciprocal) NTBs New Rules	Singapor issues Built-in agenda	WTO WTO+ WTO-
Prodi-Lamy 1999-2004	Lisbon Strategy	failed Seattle Summit '99 Doha 2001 Cancun 2003	Market opening is not enough but right internal policies Business support Societal needs	Built-in Development	WTO WTO+ RTAs
2004-2009 Barroso-Mandelson Barroso-Ashton '08	2006 Global Europe ReviewLisbon	Hong Kong 2005 2006 Doha suspended	Market access (reciprocal) New Rules Jobs and growth	investm. IPR Gov.Pro. RTAs	RTAs WTO
2010- Barroso II-de Gucht	EU 2020 Trade strategy for EU 2020	extended negotiations	-Assess progress in Global Europe -Sustainable and inclusive growth	high-tech 'green' g. Services Raw mat.	RTAs WTO

Global Europe on FTAs (p.8)

- a series of FTAs portraying as the new mechanism of the EU's trade strategy for both regulatory topics and further liberalisation of trade...
- **Global Europe 2006**, emphasised:
 - *'free trade agreements (FTAs), if approached with care, can build on WTO and other international rules by going further and faster in promoting openness and integration, by tackling issues which are not ready for multilateral discussion...*
 - *Many key issues, including investment, public procurement, competition, other regulatory issues and IPR enforcement, which remain outside the WTO at this time can be addressed through FTAs'.*

Trade, Growth and World Affairs

COM(2010)612, p.5

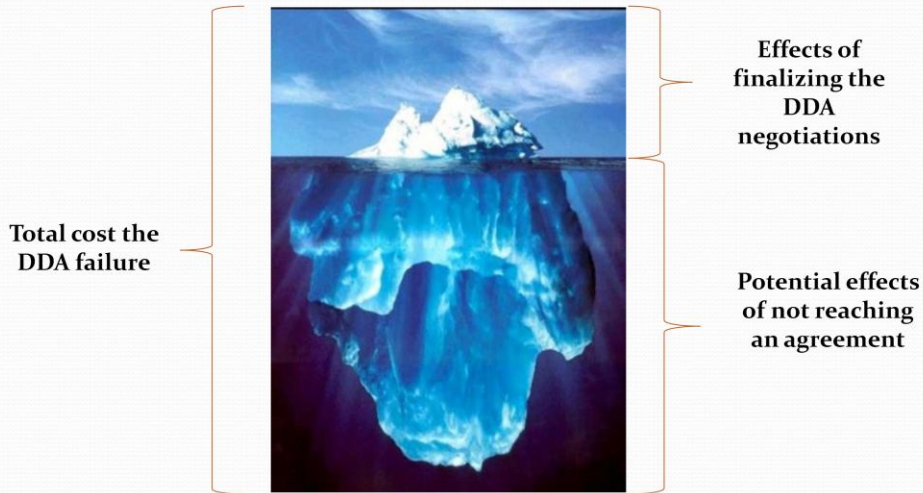
Nevertheless, the Doha agreement will not give answers to the newer questions that global trade rules ought to take care of. It is time to start reflecting on the next steps after Doha, and the Commission will set up a group of eminent people to that effect.

Once all the FTAs have been approved that are under negotiation or under consideration, the EU will have preferential trade agreements with the large majority of WTO members. Together they account for only half our trade,

21

Potential costs of failure in Doha Round*

* Bouet and Laborde, 2010



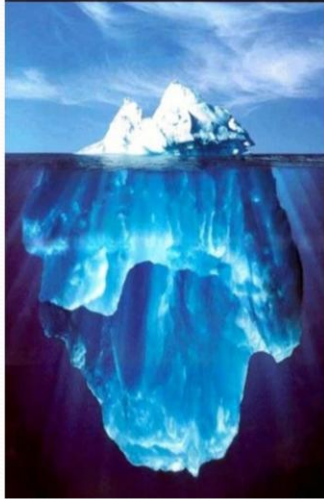
22

Potential costs of failure in Doha Round

Up to Max: All tariffs, except preferences covered by bilateral-regionals treaties, are moved to their maximum level reached over the last 13 years. Bound tariffs are still capped by the UR commitments.

Exports: -\$1,171 Bn

Welfare: -\$193 Bn



Exports: +\$363 Bn

Welfare: +\$59 Bn

Exports: -\$808 Bn

Welfare: -\$134 Bn

EU's FTAs

IN FORCE:

- South Africa
- Mexico
- Chile
- Israel

CONCLUDED:

- Central America (CACM)
- Colombia
- Peru
- South Korea

IN NEGOTIATION:

- India
- MERCOSUR (BRA+ARG+URU+PRG)
- ASEAN
- Gulf Cooperation Council (GCC)
- Canada
- Singapore
- Ukraine
- Malaysia

PROPOSED:

- Vietnam
- Japan
- Thailand
- Indonesia

- **who is next?**

24

Mixed motives for EU's FTAs

(Woolcock, 2007)

Commercial

Political

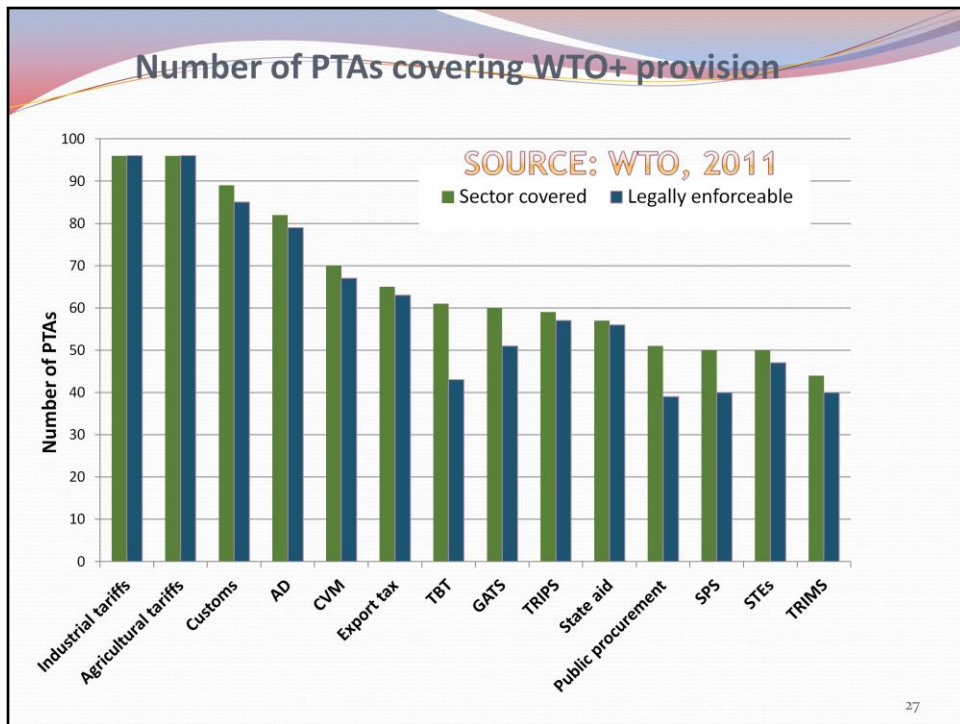
Promoting European model

25

EU FTAs strategy

- FTA strategy must **complement** WTO, rather than acting alone.
- They must be **commercially driven**
- FTA is a trade policy instrument to correct trade distortions, **not market failures** (are they proper venues for most WTO- issues?)
- **Selection of FTA partners:**
 - Some deep/comprehensive agreements are with commercially smaller partners (i.e. Armenia, Georgia, Peru...)
 - Some deep FTAs with larger partners include non-commercial issues
- **Legal enforceability** must be high

26



Distinction between WTO+ and WTO-X, derived from work by Horn, Mavroidis and Sapir, referring to extensions of existing WTO provisions and non-WTO provision respectively.

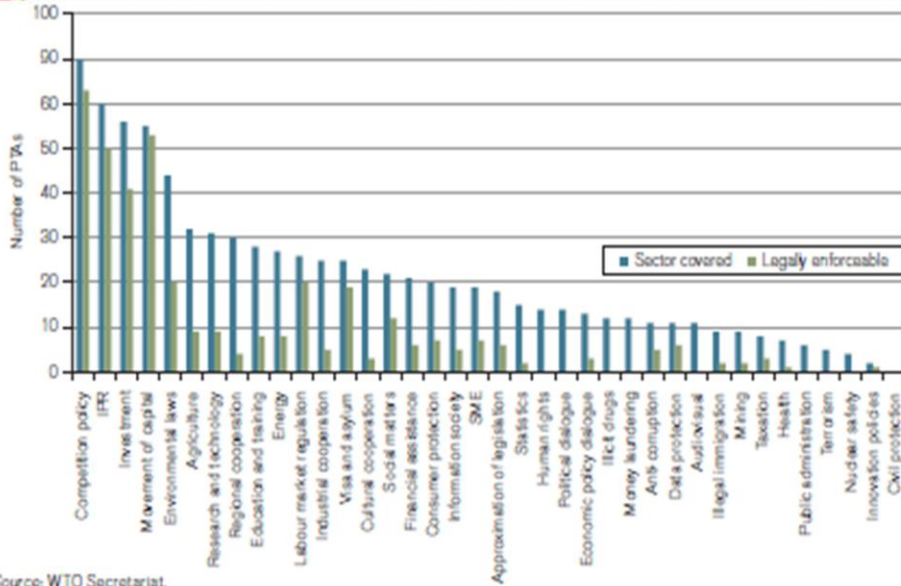
Number of PTAs covering WTO-X provisions

Provisions	No. of PTAs	of which legally enforceable	Provisions	No. of PTAs	of which legally enforceable
<i>Competition policy</i>	70	63	<i>Approximation of legislation</i>	18	6
<i>IPR</i>	60	50	<i>Statistics</i>	15	2
<i>Investment</i>	56	41	<i>Human rights</i>	14	0
<i>Movement of capital</i>	55	53	<i>Political dialogue</i>	14	0
<i>Environmental laws</i>	44	20	<i>Economic policy dialogue</i>	13	3
<i>Agriculture</i>	32	9	<i>Illicit drugs</i>	12	0
<i>Research and technology</i>	31	9	<i>Money laundering</i>	12	0
<i>Regional cooperation</i>	30	4	<i>Anti-corruption</i>	11	5
<i>Education and training</i>	28	8	<i>Data protection</i>	11	6
<i>Energy</i>	27	8	<i>Audiovisual</i>	11	0
<i>Labour market regulation</i>	26	20	<i>Illegal immigration</i>	9	2
<i>Industrial cooperation</i>	25	5	<i>Mining</i>	9	2
<i>Visa and asylum</i>	25	19	<i>Taxation</i>	8	3
<i>Cultural cooperation</i>	23	3	<i>Health</i>	7	1
<i>Social matters</i>	22	12	<i>Public administration</i>	6	0
<i>Financial assistance</i>	21	6	<i>Terrorism</i>	5	0
<i>Consumer protection</i>	20	7	<i>Nuclear safety</i>	4	0
<i>Information society</i>	19	5	<i>Innovation policies</i>	2	1
<i>SME</i>	19	7			

28

A list of all WTO-X provision appearing in at least one PTA in the sample, totalling 37

Number of PTAs covering WTO-X provisions

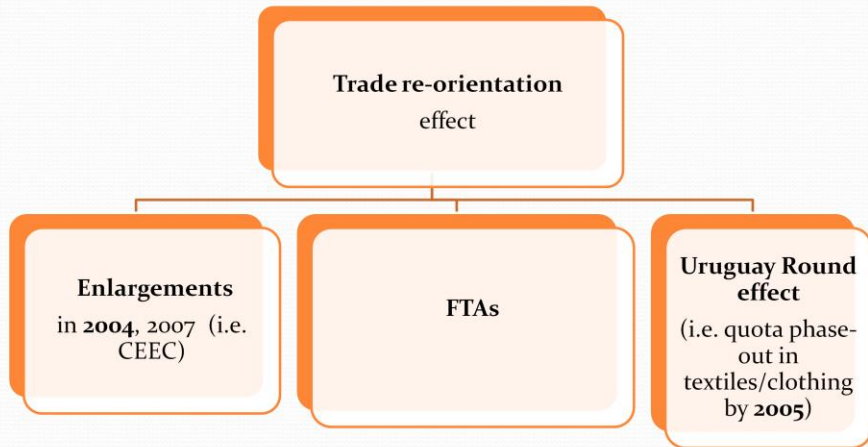


Source: WTO Secretariat.

Impact on Turkey (1)

- **‘Trade re-orientation’** effect:
- This effect could occur when an excluded country (Turkey) already benefits from zero-tariff access to the EU market (via CU), and the new preferential partners (S. Korea, India, Mexico, ASEAN, Mercosur, S. Africa, so on) matches this access through recent agreements (i.e. FTAs). Some ‘deep’ and ‘comprehensive’ deals even goes further than the coverage of Turkey’s CU.

Trade re-orientation



Erosion of preferences

- Turkey represents the EU's **seventh** largest trading partner.
- The EU to have FTAs with almost all countries ranking from 8th to 18th as its major import partners (including South Korea, India, Brazil, Malaysia, Canada, S. Africa...)
- **Most of these countries also sell to EU the goods that Turkey also exports heavily such as:**
 - SITC 7 (machinery and transport equipment);
 - SITC 8 (miscellaneous manufactured articles);
 - SITC 6 (manufactured goods classified chiefly by material);
 - SITC 0 (food and live animals).



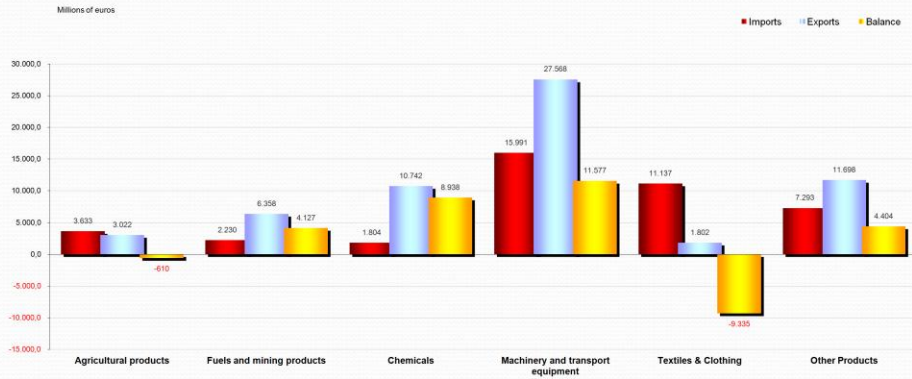
CEEC impact

Commodity overlap in the exports to EU-15 between CEEC and others (**export similarity index**) *Finger-Kreinin export index...*

The greater the similarity/overlap, the larger the potential for trade diversion and 'preference erosion'...

A potential for trade diversion exists, and much overlap takes place in **textile/clothing, agriculture** and electronics

EU merchandise trade with TR by product (2010)

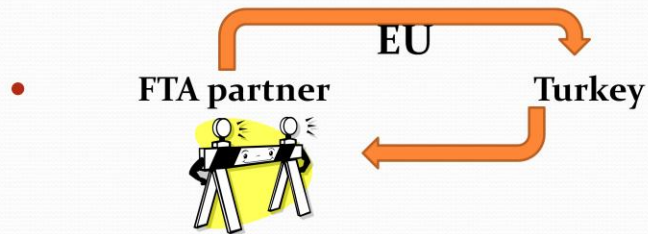


Overlap of exports to EU market TR vs. EU's FTA partners

- Finger-Kreinin Export Similarity Index (FK Index)
 - **'Trade re-orientation'** effect
(i.e. Korean car industry (shares 7% of EU car market);
Indian textiles to replace TR exports to EU-27 market)

Impact on Turkey (2)

- FTA-partner products that enter into free circulation in the EU can be re-exported to Turkish market.

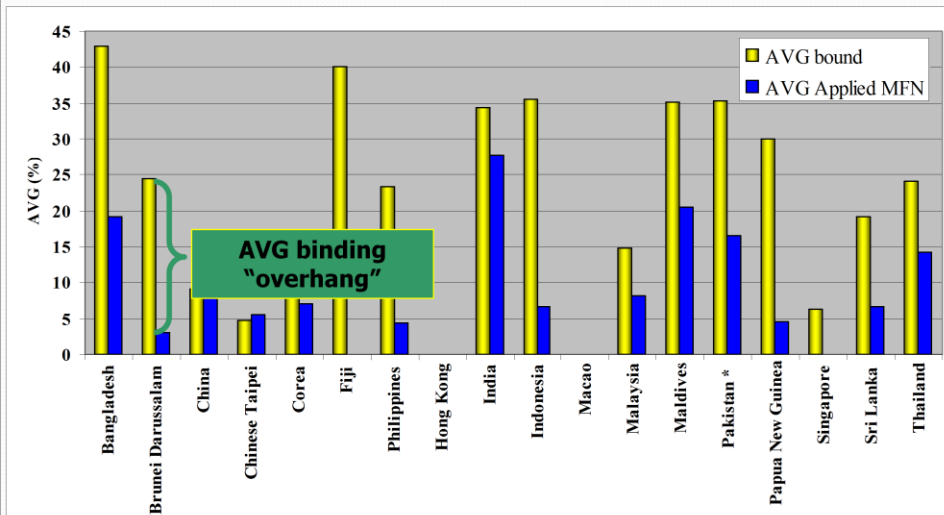




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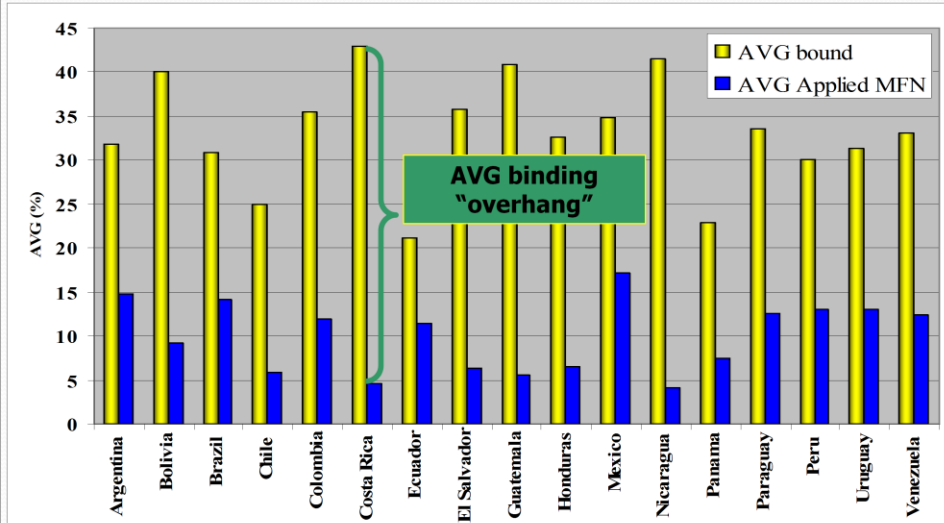
- In practice Turkey will liberalise its imports while these countries shall have the possibility to continue with their current measures (i.e. tariffs) on Turkish exports **without** any need for a **reciprocal liberalisation**.
- TR bound and applied rates are lower compared to the EU's FTA-partners.

Bound vs. Applied tariffs - Asia



Source: WTO Secretariat based on CTS for bound and IDB and UNCTAD for the MFN applied tariffs.

Bound vs. Applied tariffs: Latin America



Source: WTO Secretariat based on CTS for bound and IDB and UNCTAD for the MFN applied tariffs.

Impact on Turkey (3)

- Too much energy is diverted from WTO into FTAs, making the trade regime more complex and difficult to manage, given the limited resources available.



Thank you.

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