

# The High Stakes in Regional Trade Talks

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*[Editor's note: This brief is a feature of [the Council of Councils initiative](#), gathering opinions from global experts on major international developments.]*

International trade negotiations are at a crucial stage. The multilateral front, with the World Trade Organization (WTO) at its center, is facing a foundational crisis. In response, regional and subregional trade negotiations have come to fill the vacuum.

The future of international trade, at least in the short and medium term, depends heavily on the outcome of the regional talks. The Transpacific Partnership (TPP) stands out for its economic and strategic importance. At the same time, The WTO's Doha round is capable of even greater advances in global trade and should not be forsaken.

## **WTO and the Doha Impasse**

The WTO has been a victim of its own success. The [General Agreement on Tariffs and Trade \(GATT\)](#), the WTO's predecessor, promoted eight successful rounds of trade liberalization, establishing the rules that have reduced barriers to trade in goods, services, and investment for the past fifty years. Thanks to these efforts, international trade flows have expanded greatly over recent decades and have become the main engine of world economic growth.

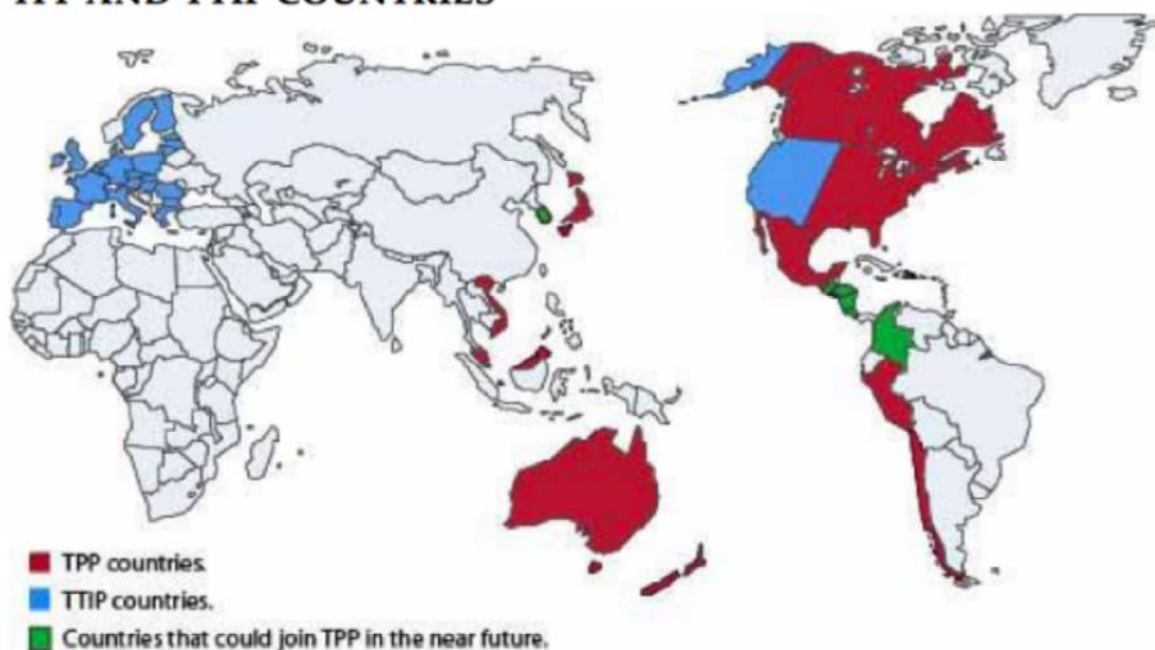
GATT's success has also resulted in a dramatic increase in its membership and a transformation from the original freestanding agreement into a full-fledged international organization. The world trade community has expanded from the twenty-three countries that signed the founding agreement in Havana in 1948 to the 159 members that are party to the WTO in Geneva.

Despite this performance, some elements that were vital to the success of the GATT and WTO have recently become obstacles to further progress. The principles that provided discipline and order to multilateral trade negotiations in the past—such as the consensus rule, [single undertaking](#), and "[Most Favored Nation](#)" principles—have given way to free riding and negotiations driven by the least ambitious participants (for instance, while developed countries agreed to ambitious tariff phaseouts for most industrial goods, developing countries were allowed to keep their tariffs relatively high for several trade rounds).

Developing countries have benefited for decades from the liberalization of the developed countries that founded GATT. Consequently, developing countries that are latecomers have had little motivation to open their economies. The consensus principle, which dictates that no decision is made until every member agrees, has punished countries seeking more ambitious disciplines and benefited countries not willing to move forward at the same pace.

If the Doha Round is to advance, a reform of WTO operational rules is needed. Meanwhile, countries willing to enter into ambitious trade agreements with substantive trade and investment liberalization have opted for bilateral, regional, and subregional negotiations.

### TPP AND TTIP COUNTRIES



Source: IQOM Inteligencia Comercial

### Regional and Subregional Trade Winds

Trade liberalization is a [catalyst for economic growth](#). Developing countries, in particular, greatly [benefit from more jobs](#), productivity, and rapid economic growth as a result of market openness. The last round of successful multilateral trade negotiations concluded in Uruguay in 1995 under GATT. Since then, a great number of smaller trade agreements have been concluded.

The North American Free Trade Agreement (NAFTA) cleared the way for a wide range of NAFTA-like agreements in Latin America. NAFTA was the most comprehensive free trade agreement negotiated at its time and contained several groundbreaking provisions, eventually serving as a model for the new generation of free trade agreements (FTAs) that first Mexico and later the United States negotiated with several countries in the Western Hemisphere.

Meanwhile, across the Atlantic, the European Union continued deepening and expanding its regional integration. In the twenty years since the conclusion of the Uruguay round, the EU has more than doubled its membership, from twelve countries in 1993 to twenty-eight today. It has also signed FTAs with countries in other regions, including a group of transatlantic agreements with Mexico as well as the Andean and Central American countries. Free trade fever has also spread to the Pacific—bilateral and subregional agreements have been signed by several countries in the region.

Currently, two major trade negotiations are underway: the Transpacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). These negotiations involve major players in international trade. If the United States, EU, and Japan agree on subregional agreements with WTO "plus" disciplines (deeper in scope than existing ones, listed in the table below), the resulting arrangements would most likely become platforms for transpacific and transatlantic integration.

### **TPP: A Strategic Integration Initiative**

In 2006, Brunei, Chile, New Zealand, and Singapore launched the Transpacific Strategic Economic Partnership (P4) Agreement with the goal of creating a free trade zone. Two years later, the initiative changed its name and gained popularity once Australia, Peru, Vietnam, and the United States joined the negotiation process. Between 2010 and 2013, TPP welcomed four new members: Malaysia, Mexico, Canada, and Japan.

TPP's strategic relevance is evident. Considering the twelve member countries, TPP represents close to 40 percent of world gross domestic product and 26 percent of world trade.

The TPP's main goal is to create a platform for economic integration across the Asia-Pacific, a region considered to be the most dynamic economic zone in the near future. This agreement is based on a legal framework inspired by previous U.S. free trade agreements that include similar trade disciplines and scope. If successful, 40 percent of U.S. trade would be concentrated in a single FTA.

The United States is promoting a very ambitious agreement, both in terms of the number of new disciplines to be negotiated, but also in terms of the depth of the rules being established. There are more than twenty issues under discussion. Aside from market-access negotiations in goods, services, and investment, negotiations in other topics are being conducted:

<b>Traditional Disciplines</b>	<b>New Disciplines</b>
Market access	State-owned enterprises
Agriculture	Annex TBT
Rules of origin	Regulatory coherence
Government procurement	Anticorruption
Dispute settlement	Telecommunications
Telecommunications	Ecommerce
Annex temporal entry	Environment
Trade remedies	
Financial services	
Legal issues	
Technical barriers to trade (text)	
Sanitary and phytosanitary standards	
Services	
Competition	
Temporal entry	

At the same time, China—the Asia-Pacific region's major exporter—would be an outsider in an agreement that would cover around 34 percent of its trade activities—both exports and imports. This would certainly create pressure on China to move ahead with its subregional integration agenda.

### **What's at Stake**

Without underestimating contentious issues in current discussions, TPP negotiations have a significant probability of success, since the United States has already concluded FTAs with six of the eleven members. As a result, negotiations for the United States are mainly with Japan, Brunei, Malaysia, New Zealand, and Vietnam.

Successful TPP and TTIP negotiations would divide the world into roughly two types of countries: those willing to engage in substantive liberalization and those not ready to go much further than the WTO's current rules. In this latter scenario, the WTO would have at least two options. Either remain a forum for global dispute settlement on current multilateral disciplines, or engage in two-track, two-speed negotiation strategies, recognizing that some members will not be able—at least in the medium term—to reach the same level of engagement as the leading countries.

If TPP and TTIP fail, it will send a very worrisome signal about international trade: The most powerful and resourceful economies in the world are no longer able to lead the path to economic liberalization. As a result, there will be no more champions of free trade to turn to.