The Changing Landscape of Trade Negotiations

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How Trade Negotiations Have Changed

- 1945-1994
  - Under GATT, 8 Rounds of Multilateral Trade Negotiations
    - Reduced tariffs to about 1/10 what they were before
    - On MFN (Most Favored Nation) basis
    - Among all GATT Signatories
      - 15 countries in 1945
      - 128 countries in 1994

How Trade Negotiations Have Changed

- 1945-1994
  - Culminated in the 1995 creation of the World Trade Organization, which included
    - GATT
    - GATS
    - TRIPs

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How Trade Negotiations Have Changed

- 1995-2015
  - Under WTO, only one Round of multilateral negotiations covering broad trade policy: The Doha Round
    - Began 2001
    - Ended without success at Nairobi Ministerial December 2015

How Trade Negotiations Have Changed

- 1995-2015
  - Only multilateral successes have been
    - The 2014 "Bali Package" dealing primarily with Trade Facilitation
    - The 2015 Nairobi commitment to abolish export subsidies for farm products

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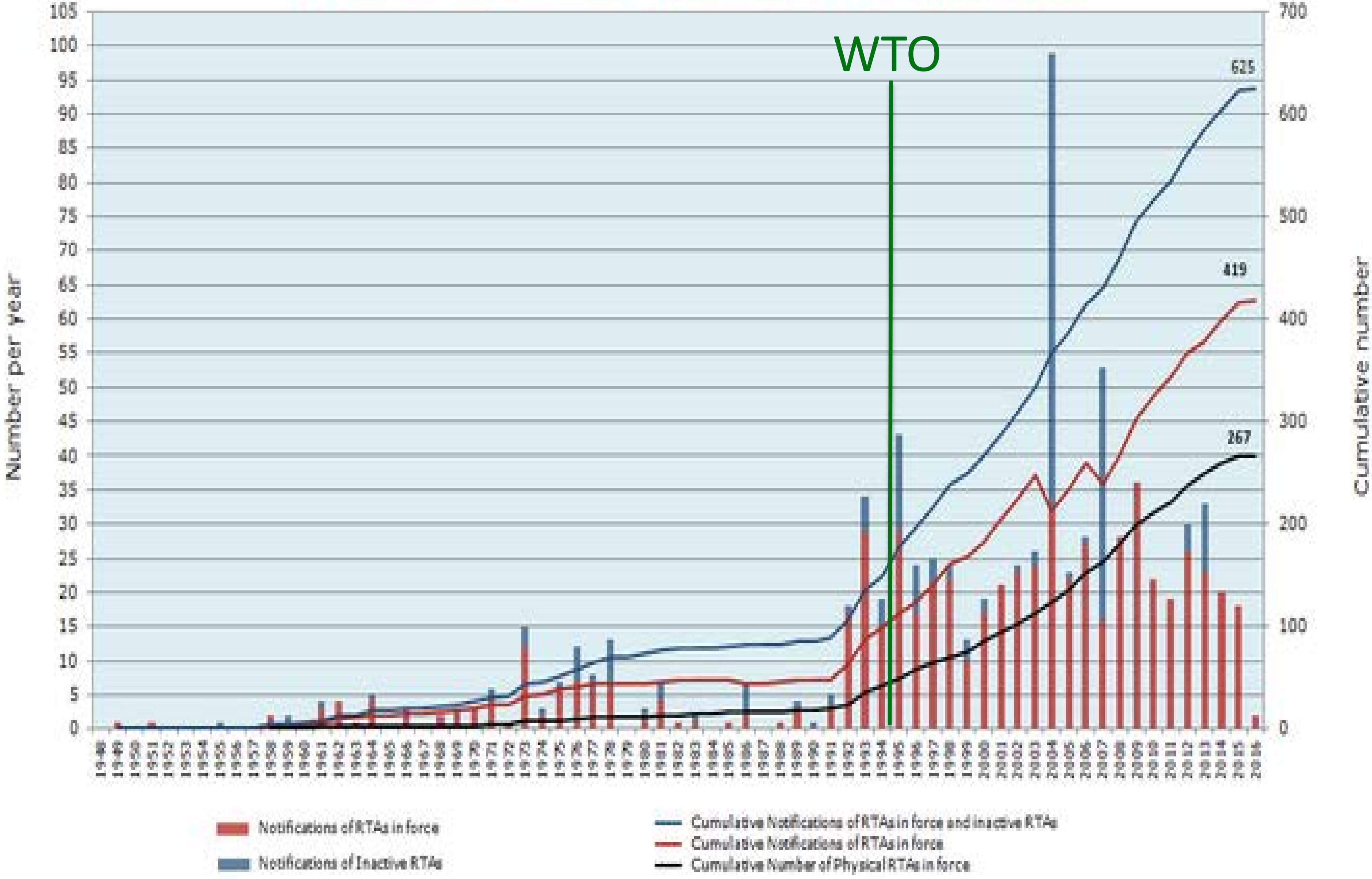
How Trade Negotiations Have Changed

- 1995-2015
  - Other negotiations under WTO have been "plurilateral"
    - Involve a subset of WTO members in agreements that others may or may not choose to join

How Trade Negotiations Have Changed

- 1995-2015
  - Instead, Free Trade Agreements (FTAs) have proliferated
    - Mostly zero tariffs within only a group of 2 or more countries

Evolution of Regional Trade Agreements in the world, 1948-2016



Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. Physical RTAs: goods, services & accessions to an RTA are counted together.
Source: WTO Secretariat.

Japan FTAs
2004 Mexico
2007 Chile
2008 ASEAN (10)
2009 Switzerland
2011 India
2011 Peru
2014 Australia
2015 Mongolia

Years are dates FTAs on goods were signed.

Japan FTAs: In Process
TPP with 11 countries
EU
Korea
Gulf Cooperation Council
RCEP with ASEAN, China, & 4 more

Countries connected by FTAs only, as of 1990

1%

	Arg	Aus	Aus	Ban	Bel	Bra	Bru	Bul	Bur	Can	Chil	Chi	Col	Cze	Den	Ecu	Egy	Finl	Fra	Ger	Gre	Hon	Hun	Indi	Ind	Irel	Isra	Ital	Jap	Kor	Kuw	Mal	Me	Mo	Net	Nev	Nig	Nor	Pak	Per	Phil	Pol	Por	Qat	Ror	Rus	Sau	Sin	Slov	Slov	Sou	Spa	Swe	Swi	Tai	Tha	Tur	Ukr	Uni	Uni	Uni	Ven	Viet
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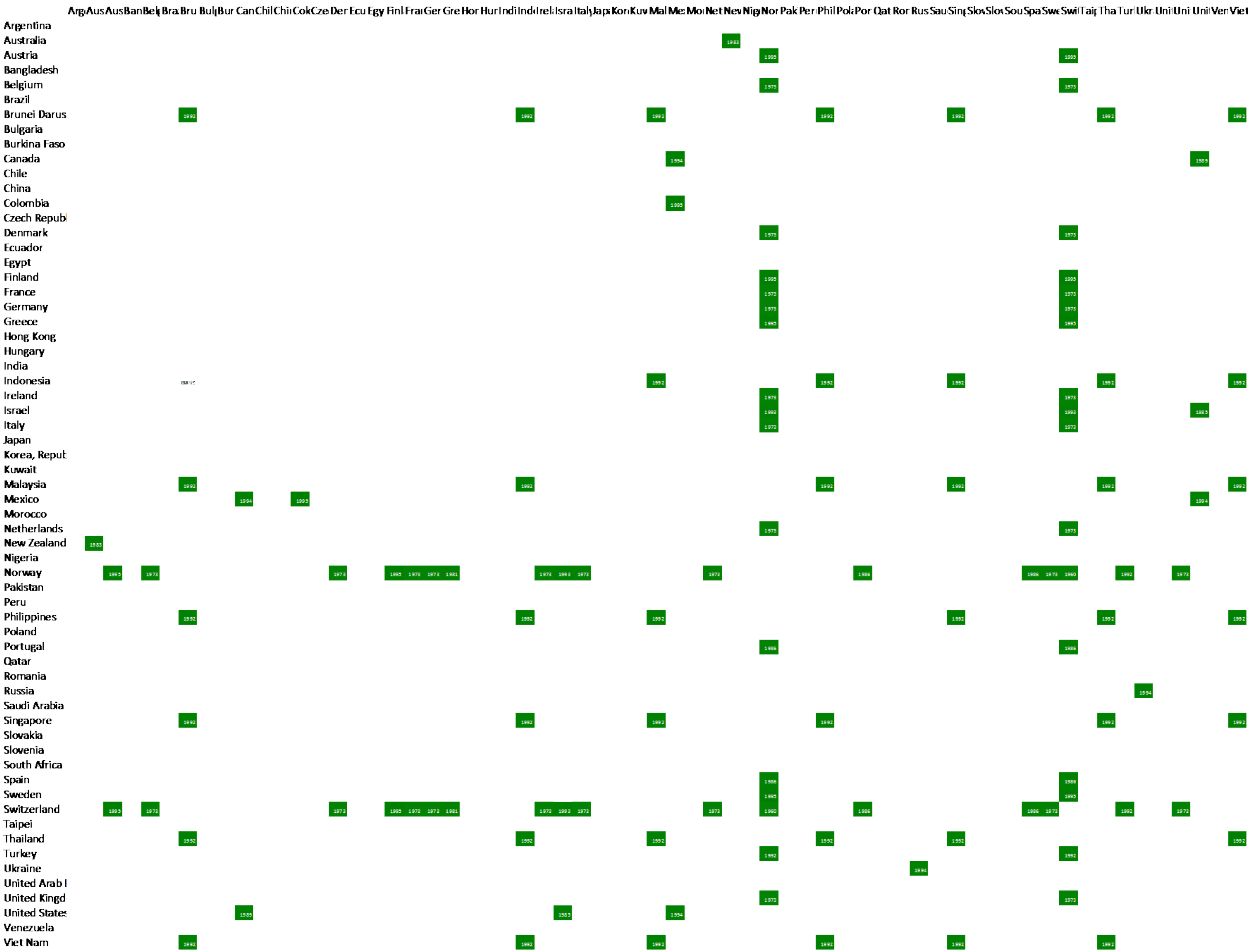
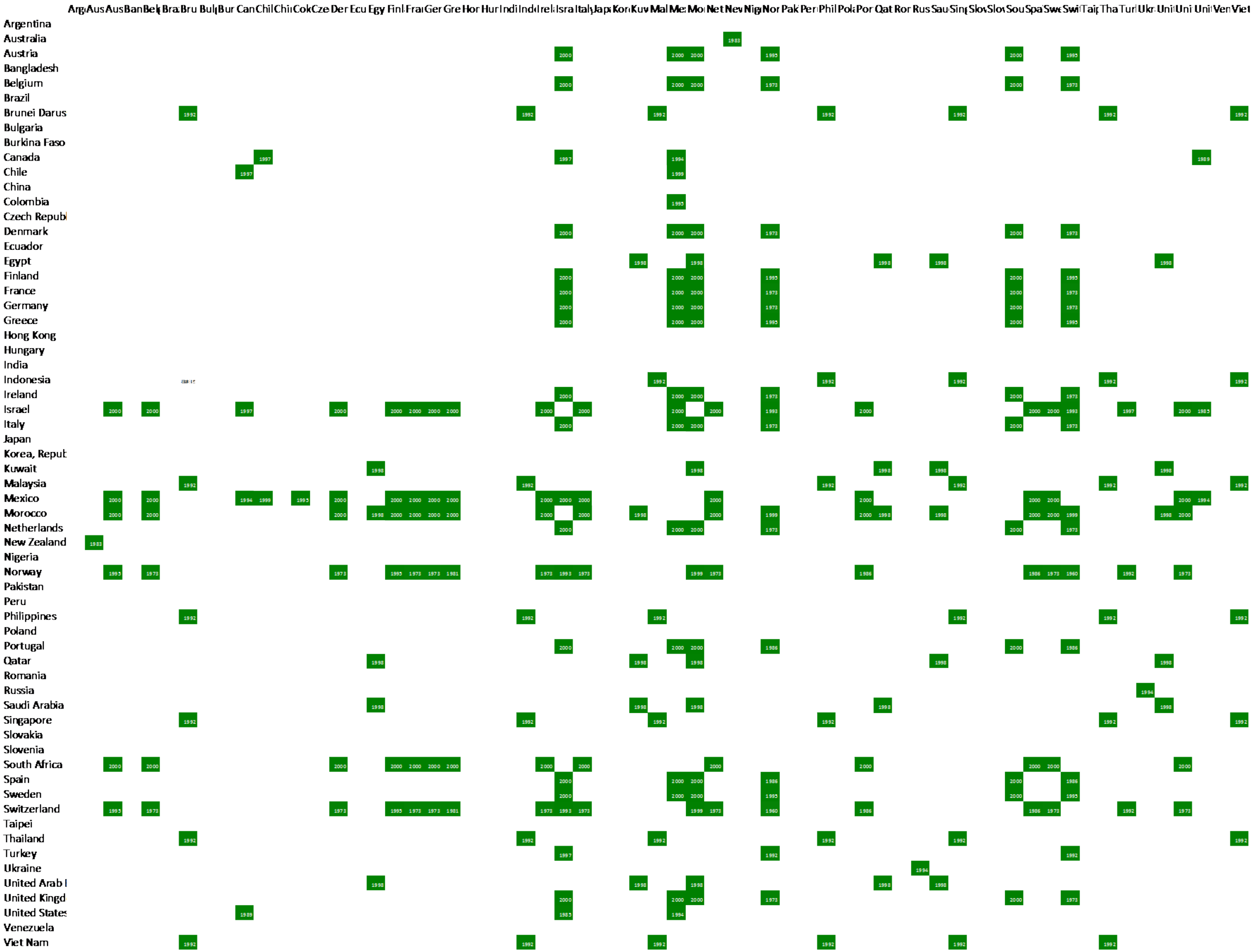
Countries connected by FTAs only, as of 1995

3%



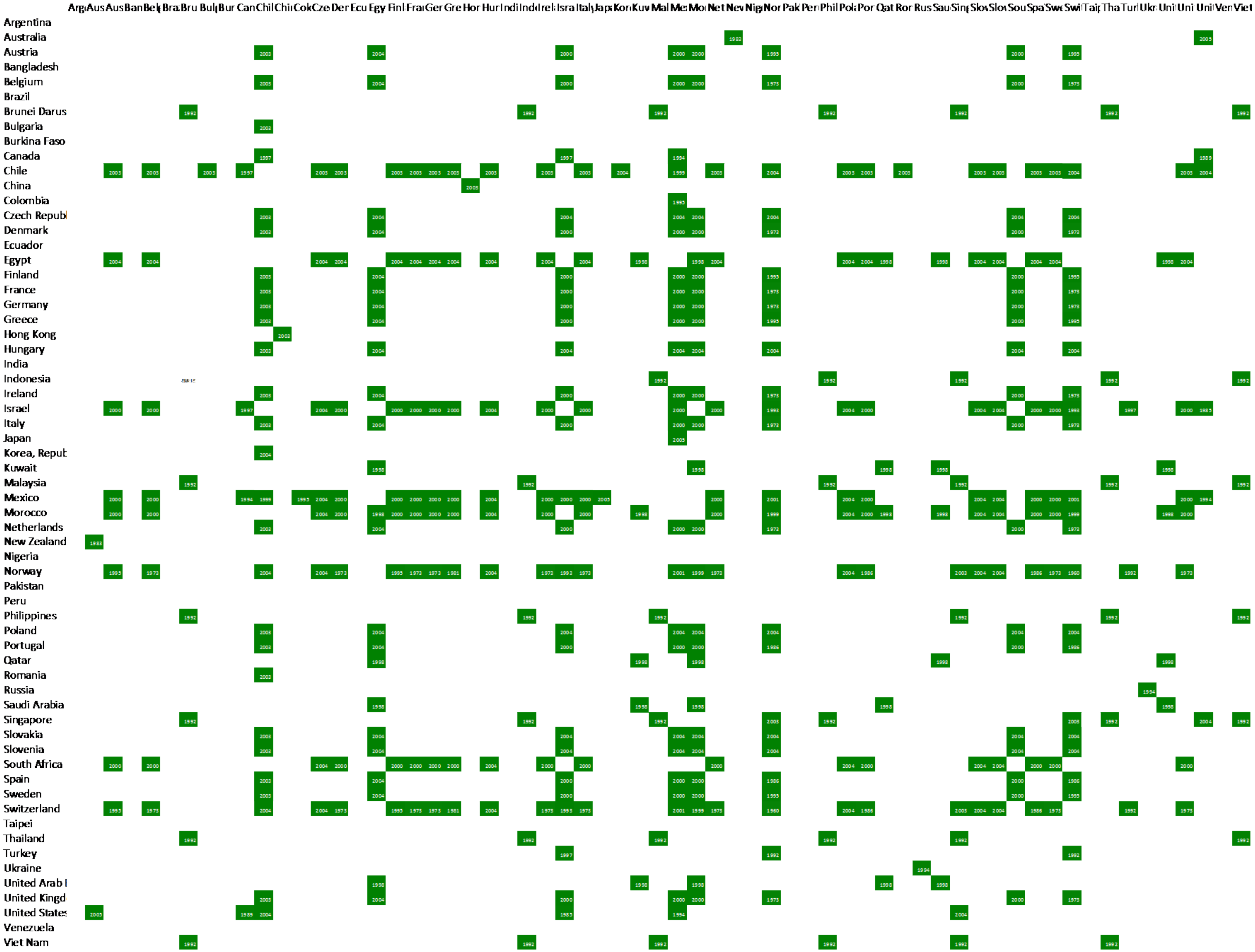
Countries connected by FTAs only, as of 2000

7%



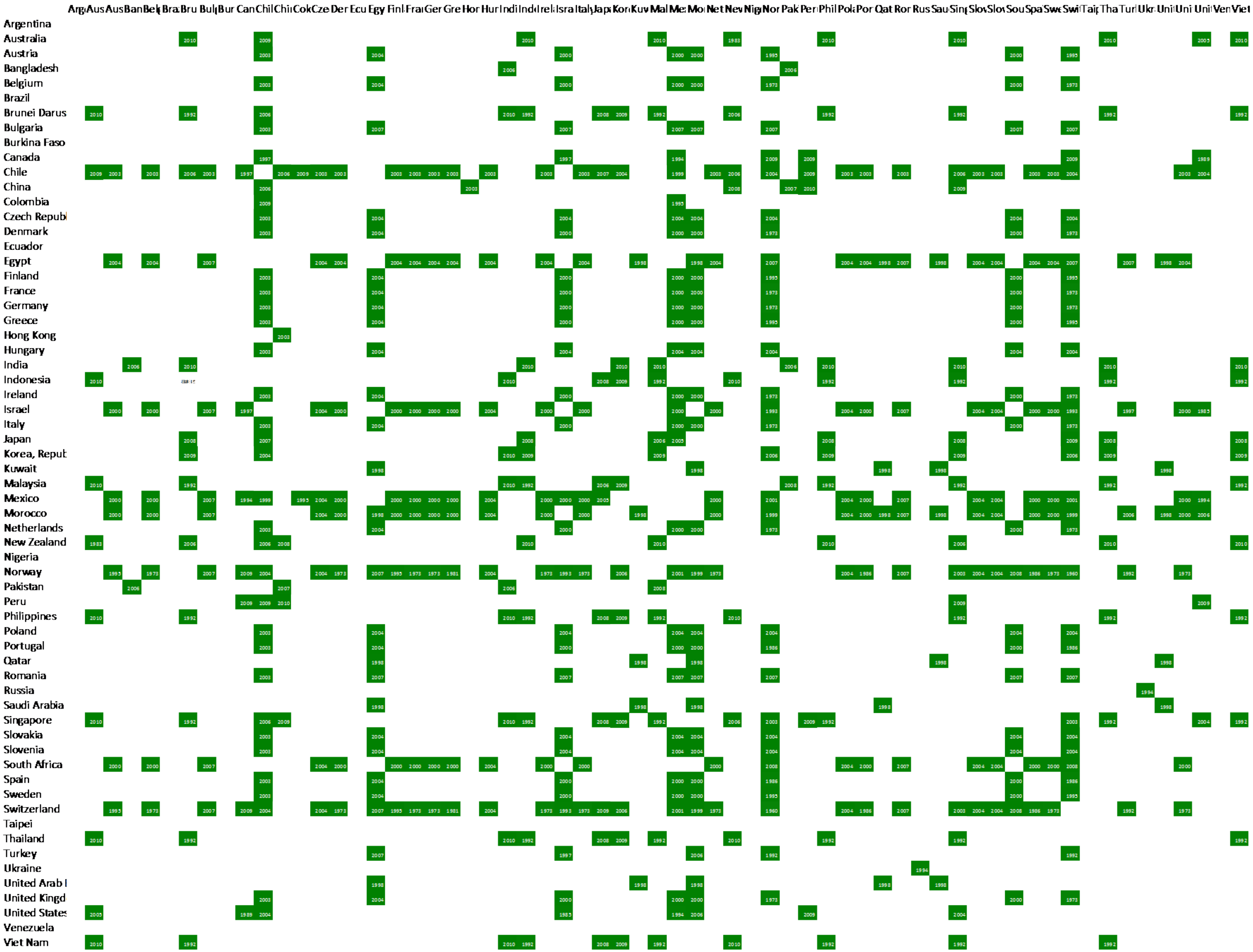
Countries connected by FTAs only, as of 2005

11%



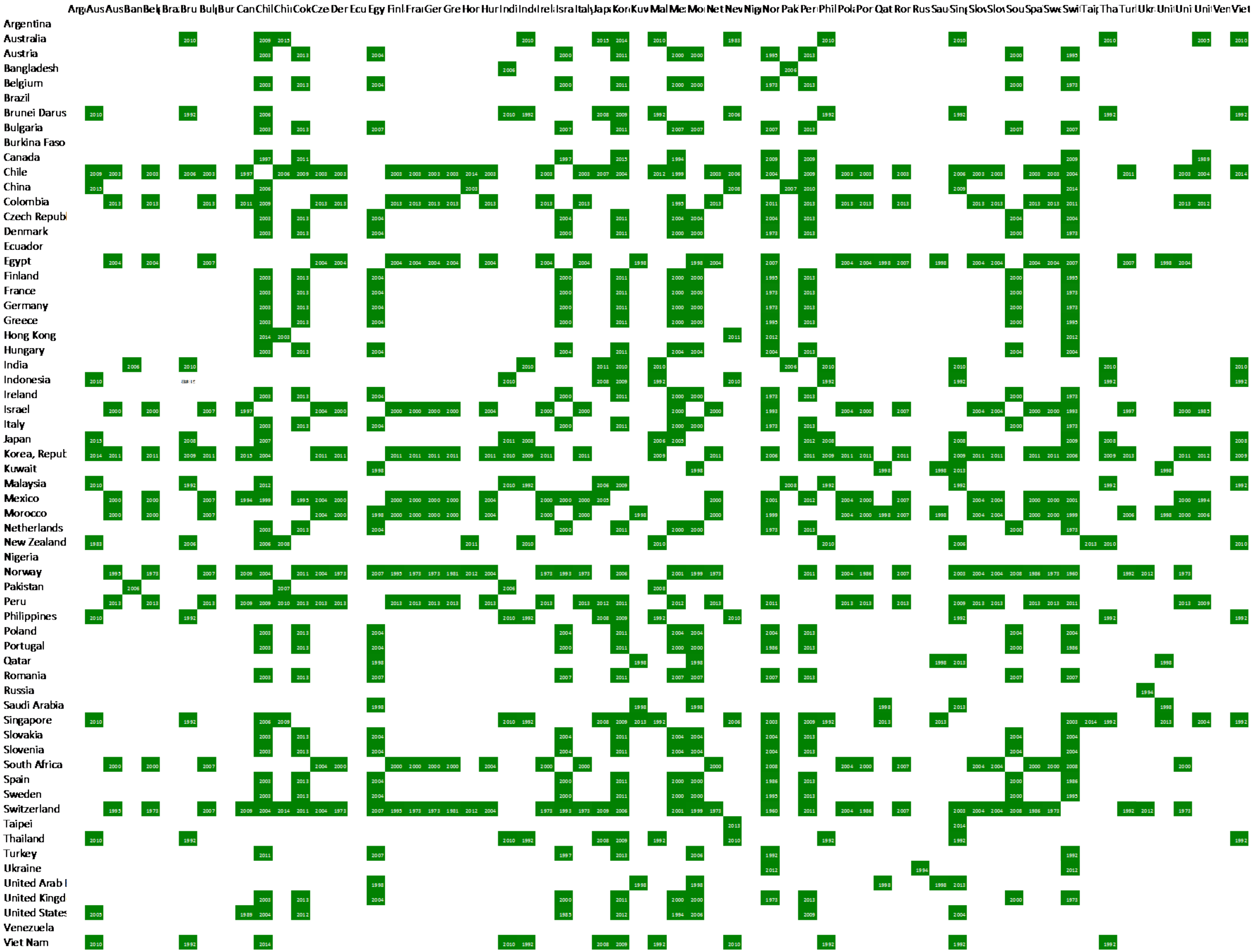
Countries connected by FTAs only, as of 2010

15%



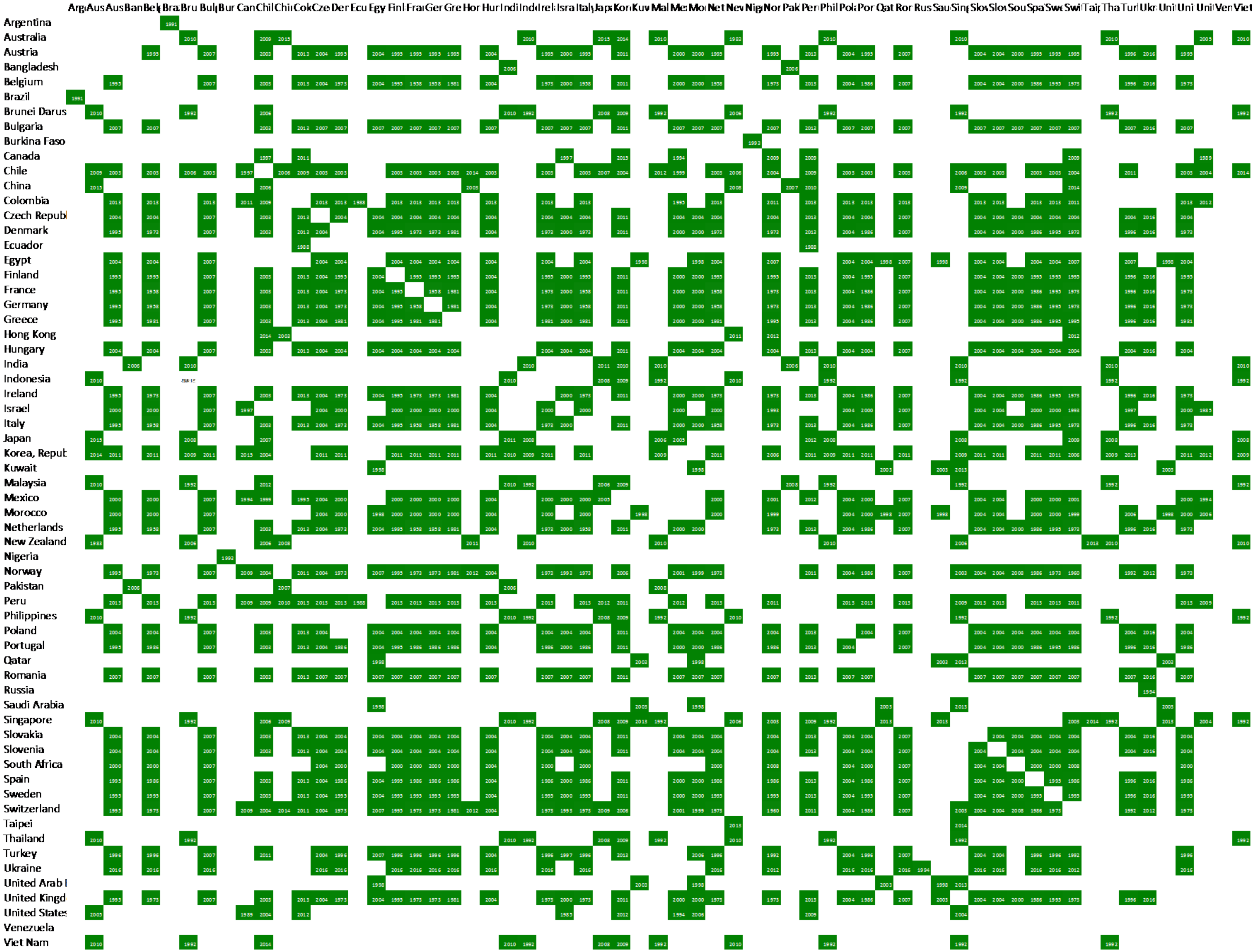
Countries connected by FTAs only, as of 2015

20%



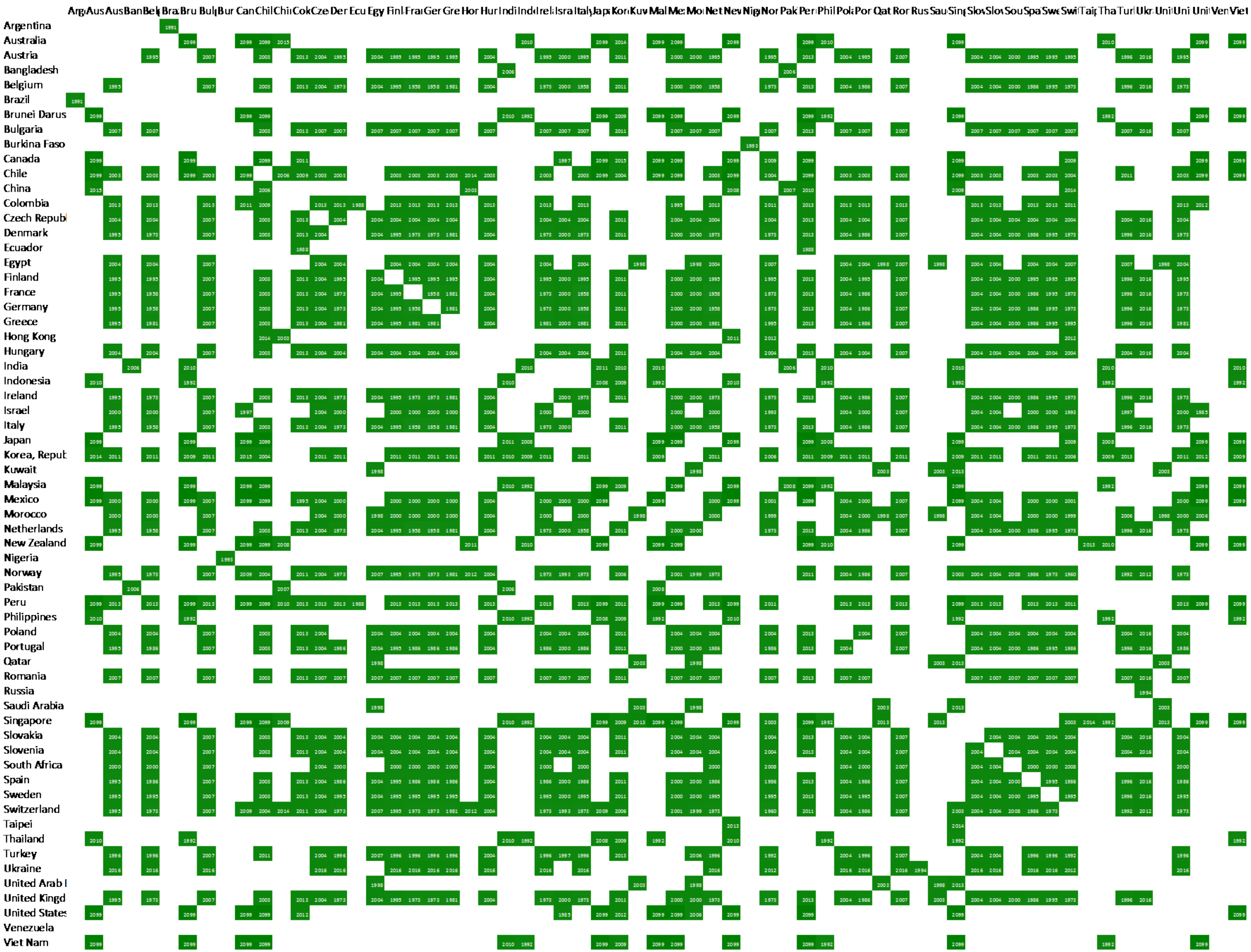
Countries connected by FTAs or CUs

33%



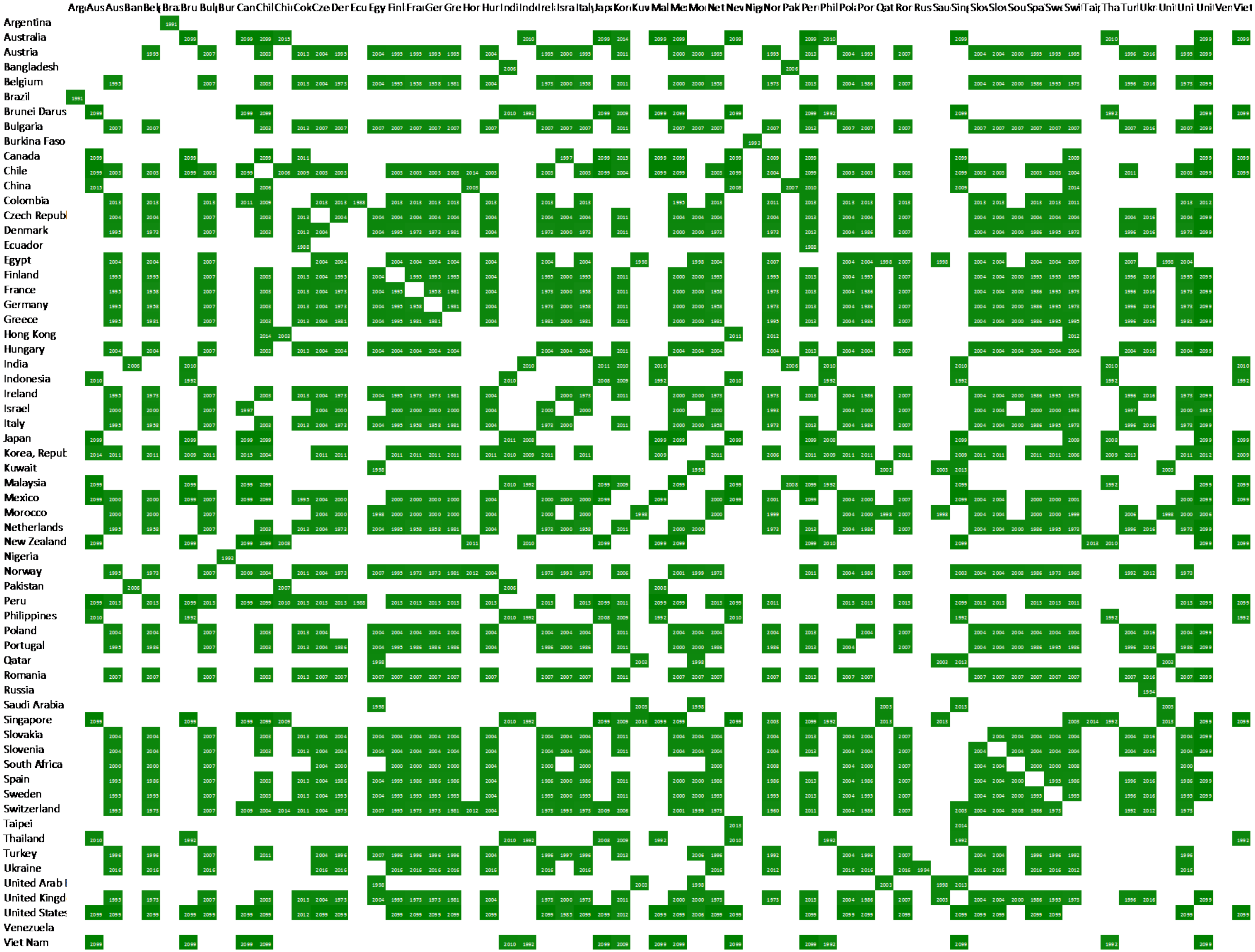
Countries connected by FTAs or CUs plus TPP

35%

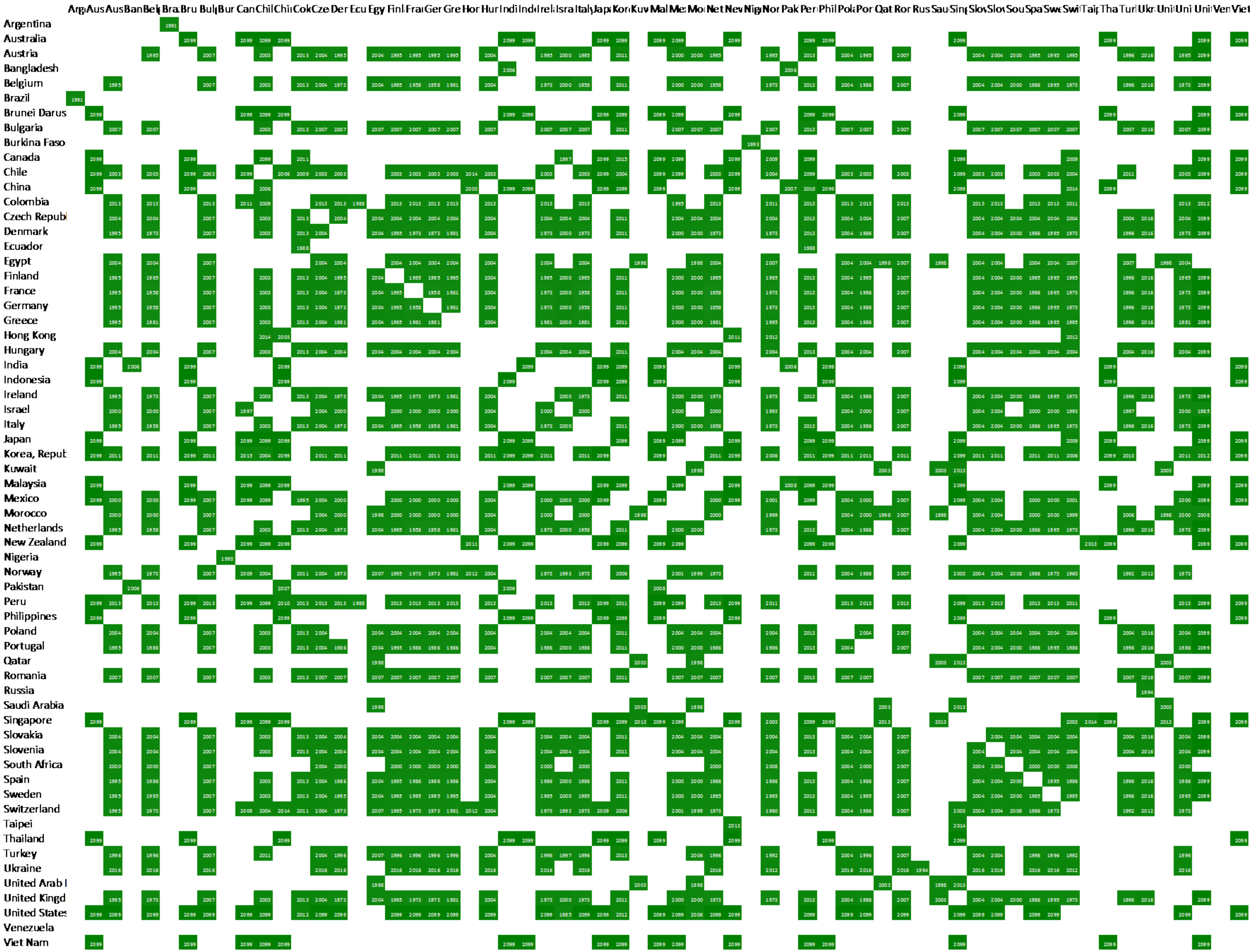


Countries connected by FTAs or CUs plus TPP or TTIP

36%



Countries connected by FTAs or CUs plus TPP, TTIP, or RCEP 36%



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"Mega-FTAs"

- Mega-FTAs of the Past
  - European Union (grew from 6 to 28 countries) – Customs Union
  - MERCOSUR (Grew from 4 to 6 South American countries)
  - ASEAN FTA (10 countries)
  - 4 in Africa
    - EAC (5 countries)
    - ECOWAS (15 countries)
    - COMESA (19 countries)
    - SADC (15 countries)

Today: New "Mega-FTAs"

- TPP: Trans-Pacific Partnership
  - Negotiations
    - Launched 2008
    - Completed Oct 5, 2015
  - Includes 12 countries (US, Japan, …)
  - Yet to be ratified
  - Intended to be open to additional countries
    - Indonesia
    - S. Korea
    - Philippines

Today: New "Mega-FTAs"

- RCEP: Regional Comprehensive Economic Partnership
  - Negotiations launched 2012
  - 10-member ASEAN, plus 6 countries with which ASEAN has FTAs:
    - Australia
    - China
    - India
    - Japan
    - S. Korea
    - New Zealand

Today: New "Mega-FTAs"

- TTIP: Trans-Atlantic Trade and Investment Partnership
  - Negotiations launched 2013
  - Includes
    - US
    - 28-member EU

Today: New "Mega-FTAs"

- Tripartite Free Trade Area
  - Launched June 10, 2015
  - Will combine 3 of the 4 mega-FTAs in Africa:
    - EAC (5 countries)
    - COMESA (19 countries)
    - SADC (15 countries)
    - Total 27 countries (due to overlap)

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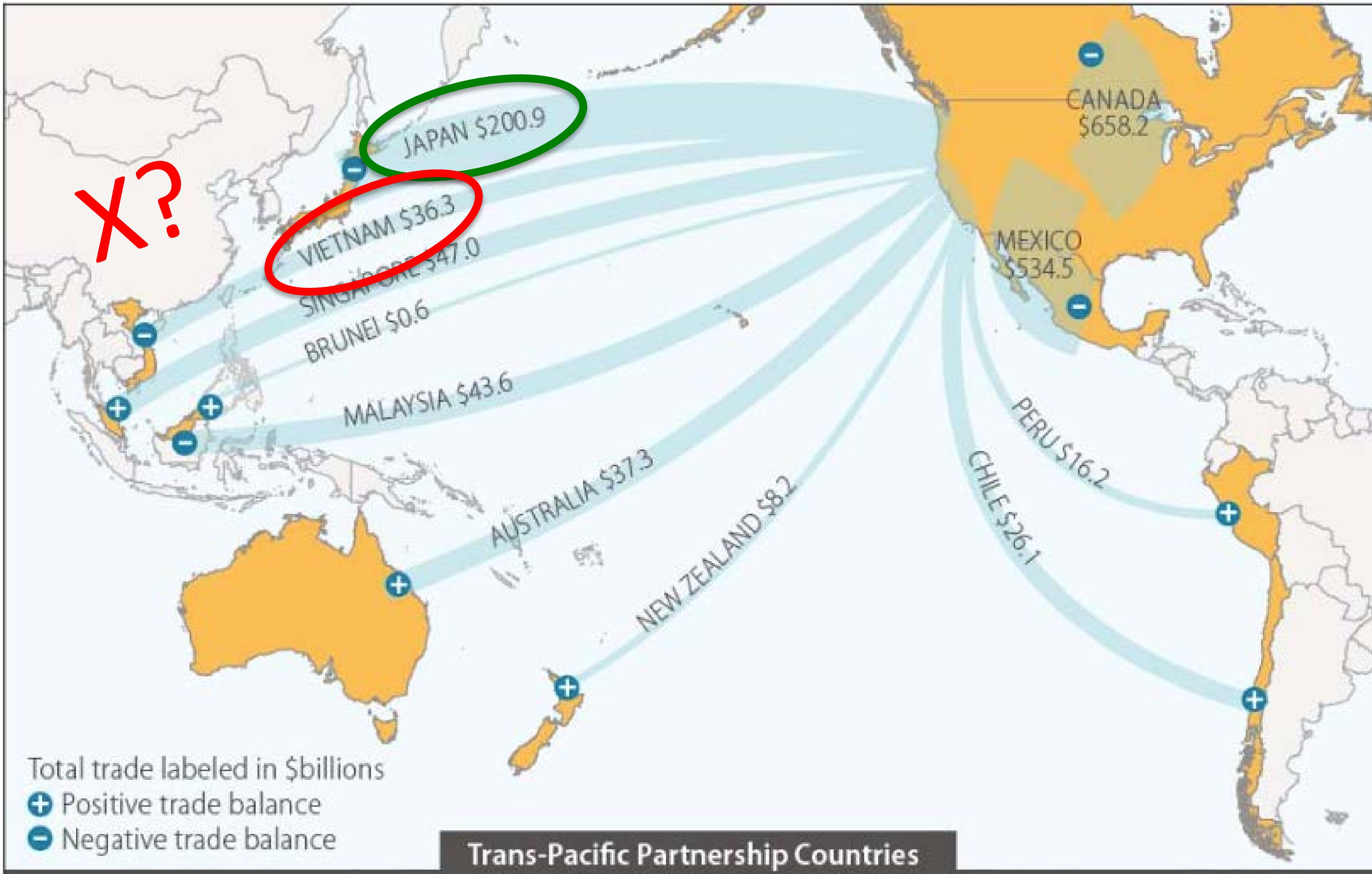
More on TPP

Figure 1. Trans-Pacific Partnership Countries



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What Is the TPP?

- Main Features of TPP (only a few of 30 chapters):
  - Trade in goods: Reduce/remove tariffs & NTBs
  - Trade in services: Reduce/remove barriers
  - Digital trade: Facilitate data flows and E-commerce
  - Investment: Investor/State Dispute Resolution
  - Intellectual Property: Expanded patents, etc.
  - Labor: Enforcement of standards
  - Environment: Enforcement of standards
  - State-Owned Firms: Competitive neutrality

Oddities of the TPP

- Tariffs
  - Cars and trucks: US tariffs removed
    - Cars: 2.5%, removal phased in over 25 years.
    - Trucks: 25%, removal phased in over 30 Years.
  - Schedules and rates differ by exporting country

TARIFF SCHEDULE OF THE UNITED STATES

HTS 8 (2010)	Description	Base Rate	Australia	Brunei	Canada	Chile	Japan	Malaysia	Mexico	New Zealand	Peru	Singapore	Vietnam
01011000	Live purebred breeding horses and asses	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01019010	Live horses other than purebred breeding horses	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01019020	Live asses other than purebred breeding asses	6.80%	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01019030	Mules and hinnies imported for immediate slaughter	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01019040	Mules and hinnies not imported for immediate slaughter	4.50%	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01021000	Live purebred bovine breeding animals	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01029020	Cows imported specially for dairy purposes	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01029040	Live bovine animals other than purebred or those imported for dairy purposes	1 cents/kg	US20	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01031000	Live purebred breeding swine	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01039100	Live swine, other than purebred breeding swine, weighing less than 50 kg each	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01039200	Live swine, other than purebred breeding swine, weighing 50 kg or more	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01041000	Live sheep	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01042000	Live goats	68 cents/head	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01051100	Live chickens weighing not over 185 g each	0.9 cents each	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01051200	Live turkeys weighing not more than over 185 g each	0.9 cents each	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01051900	Live ducks, geese and guineas, weighing not more than 185 g each	0.9 cents each	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01059400	Live Poultry;Chickens	2 cents/kg	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01059900	Live ducks, geese, turkeys and guineas, weighing over 185 g each	2 cents/kg	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01061100	Live primates	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01061200	Live whales, dolphins and porpoises (mammals of the order Cetacea); manatees and dugongs (mammals of the order Sirenia)	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01061930	Live foxes	4.80%	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01061990	Live mammals, not elsewhere specified or included	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01062000	Live reptiles (including snakes and turtles)	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01063100	Live birds of prey	1.80%	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01063200	Live psittaciforme birds (including parrots, parakeets, macaws and cockatoos)	1.80%	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01063900	Live birds, other than poultry, birds of prey or psittaciforme birds	1.80%	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01069000	Live animals other than mammals, reptiles and birds	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
02011005	Bovine carcasses and halves, fresh or chld., descr. in gen. note 15 of the HTS	4.4 cents/kg	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF

Description	Base Rate	Australia	Brunei	Canada	Chile	Japan
Bovine meat cuts, boneless, not processed, frozen, descr in add. US note 3 to Ch. 2	4.4 cents/kg	EIF	EIF	EIF	EIF	B10
Bovine meat cuts, boneless, frozen, not descr in gen. note 15 or add. US note 3 to Ch. 2	26.40%	US13	EIF	EIF	EIF	TRQ: CSQ-US21
Carcasses and half-carcasses of swine, fresh or chilled	Free	EIF	EIF	EIF	EIF	EIF

EIF: Entry In Force (duty-free from start)

B5: Eliminated in 5 annual stages, duty-free in year 5

Base Rate	Australia	Brunei			Japan
4%	EIF	EIF	EIF	EIF	EIF
10%	EIF	EIF	EIF	EIF	B5
4.4 cents/kg	EIF	EIF	EIF	EIF	B5
4%	EIF	EIF	[illegible]	[illegible]	B10
10%	EIF	EIF	EIF	EIF	B10
4.4 cents/kg	EIF	EIF	EIF	EIF	B10
26.40%	US13	EIF	EIF	EIF	TRQ: CSQ-US21

B10: Eliminated in 10 annual stages, duty-free in year 10

Bovine Meat Cuts (i.e., Beef)

US13: Base rate until 2022; duty-free in 2022

US21: No higher than Peru FTA

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Oddities of the TPP

- ISDS: Investor/State Dispute Resolution
  - Controversial
  - Does not apply to tobacco industry

Oddities of the TPP

- Biologic Drugs

  (advanced medicines made from living organisms)
  - The issue: Time period of permitted data exclusivity
  - US wanted 12 years of protection, as contained in the Obama Care.
  - Australia and others wanted much shorter protection, 5 or 6 years.
  - Compromise: US keeps 12-years; others will not. 5 years protection will be an increase for some countries.

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Oddities of the TPP

- Japanese Agriculture:
  - Japan will lower its tariff on beef from over 38.5% to 9% over 16 years
  - Pork tariff will fall from 4.3% to 2.2%, but will also lower minimum import price from ¥482/kg to ¥125, and later to ¥50.
  - Rice (no cut in tariff): New duty-free quota of 50,000 tons, rising to 75,000 tons in year 13

Oddities of the TPP

- Exchange Rates
  - US wanted TPP to address currency undervaluation (which makes exports cheaper)
  - Resolution: Side Agreement on Exchange Rates:
    - Commitment to avoid manipulation
    - Transparency and Reporting
    - Group to meet at least annually to discuss macroeconomic and exchange rate issues
    - No enforcement mechanism

Pros and Cons of all FTAs

- Preferential tariff cuts
  - Pro: trade creation
    - Similar to the classic "gains from trade"
  - Cons:
    - Trade diversion
    - Rules of origin (ROOs)
    - Exemption of sensitive sectors
      - Sensitive = Most likely to be trade-creating if included

Pros and Cons of all FTAs

- Other aspects of actual FTAs
  - Pros:
    - Extension to trade in services
    - Harmonization of regulations
  - Cons (?):
    - Extension of IP protection
    - Trade enforcement of labor standards
    - Trade enforcement of environmental standards
    - Investor-State Dispute Settlement

Additional Pros and Cons of Mega-FTAs

- Preferential tariff cuts
  - Pros:
    - Larger potential for trade creation
    - If ROOs are cumulative, less distorting
    - Potential for adding members
    - Replace multiple rules with a single set
  - Cons:
    - Though there are fewer outsiders, each is harmed more by trade diversion
    - In fact (in TPP) there is more complexity

Additional Pros and Cons of Mega-FTAs

- Other aspects of actual Mega-FTAs
  - Pros:
    - May contribute to broader and more uniform standards
  - Cons:
    - Their use as weapons of geopolitics

Implications of Mega-FTAs for the WTO

- Might have created pressure to complete Doha Round.
  - Possible, just as NAFTA motivated Uruguay Round
  - Didn't happen; Round is dead.

Implications of Mega-FTAs for the WTO

- By lowering trade barriers regionally, Mega-FTAs will
  - Hasten the decline of some uncompetitive industries,
  - Thus gradually reduce political forces for protection
  - This may reduce the need to use WTO-sanctioned administrative protection (anti-dumping, etc.)

Implications of Mega-FTAs for the WTO

- Trade disputes will have alternative fora in which to be settled: Choice between WTO panels and FTA panels
  - This may lessen the role of the WTO Dispute Settlement Mechanism
  - But it will remain relevant

Implications of Mega-FTAs for the WTO

- WTO will continue to be important for plurilateral negotiations on issues that transcend the Mega-FTAs
- Some issues that lend themselves neither to plurilateral agreements not to Mega-FTAs will remain unresolved
  - Most important: Subsidies

Implications of Mega-FTAs for the World Trading System

- Ideally, they will move the world in the direction of global free trade
- But because of their size, each may fall short of that ideal even internally
  - Rules of origin undermine their benefits
  - Exemption of "sensitive sectors" will systematically reduce beneficial trade creation

Will the Mega-FTAs Happen?

- Maybe not:
  - TPP
    - Has not yet been ratified by any country
    - US
      - Will not consider in Congress until after November election
      - TPP is opposed by Trump, Clinton, and much of the electorate
    - If TPP is voted down by US, it will die

Will the Mega-FTAs Happen?

- Maybe not:
  - TTIP
    - Even if TPP passes, there is much opposition to TTIP in EU
    - New rules will require approval by each EU member separately
    - Brexit removes a pro-trade & pro-US voice from EU

Will the Mega-FTAs Happen?

- Maybe not:
  - Other Mega-FTAs
    - RCEP seems mostly a response to TPP, so may not happen if TPP fails
  - So what is the future?
    - Perhaps more bilateral FTAs
    - Or reversion to protectionism