

GROWTH NET SUMMIT 2016 – SPEAKING NOTES

The new geography of trade: what will be the impact of the changing trading blocs for emerging countries?

INTRODUCTORY SESSION REMARKS (IF QUESTIONS ARE RAISED BY THE CHAIR):

- Proliferation of mega-regional free trade agreements like the Trans-Pacific Partnership (TPP), Transatlantic Trade and Investment Partnership (TTIP) etc.
- Increasing shift in focus from WTO/ multilateral rule-making to regional rule-making means a threat for the multilateral trading system.
- WTO's Tenth Ministerial Conference concluded in Nairobi showed the deep divide within the members and increasing differences in interests, priorities, and capabilities.
- TPP (agreement concluded) comprises of 12 countries including USA, Japan, Canada, Chile, and Vietnam etc. accounting for 40% of global GDP.
- TPP emphasises on greater trade openness, higher 21st century standards, regulatory harmonisation, and a competitive trade and investment environment for deeper integration.
- TTIP (negotiations on going) is an agreement between EU and US, accounting for about 60% of global trade, of which 30% is in global trade in goods and 40% in global trade in services. Together the EU and US account for about half of the entire world GDP.
- Other important FTAs include RCEP (includes India and ASEAN), EU-ASEAN, EU-China and US-China.
- These contemporary FTAs (especially TPP, TTIP) have moved beyond the tariff-only trade accords and encompass a range of issues like investment, dispute settlement, services, standards, competition, intellectual property rights, environment and labour.

Winners and Losers

- For member countries studies suggest more open markets between partners, leading to a more efficient division of labour, technology spillovers and related productivity growth (Hoekman and Javorcik 2006); and greater domestic reforms (Baccini and Urpelainen, 2014).
- TPP could also lift member countries' trade by 11% by 2030 (World Bank, 2016).
- Several studies suggest net loss for non-members of TPP/ TTIP:
 - US\$120 billion, of which about 1/6th in Africa (Harsha V. Singh, TPP and India)
 - The TPP would lead to losses in GDP and employment in non-TPP countries. Developing country losses in GDP (-5.24%) and employment (-4.45 million) would reflect possible losses in China and India (Capaldo and Izurieta, Tufts).
 - Studies fear risk of trade diversion, higher barriers for developing and poor countries, especially because of higher regulatory compliances (Bertelsmann Stiftung Report).
 - Investments may shift out of India to TPP members like Vietnam (Lehmann and Fernandes).
 - India would have had net welfare gains of approximately US\$ 21bn under multilateral liberalisation, as opposed to US\$ 7.5 bn due to the mega FTAs (CUTS, 2015).

- By 2030 the TPP will raise member country GDP by 0.4-10%, and by 1.1%, on a GDP-weighted average basis. Vietnam and Malaysia will benefit the most (World Bank, 2016).
- Negative impacts most likely for small and medium enterprises. Thus, need for training, upgrading skills, procedures, improvement of processes, technological upgradation, and better linkage with global value chains.
- However, there are reports from CATO Institute etc. that argue that the impact on non-members is not likely to be significant, and under certain circumstances may even be positive.

Regulatory Implications

- For low- and middle-income country exports, NTMs (Non-Tariff Measures) are about three times more restrictive than tariffs (7.5% compared to 2.5%, respectively). One often expressed fear is that TTIP may exacerbate these kinds of NTM obstacles by elevating standards for imports. If indeed higher standards were put in place, compliance costs would go up (CATO Institute).
- Biggest implication of the mega-regional FTAs is that higher standards that will come into effect (regulatory, environment, labour, IPR etc.) and will effectively become global standards, sooner or later.
- Countries like India and Bangladesh which are important contributors to the global value chain fear decline in exports and need to gear up for higher standards in the evolving global markets.
- Subjects like environment and labour will pave the way for incorporating social standards in legal trade agreements and validate the growth of private standards in these issues.

PSM'S 10 MINUTE SESSION- ABOUT THE SUSPICION IN MANY CIRCLES ABOUT THE BENEFITS OF FREE TRADE AND ON HOW TO ENSURE THAT FREER INTERNATIONAL TRADE TRULY BECOMES A WIN-WIN PROPOSITION

Free Trade Debate

- Debate around free trade is an old one- one group supports free trade and the other that opposes any further liberalisation.
- However, evidence of Bhagwati etc. shows that a freer trade environment promotes growth, creates more jobs, allows for greater participation by smaller countries in global value chains, enhances domestic productivity (due to competition). He argues that trade has a pull-up effect: absorbing the increasing population into meaningful employment.
- Few countries have grown rapidly without a simultaneous expansion in trade. The case studies of Taiwan, South Korea, India and China are case in point.
- While open trade is a necessary condition for growth, it is by no means necessary. Accompanying factors include macroeconomic stability, good governance policies, and contract enforcement (Panagariya). Examples include countries in Latin America, former USSR.
- Sceptics argue that freer trade means movement of jobs to countries with cheap labour, degradation of labour and environment standards, and growing inequality.
- Emergence of mega regional trade agreements shows an increasing inclination to liberalise trade, facilitate investment and harmonise standards.
- The lead up to the US Presidential elections has stirred up the debate on FTAs with all candidates showing increasing opposition to trade agreements.
- A large section in US and EU fear that FTAs would mean more job losses. Sceptics in developing and LDCs feel that FTAs mean higher cost of compliance and loss of sovereignty.
- Yet it is certain that free trade is here to stay- either multilaterally or within among trading blocks.
- The question then arises- how do we ensure that free trade creates a win-win situation for everyone?

Ensuring freer international trade becomes a win-win proposition

- The 21st century FTAs are said to be the golden standard of standards.
- There is a strong likelihood that with time, they become the multilateral norms.
- Therefore, developing countries cannot and should not deny the changing global trading rules.
- Countries like India have the opportunity to upgrade and update its domestic regulations and standards and to undertake trade facilitation measures.
- They need to scrutinise the standards in the TPP and review their own domestic laws in the light of the mega-FTAs to identify the gaps and thereafter prepare to undertake institutional and organisational reforms in order to attract investment, promote transfer of technology, deeper integration into global value chains and greater export oriented FDI.
- They should look at working with TPP and TTIP countries to build domestic capacity and strengthen national laws and policies to remain valuable in value chains.
- There is a need to enhance South-South cooperation to collectively build capacity to meet the higher standards.

- Developing countries must simultaneously explore newer territories to market their exports, and to aggressively negotiate FTAs that would enable eventual integration into new and higher standards.
- In India's case- it should seek to engage proactively with ASEAN to conclude the RCEP while simultaneously seeking greater liberalisation in services and movement of natural persons (CUTS, 2015).
- Analytical and other preparatory work must begin in earnest to prepare India for a mega-regional world (Economic Survey 2015-16).
- Developed countries in the mega-FTAs also have a great responsibility towards the global community.
- They should actively build-in mechanisms to help in capacity building of their less-developed counterparts, foster transfer of technology, support financially to build domestic institutions that will boost domestic capacity in the light of higher standards.
- There is need to study in greater depth the impact on non-members of the mega-FTAs.
- Research in the areas of impact of poverty under FTAs versus impact on poverty under the multi-lateral agreements should be undertaken to come up with concrete steps to align growth with sustainable development goals.

QUESTION BY CHAIR ON MULTILATERAL AGREEMENT ON SERVICES

- WTO members successfully concluded the Trade Facilitation Agreement (WTO).
- Director-General is confident that TFA would come into effect soon.
- There is a growing demand for TFA in services.
- Discussions are on regarding the plurilateral agreement on environmental goods.
- Mega FTAs also show a number of countries can reach consensus.
- All of the above indicates, that an agreement on services is not entirely a dead possibility.
- If not multilaterally right at the outset, it can proceed like the agreement on environmental goods and can later be expanded to all countries.

CONCLUDING REMARKS/ FLOOR OPEN TO DISCUSSION

- Results at Nairobi were perhaps the best that could be achieved given the circumstances. Global realities have been changing very rapidly since the launch of the Doha Round, and even more so in the last decade.
- There has been economic and political turbulence across the globe.
- Developing countries, particularly emerging economies such as Brazil, Russia, India, China, and South Africa, now exercise significant influence over global trade.
- As a consequence, the focus of the World Bank and the IMF are evolving and new Asia focussed institutions like New Development Bank and AIIB are looking to give a greater voice to countries like India and China.
- WTO seems to be at a crossroad and there is a need to reinvent itself to remain relevant.
- Taking into account the increasing mega FTAs and rise of new economic powers, it would be worthwhile to have a Bretton Woods style conference to revisit the global economic governance system.
- All countries need to acknowledge the benefits of the WTO- dispute settlement, trade reviews, technical capacity building and integrate these features into a new system which gives countries the flexibility to incorporate issues that are meaningful to all.
- Without multilateral liberalisation we would be pushed back to the pre-GATT exclusive clubs and would effectively push poor countries (especially LDCs) into further poverty.