

SYNTHESIS OF THE POLICY OPTIONS

No.

15

**ENHANCING COHERENCE AND
INCLUSIVENESS IN THE GLOBAL
TRADING SYSTEM IN THE ERA
OF REGIONALISM**

Enhancing Coherence and Inclusiveness in the Global Trading System in the Era of Regionalism

Synthesis of the Policy Options*

January 2016

* Suominen, Kati. 2016. *Enhancing Coherence and Inclusiveness in the Global Trading System in the Era of Regionalism*. E15 Expert Group on Regional Trade Agreements and Plurilateral Approaches - Policy Options Paper. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum.

NOTE

The policy options presented in this synthesis are the result of a collective process involving all members of the E15 Expert Group on Regional Trade Agreements and Plurilateral Approaches. It draws on the active engagement of these eminent experts in discussions over multiple meetings as well as an overview paper and think pieces commissioned by the E15Initiative and authored by group members. Kati Suominen was the author of the report. While a serious attempt has been made on the part of the author to take the perspectives of all group members into account, it has not been possible to do justice to the variety of views. The policy recommendations should therefore not be considered to represent full consensus and remain the responsibility of the author. The list of group members and E15 papers are referenced on page 12.

The full volume of policy options papers covering all topics examined by the E15Initiative, jointly published by ICTSD and the World Economic Forum, and launched at the Forum's Annual Meeting at Davos-Klosters in 2016, is complemented with a monograph that consolidates the options into overarching recommendations for the international trade and investment system for the next decade.

E15 INITIATIVE

Jointly implemented by the International Centre for Trade and Sustainable Development (ICTSD) and the World Economic Forum, the E15Initiative was established to convene world-class experts and institutions to generate a credible and comprehensive set of policy options for the evolution of the global trade and investment system to 2025. In collaboration with 16 knowledge partners, the E15Initiative brought together more than 375 leading international experts in over 80 interactive dialogues grouped into 18 themes between 2012–2015. Over 130 overview papers and think pieces were commissioned and published in the process. In a fast-changing international environment in which the ability of the global trade and investment system to respond to new dynamics and emerging challenges is being tested, the E15Initiative was designed to stimulate a fresh and strategic look at the opportunities to improve its effectiveness and advance sustainable development. The second phase of the E15Initiative in 2016–17 will see direct engagement with policy-makers and other stakeholders to consider the implementation of E15 policy recommendations.

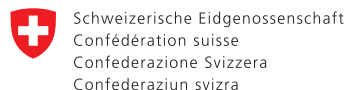
For more information on the E15Initiative:
www.e15initiative.org

ACKNOWLEDGEMENTS

The Expert Group on Regional Trade Agreements and Plurilateral Approaches is co-convened with



WITH THE SUPPORT OF



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO



And ICTSD's Core and Thematic Donors:



Government of the Netherlands



Norwegian Ministry
of Foreign Affairs

PUBLISHED BY

International Centre for Trade and Sustainable Development
(ICTSD)

7 Chemin de Balexert, 1219 Geneva, Switzerland

Tel: +41 22 917 8492 • E-mail: ictsd@ictsd.ch

Website: www.ictsd.org

Publisher and Chief Executive: Ricardo Meléndez-Ortiz

World Economic Forum

91-93 route de la Capite, 1223 Cologny/Geneva, Switzerland

Tel: +41 22 869 1212 • E-mail: contact@weforum.org

Website: www.weforum.org

Co-Publisher and Managing Director: Richard Samans

CITATION

ICTSD and World Economic Forum. 2016. *Enhancing Coherence and Inclusiveness in the Global Trading System in the Era of Regionalism. Synthesis of the Policy Options*. E15Initiative.

Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum.

COPYRIGHT

©ICTSD and World Economic Forum, 2016. Readers are encouraged to quote this material for educational and non-profit purposes, provided the source is acknowledged. This work is licensed under the Creative Commons Attribution-Non-commercial-No-Derivative Works 3.0 License. To view a copy of this license, visit: <http://creativecommons.org/licenses/by-nc-nd/3.0/> or send a letter to Creative Commons, 171 Second Street, Suite 300, San Francisco, California, 94105, USA. ISSN 2313-3805

The E15Initiative is managed by Marie Chamay, E15 Senior Manager at ICTSD, in collaboration with Sean Doherty, Head, International Trade & Investment at the World Economic Forum. The E15 Editor is Fabrice Lehmann.

OBJECTIVES AND OUTPUT

The E15 Expert Group on Regional Trade Agreements and Plurilateral Approaches had three objectives

- Examine the challenges and opportunities associated with the proliferation and consolidation of regional and plurilateral trade agreements for the global trade system.
- Analyse the implications of the increasingly wider and deeper policy coverage of these agreements and their effects for third parties.
- Propose options to enhance coherence and inclusiveness among these agreements and the multilateral trading system.

Overarching questions and issues the Expert Group was tasked to consider

- What are the emerging geography and dynamics of global integration?
- In which ways are regional trade agreements (RTAs) trade-creating or trade-diverting?
- How do RTAs complement the WTO system?
- What can we learn from RTAs as incubators of new trade rules?
- How can RTA advances and trade policy innovations be multilateralized?
- How can we ensure plurilateral approaches are inclusive?
- How can we ensure mega-regionals and new approaches do not disadvantage third parties, in particular the poorer countries?

Expert group analysis and policy proposals were submitted in two forms

1. Critical issues studied through an overview paper and think pieces commissioned for the E15 Initiative. These papers are referenced on page 12 and can be accessed at <http://e15initiative.org/publications/>.
2. Policy options presented in this synthesis and compiled in the summary table. The options are grouped under three work areas:
 - Furthering the benefits of RTA integration with third parties
 - Using plurilateral approaches to multilateralize RTAs
 - Establishing a platform for idea generation and information sharing

TABLE OF CONTENTS

FOREWORD	2
ENHANCING COHERENCE AND INCLUSIVENESS IN THE GLOBAL TRADING SYSTEM IN THE ERA OF REGIONALISM	4
KEY CHALLENGES TO ADDRESS IN THE RTA SYSTEM	4
POLICY OPTIONS FOR SYSTEM COHERENCE AND INCLUSIVENESS	6
Furthering the Benefits of RTA Integration with Third Parties	6
Using Plurilateral Approaches to Multilateralize RTAs	7
Idea Generation and Information Sharing: The RTA Exchange	7
NEXT STEPS: MAKING RTAs WORK FOR TRADE AND DEVELOPMENT	9
TABLE SUMMARY OF MAIN POLICY OPTIONS	10
EXPERT GROUP PAPERS AND THINK PIECES	12
MEMBERS OF THE EXPERT GROUP	13



FOREWORD

Over the past decades, regional trade agreements (RTAs) have proliferated alongside the GATT/WTO system involving a wide variety of North-North, North-South, and, increasingly, South-South agreements. In the absence of significant progress on the multilateral front, they have served as focal points of inter-State cooperation, as well as incubators and testing grounds for new trade rules. Over time, these agreements have evolved and most now contain disciplines that are wider in scope, deeper in nature, and significantly more sophisticated than those contained in the multilateral trading system—with a high share containing trade-related provisions that are essential for the 21st century world economy. As such, many of these agreements effectively enable today's international production sharing possibilities and are at the centre of developments in supply chains and the fragmentation of value-addition across borders. Given their contractual nature, they also increasingly define the allocation of resources and therefore have a direct bearing on sustainable development challenges such as food security, environmental sustainability, social equity, labour conditions, and wealth generation.

Earlier misgivings about the negative impacts of RTAs have proven exaggerated to a large extent. Recent analysis suggests that most RTAs are trade-creating rather than trade-diverting. Furthermore, the proliferation of such agreements has *de facto* attenuated their discriminating effect towards outsiders. Finally, the emergence of large cross-regional schemes,

or mega-regionals, is expected to foster convergence among multiple existing agreements, thereby reducing transaction costs resulting from the “spaghetti bowl” effect of RTAs.

Regional trade agreements also have limitations. While they have paved the way for the development of new regional production and distribution networks, strict rules of origin tend to disincentivize the use of cheaper parts and materials from third countries, restricting outsourcing opportunities and ultimately generating inefficiencies in international supply chains. Others point to the risk of further marginalization of smaller developing countries that remain outside of major initiatives such as the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership.

At the WTO, after several years of intense debate, multilateral efforts to regulate the discriminatory effects of RTAs towards outsiders have proven unfruitful, not least because all members remain protective of their own RTAs. As RTAs emerge as the locus of liberalization and rule-making in global commerce, the question is not so much whether the WTO can or should discipline RTAs, but rather how to mitigate the real challenges posed by RTAs, while at the same time harnessing the opportunities they create to foster economic integration and advance sustainable development. What lessons or best practices can be learned from RTAs that have emerged as laboratories of new trade disciplines? How can such innovations be multilateralized under the WTO? How



should future initiatives, including mega-regionals and new plurilateral approaches, be designed so as not to disadvantage third parties, in particular the poorer countries?

As a contribution to this debate, the E15Initiative, jointly implemented by ICTSD and the World Economic Forum, partnered with the Inter-American Development Bank to convene a group of leading thinkers from around the world, representing a wide range of perspectives and including former policy-makers, academics, trade practitioners, and representatives from the private sector and intergovernmental organizations. Led by Kati Suominen, the Group examined the challenges and opportunities associated with the proliferation and consolidation of regional and plurilateral trade agreements for the global trade system. It then analysed the implications of the increasingly wider and deeper policy coverage of these agreements and their impacts on third parties. Finally, a set of recommendations was reached to enhance coherence and inclusiveness among these agreements and the multilateral trading system. The policy options, and the think pieces that support them, are the outcome of this process.

As co-conveners of the E15 Expert Group on Regional Trade Agreements and Plurilateral Approaches, we are convinced of the need to provide organized and structured input into the policy and governance debate on regional integration, the development of plurilateral approaches, and the implications for the future of the multilateral trading system.

The options that have resulted from this thought process are offered to policy-makers and stakeholders alike, in the hope that they provide paths to effectively address the most pressing challenges and respond to policy imperatives of societies the world over. In a second phase of the E15Initiative, we intend to engage policy-makers in advancing these options.

Ricardo Meléndez-Ortiz
Chief Executive, ICTSD

Richard Samans
Managing Director and Member of the Managing Board,
World Economic Forum

Antoni Esteveordal
Manager of Integration and Trade, Inter-American
Development Bank (IDB)

ENHANCING COHERENCE AND INCLUSIVENESS IN THE GLOBAL TRADING SYSTEM IN THE ERA OF REGIONALISM

REGIONAL TRADE AGREEMENTS (RTAs) HAVE PROLIFERATED AROUND THE WORLD IN THE PAST DECADES ALONGSIDE THE GATT AND WTO SYSTEM. THIS PROLIFERATION HAS REFASHIONED THE GEOGRAPHY OF TRADE INTEGRATION. OVER 400 RTAs HAVE BEEN NOTIFIED TO THE WTO AND SEVERAL MORE ARE UNDER NEGOTIATION.

These include new mega-regional agreements, such as the Trans-Pacific Partnership (TPP—which reached conclusion in 2015 and is in the process of ratification), the Transatlantic Trade and Investment Partnership (TTIP), and the Regional Comprehensive Economic Partnership (RCEP). Other large RTAs, such as the Free Trade Area of the Asia-Pacific (FTAAP) and the African Tripartite Free Trade Area (TFTA), are also being planned. Meanwhile, several WTO members have moved to form plurilateral agreements in certain functional areas, such as the Trade in Services Agreement (TiSA). As the Doha Round of multilateral trade negotiations has stalled in recent years, regional and plurilateral approaches to economic integration have commanded the principal focus in the trade policy strategies of many countries, including some of the largest economies. This has opened new opportunities but also given rise to challenges, particularly regarding issues of coherence and inclusiveness, in this emerging global trade and investment architecture.

As a contribution to the debate on the evolution of RTAs, the E15 Expert Group on Regional Trade Agreements and Plurilateral Approaches, convened by ICTSD and the World Economic Forum in partnership with the Inter-American Development Bank (IDB), has examined the implications of recent developments in RTAs, including their broader and deeper policy coverage, for the future of the global trading system. Based on this analysis, a set of forward-looking recommendations has been framed. These policy options are grouped under three work areas: furthering the potential benefits of RTA integration with third parties; using plurilateral

approaches as a means to multilateralize RTAs; and, pooling resources to advance the effective implementation of RTAs as well as new idea-generation.

The overall perspective taken by the Group is that regional agreements have generally been beneficial for countries around the world, and that policy-makers and trade experts need to move beyond traditional arguments on whether RTAs undermine or buttress the multilateral trading system. A more fruitful discussion, which provides the fundamental premise on which the options are built, is how the system of RTAs can best be leveraged to advance the WTO's mission “to open trade for the benefit of all.”

KEY CHALLENGES TO ADDRESS IN THE RTA SYSTEM

Economists have long engaged in a contentious debate on whether RTAs are building blocks or stumbling blocks to multilateral trade liberalization. Very broadly, the building block camp argues that RTAs fuel the liberalizing logic of the multilateral system, help advance global trade talks, and serve as laboratories for fresh rules that could eventually be multilateralized. The stumbling block camp maintains that RTAs are discriminatory instruments, which lead to trade diversion, complex and overlapping regulatory requirements, and divert attention from multilateral efforts.

Until quite recently, most RTAs were negotiated among advanced economies. Over the past two decades, however, RTAs have grown to include a wide variety of North-South and South-South agreements. The make-up of RTAs has also changed, and the number of deep agreements—which include commitments across areas such as market access, services, investment, intellectual property, competition policy, and labour and environmental standards—has grown significantly (Figure 1). In many of these areas, RTAs are more sophisticated than the multilateral system, enabling member countries to test drive new trade and trade-related rules that mostly operate behind the border and may be better adapted to the structures and needs of the contemporary world economy.

The analytical perspective adopted by the Expert Group is that WTO members need a new 21st century approach to RTAs; one that harnesses the opportunities created by RTAs to deepen and broaden global economic integration, and one that helps ensure that all WTO members, including the many developing countries that are outsiders to ongoing mega-regional and plurilateral initiatives, can benefit from the evolving trade architecture. In practice, this most immediately means that resources and attention should be geared towards addressing the main unresolved challenges in the system of RTAs and perfecting the arrangements that are already in place. Five areas are identified as the focus of this approach.

IMPACT OF RTA DISCIPLINES ON OUTSIDERS

It is perfectly reasonable for two or more RTA members to forge rules that are tailored to their distinctive needs and political economy circumstances. The more complex question

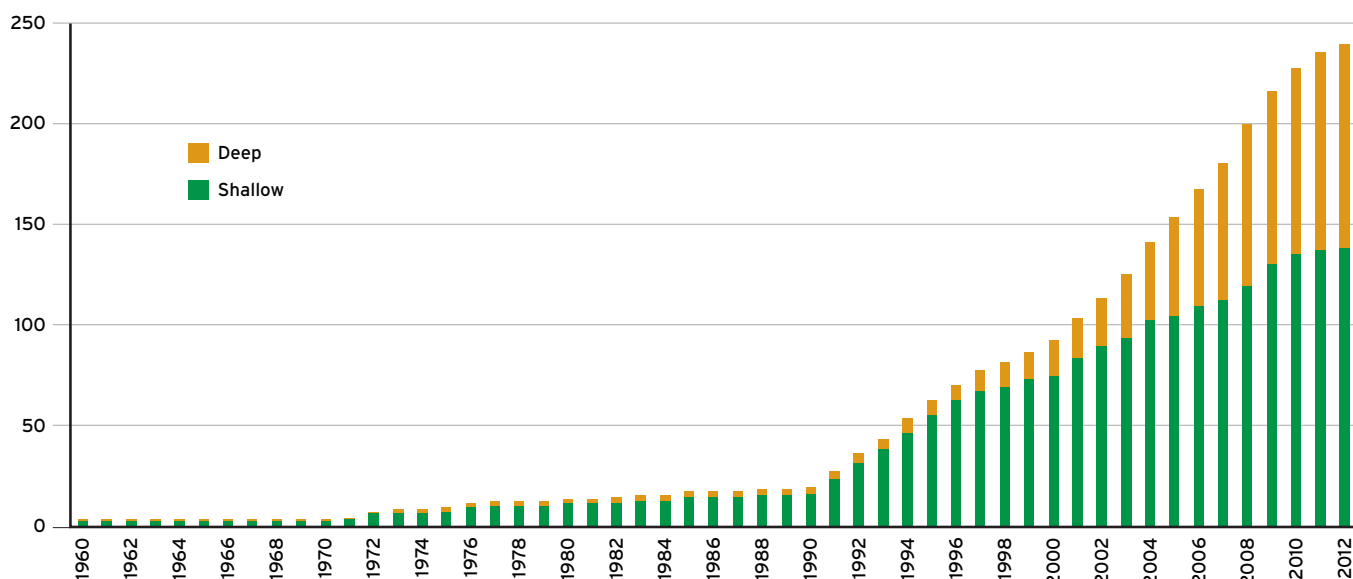
WTO members need a new 21st century approach to RTAs; one that harnesses the opportunities created by RTAs, and one that helps ensure that all WTO members, including developing countries, can benefit from the evolving trade architecture.

is the impact of these rules after the RTA is in place, especially vis-à-vis third parties—for example, whether they encompass standards that outsiders find favourable and voluntarily adopt, whether such rules are easy for developing economies to comply with, and whether they create markets that are easily contested by outsiders. This is a particularly pressing issue in mega-regionals where the leading trading powers set preferred rules that will be *de facto* templates for global standards. In short, questions about the impact of RTA disciplines on outsiders have not been systematically addressed or acted on when it would make the biggest difference: during RTA negotiations.

TRANSACTION COSTS IN THE RTA SYSTEM

While RTAs are in principle designed to lower the costs of cross-border production and distribution networks, the spaghetti bowl of multiple overlapping RTAs has created transaction costs to companies that operate in global supply chains. Furthermore, small business exporters seeking to trade across different markets, each with their own RTA, are mired in a maze of rules. This complexity is compounded by the

FIGURE 1 | RTAs in Effect in 1960-2012 (by depth of commitments)



Source: OECD Secretariat, based on WTO RTA database and other sources.

numerous regimes governing rules of origin (RoO) included in RTAs. Easing some of these transaction costs could yield significant economic gains, including for smaller economies.

BEST PRACTICES FOR PLURILATERALS

Regional trade agreements offer a vast reservoir of tested rules that can help advance multilateral rule-making in critical areas. However, to date, many RTA disciplines have not been multilateralized, and, typically, they extend only to RTA members. Plurilateral agreements could be the right vehicles to enable a greater number of countries to sign onto rules incubated in RTAs. However, it is not yet clear which plurilateral agreements should be negotiated or how these negotiations and subsequent accessions should optimally be structured so as to potentially enable all WTO members to benefit from them.

Gaps can be bridged by collating the wealth of knowledge, experiences, and resources on RTAs presently dispersed among a variety of fora and institutions across the world.

IMPLEMENTATION AND MONITORING GAPS

The implementation of RTAs by policy-makers and the application of RTAs by firms are often suboptimal, as is the monitoring of their functioning. The reasons for this include: lack of capacity and resources, especially among developing country governments, to learn about best practices and policy innovations for negotiating and implementing RTAs; lack of real-time solutions to problems that companies face when applying RTAs; and, difficulties among policy-makers and business leaders to quickly identify the right sources to obtain data and get answers to specific questions related to RTAs. All of these gaps can be bridged by collating, on a sustained basis, the wealth of knowledge, experiences, and resources on RTAs presently dispersed among a variety of fora and institutions across the world.

TRANSPARENCY

The recent mega-regional trade negotiations have raised new concerns among the general public about RTAs, and in particular regarding a lack of transparency. While RTA negotiations require a certain degree of confidentiality, there are pressures for greater transparency and stakeholder engagement in the processes of negotiation and ratification to build trust and legitimacy within domestic constituencies.

POLICY OPTIONS FOR SYSTEM COHERENCE AND INCLUSIVENESS

FURTHERING THE BENEFITS OF RTA INTEGRATION WITH THIRD PARTIES

There are three ways in which countries forging agreements, especially in the context of mega-regional arrangements, could consciously cultivate open regionalism, advance synergies among RTAs, and broaden the potential benefits from integration with third parties.

POLICY OPTION 1 - Furthering the *ex ante* impact assessment of agreements on outsiders

- Countries negotiating agreements could be more deliberate about including in their agreements standards that outsiders will voluntarily adopt, and on creating markets that are more easily contested by non-parties. This process could be aided through “Multilateral Impact Statements,” designed by a think tank or a panel of trade experts, which encourage negotiators to design agreements that provide benefits to outsiders as well as to participants. The purpose would not necessarily be to prevent the qualifying measures from being implemented, but rather to raise awareness and encourage the design of policies that minimize discrimination.

POLICY OPTION 2 - Advancing trade facilitation and customs modernization via RTAs

- In addition to improving regional disciplines, RTA members can expand trade with outsiders through other means. For example, trade facilitation, customs modernization, and improvements in infrastructure among RTA members benefit all countries, not just insiders. Such measures should be prioritized, as they tend to create trade gains that are greater than those realized from new market access.

POLICY OPTION 3 - Encouraging the cumulation of rules of origin

- There are opportunities to create greater coherence among RTAs. For example, in the TTIP, the US and the EU can unravel the spaghetti bowl of RoO in the many RTAs and preference schemes they each have in place by implementing the same rules and allowing for diagonal cumulation across these agreements. This measure would instantly bring about greater coherence in the global trading system and help companies create economies of scale and reduce transaction costs, as well as help smaller “spoke” economies to benefit. Such an effort

would not be entirely novel, as some groups of countries have made concrete progress towards converging their bilateral and plurilateral RTAs into broader integration blocs (e.g. Pacific Alliance harmonization initiative, EU Pan-Euro system of cumulation).

USING PLURILATERAL APPROACHES TO MULTILATERALIZE RTAS

A critical challenge that lies ahead is how the WTO and RTA systems can be made more synergistic and mutually reinforcing. Given that the WTO single undertaking approach appears to be in deadlock, plurilateral agreements—broad-based agreements among subsets of the WTO membership—offer a path forward. They may also provide a means to pioneer entirely new rules and market access commitments in an otherwise clogged system. However, for plurilaterals to be truly effective and integrative, three reforms are needed.

POLICY OPTION 4 - Changing the negotiation modalities in the WTO

- It can certainly be argued that for WTO members to allow for plurilaterals means that the most-favoured-nation (MFN) principle loses its force, unless plurilateral commitments are negotiated on an MFN basis. However, this latter idea would defeat the purpose of plurilaterals as agreements among “coalitions of the willing” that alone assume rights and obligations. Offering a venue for plurilaterals may be the primary means for the WTO to remain relevant and impactful in the global trading system. The WTO membership needs to agree on a shift from the current unanimity rule and single undertaking principle to enable faster deals among a critical mass of members. This critical mass should preferably be commercially meaningful.

POLICY OPTION 5 - Establishing a multilateral code of conduct for plurilateral negotiations

- There are no common guidelines for negotiating plurilaterals. Countries should negotiate a multilateral code of conduct to govern the subsequent negotiation of plurilaterals in the context of formal WTO processes. Such a code could outline principles that would allay existing concerns on plurilaterals and provide members with procedural guidance as well as *ex ante* rules on future rights and obligations. The code could define, for example, that: participants need to have the means to implement the agreement; the issue subject to a plurilateral negotiation should have substantial support in the WTO; only parties to a plurilateral can initiate disputes related to the plurilateral; and, cross-agreement retaliation is prohibited.

POLICY OPTION 6 - Opening plurilaterals to outsiders

- The WTO could create a “linking” mechanism whereby the commitments of new exclusive plurilaterals can be extended on an MFN basis to third parties willing to adhere to these commitments, thus gradually multilateralizing the agreements once critical mass has been reached. However, the risk that least developed countries might remain outside plurilaterals is real and could perhaps best be bridged through a concerted effort directed at technical assistance and capacity-building. This presupposes a willingness on the part of these economies to accede to the newly created system.

A critical challenge that lies ahead is how the WTO and RTA systems can be made more synergistic and mutually reinforcing.

IDEA GENERATION AND INFORMATION SHARING: THE RTA EXCHANGE

There is a dearth of systematic global thinking about ways to perfect the RTA system. Although RTAs are emerging as the centre of gravity in global trade and investment, there is no institution or body, to date, which methodically brings together all relevant information on RTAs around the world. There is no dedicated forum that encourages global knowledge sharing and idea-generation on ways to, *inter alia*: broaden and deepen integration on the back of existing and future RTAs; build synergies among RTAs and with the WTO system; and, support developing countries to negotiate, implement, and apply RTAs. This is a lost opportunity, but also a gap that can be bridged through a new platform: the RTA Exchange.

The risk that least developed countries might remain outside plurilaterals is real and could perhaps best be bridged through a concerted effort directed at technical assistance and capacity-building.

BOX 1 | RTA Exchange: A New Platform for Ideas, Learning, and Information Sharing

The RTA Exchange is being developed as a dynamic online platform and forum. It aims to: facilitate the sharing of information, ideas, experiences, and good practices on RTAs; further capacity-building of negotiators and governments to negotiate and implement RTAs while also assisting companies to operate in RTAs globally; regularly take stock of the general public's views on policies related to RTAs; survey private sector perspectives on the functioning of RTAs; and, encourage idea-generation to advance convergence and coherence with the multilateral system.

The RTA Exchange is an inherently bottom-up venue driven by its users. It includes various modes to engage users:

- **Clearing house of information:** A highly interactive website with a comprehensive and ever-growing body of information, data, and analysis on RTAs, curated from sources around the world.
- **Forum for engagement among stakeholders:** Regularly updated videos, blogs, announcements, and surveys, as well as ideas and analyses posted by contributors from around the world.

- **Discussion space:** A user-driven community and social network linking the various stakeholders, with lightly moderate discussions.
- **Webinars for education:** Frequent e-learning, such as online seminars engaging diverse experts on various aspects related to RTAs. Registered members can suggest topics for these seminars.

The RTA Exchange is built on the premise that rather than being viewed as antithetical to the multilateral trading system, RTAs must be seen as an opportunity to accelerate and deepen global trade liberalization, integration, and development. What has been lacking is a transmission mechanism between these objectives and the wealth of dispersed information, analysis, and collective international knowledge on RTAs. The RTA Exchange, fully launched in 2016 and accessible at RTAexchange.org, offers such a mechanism (Suominen 2014).

While the policy options are being pursued, longer-term thinking should start on the future of RTAs, particularly in light of the changing geography of trade and investment as well as new market drivers that will influence the pattern of economic integration over the coming years.

POLICY OPTION 7 - Establishing and Supporting the RTA Exchange

- The Exchange is conceived to further dialogue and thought on ways to make RTAs better work for trade and development. It will act as a global venue for information sharing, idea-generation, e-learning, and capacity-building on practical and strategic aspects related to RTAs among a broad and diverse set of stakeholders—private sector leaders, policy-makers, development practitioners, and analysts. An international coalition has taken the lead in this initiative: the Inter-American Development Bank, in collaboration with the Asian Development Bank and ICTSD, is establishing this platform (Box 1). This pioneering initiative deserves broad support.

NEXT STEPS: MAKING RTAs WORK FOR TRADE AND DEVELOPMENT

The seven policy options put forward by the Expert Group can all conceivably be considered for implementation over a short- to medium-term horizon. While these recommendations for reform and dialogue are being pursued, longer-term thinking and engagement should start on the future of RTAs, particularly in light of the changing geography of trade and investment as well as new market drivers that will influence the pattern of economic integration over the coming years.

EMERGING PATTERNS IN ECONOMIC INTEGRATION

- *The new geography of integration:* The TPP and TTIP are changing the dynamics of formal integration as they include some of the world's largest trading powers. Additional transformations could unfold should such agreements merge in some way in the future and major non-parties such as China were to join. In this scenario, the WTO and (a large) part of its membership would be marginalized, and all meaningful action on trade policy-making would move to the RTA sphere—where questions such as outsider treatment and the management of disputes would become central.
- *The unfolding geoeconomics of trade:* New trends in North-South and South-South trade are poised to gain in significance in the years to come. In all probability, China in particular will play an increasingly important role in world trade, the trade policy and strategic considerations of individual nations, and in developments at the multilateral level. It remains an open question as to whether competing spheres of influence will dominate this future trade integration landscape (such as between the US-led TPP and the China-led RCEP) or whether there will be a gradual move towards alignment.

- *The new technology drivers:* New technologies and innovations are revolutionizing world trade and production, causing new challenges for policy-makers. Given the rapid pace of technological change, it is not obvious that traditional, multi-year, and hard law trade negotiations serve the purpose they once did. The technology for negotiating international trade agreements and the nature of commitments will probably need to change.
- *The shrinking players:* The advance of digital commerce and information technologies are opening opportunities for entrepreneurs and small businesses around the world to engage in trade. This also creates challenges for rule-making and the implementation of RTAs, not least because small businesses seldom have the capacity to interpret or apply complex trade disciplines. The implementation of RTAs will need to adjust to accommodate these new entrants in international trade.

CONCLUDING NOTE

The WTO is at a defining moment. It faces ongoing questions regarding its relevance and is surrounded by an increasingly vibrant system of RTAs. Regionalism has long been seen as competing with and undermining the multilateral trading system. Yet, RTAs have been successful in advancing economic integration around the world and in designing new rules that respond to evolving market and developmental needs. At a time when the WTO is struggling to adjust to a fast-changing world economy as well as shifting balances in its constituency, RTAs should be viewed as important constituents of the 21st century multilateral trading system on which to build.

It remains an open question as to whether competing spheres of influence will dominate this future trade integration landscape or whether there will be a gradual move towards alignment.

TABLE SUMMARY OF MAIN POLICY OPTIONS

POLICY OPTION	TIMESCALE	CURRENT STATUS AND GAP	HOW TO GET THERE
Furthering the potential benefits of RTA integration with third parties			
1. Further <i>ex ante</i> understanding of the potential impact of RTAs on outsiders and the extent to which they promote a more integrated global trading system.	Short term	The design of RTA disciplines essentially reflects the concerns of domestic constituencies with the effect on third parties considered at best as an after-thought. There is no conscious effort at promoting potential benefits for outsider countries.	Think tank or panel of trade experts to design guidelines for an <i>ex ante</i> “Multilateral Impact Statement” (e.g. mirrored on US federal guidelines for policy-makers on environmental impact assessments).
2. Advance trade facilitation and customs modernization through RTAs as a way to expand trade and ensure benefits with third countries.	Medium term	WTO Trade Facilitation Agreement remains relatively narrow. A broad focus on trade facilitation, including soft and hard infrastructure, is likely to produce significant gains and might be easier to achieve.	Integrate relatively similar/homogenous trade facilitation disciplines in RTAs as a way to accelerate the convergence of disciplines at the multilateral level.
3. Design rules of origin in a way that allows for cumulation of origin across RTAs or GSP schemes (diagonal cumulation).	Medium term	There is a limited set of precedents allowing for cumulation among a uniform set of RoO across members of an RTA (e.g. Pan-Euro RoO protocol, Pacific Alliance harmonization initiative).	EU and US to harmonize their RoO under TTIP and extend them to all their respective RTAs/GSP schemes allowing for diagonal cumulation.
Using plurilateral approaches as a means to multilateralize the benefits of RTAs			
4. Move beyond the unanimity rule and single undertaking principle and use the WTO as venue for negotiating all future plurilateral initiatives.	Medium term	<ul style="list-style-type: none"> ■ In face of WTO stalemate, plurilaterals might offer a way forward to keep the centrality of the multilateral trading system; ■ Inclusive plurilaterals (i.e. extending benefits on an MFN basis) require critical mass but are not problematic from a WTO acceptance perspective; ■ Exclusive plurilaterals (e.g. GPA) face more challenges in gathering acceptance by the rest of WTO members; 	<ul style="list-style-type: none"> ■ Introduce the notion of a code of conduct into formal WTO processes defining principles and a set of rules governing future plurilateral initiatives; ■ Identify areas where potential plurilateral initiatives might gather sufficient “critical mass” of interest among the WTO membership; ■ Design mechanisms through which third parties can adhere to the commitments under exclusive plurilaterals to pave the way for progressive multilateralization once critical mass is reached.
5. Establish a multilateral code of conduct for negotiating plurilateral agreements in advance of any formal WTO plurilateral processes.	Medium term	<ul style="list-style-type: none"> ■ Exclusive plurilaterals (e.g. GPA) face more challenges in gathering acceptance by the rest of WTO members; 	<ul style="list-style-type: none"> ■ Identify areas where potential plurilateral initiatives might gather sufficient “critical mass” of interest among the WTO membership; ■ Design mechanisms through which third parties can adhere to the commitments under exclusive plurilaterals to pave the way for progressive multilateralization once critical mass is reached.
6. Create a “linking” mechanism to extend the benefits of plurilateral agreements on an MFN basis.	Medium term	<ul style="list-style-type: none"> ■ Need to define <i>ex ante</i> principles on the rights and obligations of plurilateral members and non-members. 	<ul style="list-style-type: none"> ■ Design mechanisms through which third parties can adhere to the commitments under exclusive plurilaterals to pave the way for progressive multilateralization once critical mass is reached.

POLICY OPTION	TIMESCALE	CURRENT STATUS AND GAP	HOW TO GET THERE
Idea generation and information sharing: the RTA Exchange			
<p>7. Establish and support the “RTA Exchange” as an independent knowledge and dialogue platform on the interface between RTAs and the WTO and as an information pool for developing countries.</p>	<p>Short term</p>	<ul style="list-style-type: none"> ■ No single instance bringing together all relevant information on RTAs and fostering dialogue, sharing of experience and knowledge generation on ways to enhance coherence between RTAs and the WTO. ■ Developing countries, and least developed countries in particular, would benefit from knowledge sharing and support to negotiate, implement, apply, and join RTAs. 	<p>International coalition of think tanks and IGOs to take the lead in establishing the knowledge and dialogue platform of the RTA Exchange (ICTSD, IDB, ADB).</p>

EXPERT GROUP PAPERS AND THINK PIECES

The papers commissioned for the E15 Expert Group on Regional Trade Agreements and Plurilateral Approaches can be accessed at <http://e15initiative.org/publications/>.

Draper, Peter, and Memory Dube. 2013. *Plurilaterals and the Multilateral Trading System*. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum.

Estevadeordal, Antoni, Kati Suominen, and Christian Volpe. 2013. *Regional Trade Agreements: Development Challenges and Policy Options*. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum.

Lawrence, Robert Z. 2013. *When the Immovable Object Meets the Unstoppable Force: Multilateralism, Regionalism and Deeper Integration*. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum.

Stoler, Andrew L. 2013. *Will the WTO have Functional Value in the Mega-regional World of FTAs?* E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum.

Suominen, Kati. 2014. *RTA Exchange: Organizing the World's Information on Regional Trade Agreements*. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum.

Suominen, Kati. 2016. *Enhancing Coherence and Inclusiveness in the Global Trading System in the Era of Regionalism*. E15 Expert Group on Regional Trade Agreements and Plurilateral Approaches – Policy Options Paper. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum.

MEMBERS OF THE EXPERT GROUP

Kati SUOMINEN – *Theme Leader*

Founder and CEO, TradeUp Capital Fund

Ricardo MELÉNDEZ-ORTIZ – *Convener*

Chief Executive, International Centre for Trade and Sustainable Development (ICTSD)

Miguel RODRIGUEZ MENDOZA – *Convener*

Former Deputy Director-General, World Trade Organization (WTO) / Senior Associate, ICTSD

Antoni ESTEVADEORDAL – *Co-convener*

Manager of Integration and Trade, Inter-American Development Bank (IDB)

Peter DRAPER

Senior Research Fellow, South African Institute of International Affairs (SAIIA)

Simon EVENETT

Academic Director, University of St. Gallen

Henry GAO

Associate Professor, Singapore Management University

Hernando José GÓMEZ

Leader of the Colombian-US FTA Task Force

Anabel GONZÁLEZ

Senior Trade and Competitiveness Director, World Bank

Carlos GRAU TANNER

Director General, Global Express Association

Christophe KIENER

Deputy Head of Unit for WTO and OECD Affairs, Trade Directorate, European Union

Robert Z. LAWRENCE

Albert L. Williams Professor of Trade and Investment, Harvard University

Patrick LOW

Visiting Professor, Hong Kong University

Patrick MESSERLIN

Director, Groupe d'Économie Mondiale, Sciences Po

Michitaka NAKATOMI

President, Japan External Trade Organization (JETRO)

Maika OSHIKAWA

Head, Asia and Pacific Desk, World Trade Organization (WTO)

Mark PEARSON

Independent Consultant

Pierre PETTIGREW

Executive Advisor, Deloitte Canada

Sandra RIOS

Director, Centro de Estudos de Integração e Desenvolvimento (CINDES)

Sherry M. STEPHENSON

Senior Fellow, ICTSD

Andrew STOLER

Independent Consultant

Robert TEH

Counsellor, Economic Research and Statistics Division, WTO

Guillermo VALLES GALMÉS

Director, International Trade in Goods and Services, and Commodities Division, United Nations Conference on Trade and Development (UNCTAD)

Jaime ZABLUDOVSKY

Director, Consejo Mexicano de la Industria de Productos de Consumo

Christophe BELLMANN – *Group Manager*

Senior Research Fellow, ICTSD

The experts all participated in their personal capacity. The views and recommendations expressed in the policy options paper are not attributable to any institution with which members of the E15 Expert Group are associated.

E15 INITIATIVE: EXPERT GROUPS AND TASK FORCES

In the quest for effective responses to the challenges faced by the global economy at this time, foremost experts were invited to contribute to 15 thematic groups as well as three task forces addressing horizontal issues. The groups met regularly between 2012 and 2015 with the goal of delivering a set of policy options on the occasion of the WTO's 20th anniversary. These options are intended to animate discussions and feed the present and future international trade and investment policy agenda for sustainable development. The full volume of policy options papers, jointly published by ICTSD and the World Economic Forum, and launched at the Forum's Annual Meeting in Davos-Klosters in 2016, is complemented with a monograph that consolidates the options into overarching recommendations for the international trade and investment system for the next decade. The second phase of the E15 Initiative in 2016–17 will see direct engagement with policy-makers and other stakeholders to consider the implementation of E15 policy recommendations.

E15 INITIATIVE THEMES

- 1 – Agriculture and Food Security
- 2 – Clean Energy Technologies
- 3 – Climate Change
- 4 – Competition Policy
- 5 – Digital Economy
- 6 – Extractive Industries
- 7 – Finance and Development
- 8 – Fisheries and Oceans
- 9 – Functioning of the WTO
- 10 – Global Trade and Investment Architecture*
- 11 – Global Value Chains
- 12 – Industrial Policy
- 13 – Innovation
- 14 – Investment Policy
- 15 – Regional Trade Agreements
- 16 – Regulatory Coherence
- 17 – Services
- 18 – Subsidies

* Policy options to be released in late 2016

Implemented jointly by ICTSD and the World Economic Forum, the E15 Initiative convenes world-class experts and institutions to generate strategic analysis and recommendations for government, business and civil society geared towards strengthening the global trade and investment system for sustainable development.



International Centre for Trade
and Sustainable Development



COMMITTED TO
IMPROVING THE STATE
OF THE WORLD