



5th BRICS Trade and Economic Research Network (TERN) Meeting

The Impact of Mega Agreements on BRICS





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PROGRAM: BRICS – TERN - V MEETING
THE IMPACT OF MEGA AGREEMENTS ON BRICS
March 17th

FGV Headquarters
Praia de Botafogo 190
Rio de Janeiro

PROGRAM

9:00 – 9:30 – Opening Session

Amb. Luiz Felipe de Seixas Corrêa
Prof. Renato Flôres (FGV Rio de Janeiro)
Carlos Abijaodi (Director, CNI)

9:30 – 10:30 – Mega-Agreements: regulatory and economic impacts on BRICS

Vera Thorstensen and Lucas Ferraz (FGV São Paulo)
Discussants: Diego Bonomo (CNI) and Adriana Dantas (BM&A)

10:30 – 11:00 – Coffee Break

11:00 – 12:00 – Impacts of Mega-Agreements on India

Archana Jatkar (CUTS International)
Discussants: Paulo Ferracioli (FGV)

12:00 – 13:00 – Impacts of Mega-Agreements on China

Gong Baihua and HaiRong Luo (Shanghai WTO Affairs Consultation Center)
Discussants: Sandra Rios (CINDES)

14:30 – 15:30 – Impacts of Mega-Agreements on Russia

Natalia Turdyeva (Center for Economic and Financial Research – CEFIR)
Discussants: Lia Vals (FGV)

15:30 – 16:30 – Impacts of Mega-Agreements on South Africa

Catherine Grant (South African Institute of International Affairs – SAIIA)
Discussants: Flavio Carneiro (IPEA)

16:30 – 17:00 – Coffee Break

17:00 – 17:30 – The Future of the BRICS

Minister Flávio Damico - Department of Inter-Regional Mechanisms
Ministry of External Affairs, Brazil

17:30 – 18:00 – Conclusion

Vera Thorstensen – FGV São Paulo

SPEAKERS

Luiz Felipe de Seixas Corrêa



Mr. Luiz Felipe de Seixas Corrêa was the Permanent Representative of Brazil to the World Trade Organization and to the United Nations in Geneva. He has been a diplomat for Brazil since 1967 and was appointed twice to the post of Secretary-General (Deputy-Minister) of the Ministry of External Relations (1992 and 1999/2001). Throughout his career, he took part in many international conferences under the aegis of the United Nations and of the Mercosul.

Archana Jatkar

Ms. Archana Jatkar joined the CUTS International in 2007, and is currently the Coordinator and Deputy Head of CUTS Center for Trade, Economics and Environment (CUTS CITEE). She has been leading and coordinating activities in three core areas of international trade (WTO Issues), Regional Economic Cooperation and Trade and Development issues. Furthermore, she has been conducting policy analysis and research in the area of international trade covering various WTO Agreements, particularly on political economy of trading system, The Doha Round/Bali decisions at the WTO, Standards & Technical Regulation.



Baihua Gong



Mr. Baihua Gong is a Professor of International Law, Law School at Fudan University, Shanghai, and Associate Dean of Shanghai Advanced Institute for Lawyers. He is also the Associate President of Shanghai WTO Affairs Consultation Center Education. He is a specialist in international public law, international trade law, international finance law, and international commercial contracts.

Catherine Grant Makokera

Ms. Grant Makokera is currently the Programme Head Economic Diplomacy at the South African Institute of International Affairs, being responsible for managing a research and networking programme on trade, investment, global economic governance and regional integration. She was a diplomat for New Zealand for over 10 years. She has participated in United Nations and World Trade Organization negotiations. She also held the position of Executive Director: Trade Policy at Business Unity South Africa (BUSA).



Lucas Ferraz



Lucas Ferraz is a Professor at São Paulo School of Economics at the Fundação Getulio Vargas since 2006, and Head of Economic Modelling at the Center for Global Trade and Investment (CGTI). He is an expert in Computable General Equilibrium Models for International trade. His research areas include the formation of Regional trade Agreements, Global Value Chains and non-tariff barriers to trade.

Natalia Turdyeva

Ms. Natalia Turdyeva is a senior economist at the CEFIR (Center for Economic and Financial Research), at New Economic School, and a lecturer and teacher at the Higher School of Economics at the State University of Moscow for over 10 years. She's an expert in international trade and economics field, public policy, energy and environmental economics, as well as computable general equilibrium models.



Vera Thorstensen



Vera Thorstensen is a Professor at São Paulo School of Economics at Fundação Getulio Vargas and the Coordinator of Center for Global Trade and Investment (CGTI). She was the economic consultant at Brazil's Mission at the WTO from 1995/2010. She was the editor of Letter from Geneva publication from the Brazilian Mission (2001/08), and President of Rule of Origin Committee at WTO (2004/10).

FOREWORD

The BRICS TERN – BRICS Trade and Economics Research Network is a group of independent research institutes established four years ago by five think tanks from Brazil, Russia, India, China and South Africa. The main objective of the network is to study different aspects of trade and economic relations amongst these five countries.

The purpose of the V BRICS TERN Meeting was to analyze and debate the effects of the negotiations of the Mega Agreements, mainly those initiated by the US and the EU, already in negotiation, to each of the BRICS Trade Policies. Both Mega Agreements were examined – the Trans Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). The studies included the main impacts on trade flows and on the international trade rules system, respecting the perspective of each of the countries concerned.

This workshop was an initiative of the Center for Global Trade and Investments (CGTI), a think-tank on International Trade held by FGV Sao Paulo School of Economics. Its main objective is the research on trade regulation, preferential trade agreements, trade and currency, trade and global value chains, through legal analysis and economic modelling. One of its main researches, now, is on the potential economic and legal impacts of the Mega Agreements on Brazil and WTO rules.

This meeting was organized in March 14, 2014, in Rio de Janeiro, in a perfect timing for introducing such issues in the international agenda, in advance of the 6th BRICS Summit scheduled to be held in Brazil in July 2014.

CGTI wants to thank the participation of the representatives from BRICS countries, the discussants and all participants that made this a very successful meeting. Special thanks are directed to Ambassador Luiz Felipe de Seixas Corrêa, that brought enlighten remarks to our discussion, and to Minister Flávio Damico from Itamaraty, whom presented us with a detailed historical and political perspective of the creation of the BRICS.

The papers presented by the speakers and their presentations are compiled in this book.

CONCLUSIONS

The main **conclusions** of the discussion can be summarized as follows.

All representatives of the BRICS TERN express their concerns with the impacts of the Mega Agreements not only on their countries, as well on the regulatory system created by the WTO.

Several economic analyses were presented to demonstrate that the possible effects on trade will be quite significant.



On the regulatory framework, the ambitions of the Mega-Agreements currently being negotiated, especially TPP and TTIP, go far beyond what is foreseen under the multilateral trading system, what can constitute a serious menace to the WTO.

The Mega Agreements aim to define a new structure and new modalities for different kinds of non-tariff barriers to trade and to create a regulatory cohesion among the partners that will challenge the excluded ones. In these agreements are included provisions to regulate new issues such as labor rights, environmental, state-owned enterprises, investment, capital controls, competition, more advanced rules on trade in services and more restrictive intellectual property rights. They will also have a dispute settlement mechanism. In summary, they are creating a new set of rules with the expressed purpose to govern the 21st Century Trade System.

China, India, and other 14 countries are negotiating the Regional Comprehensive Economic Partnership (RCEP), also a Mega Agreement. They intend to provide a basis for more open trade and investment in the Asia-Pacific region. RCEP is expected to tackle trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition policy, and dispute settlement. Although aiming to eliminate tariff and non-tariff barriers progressively, the RCEP already contains numerous flexibility caveats in order to ensure that no member has to adopt trade policies with which it disagrees, protecting sensitive industries from exposure to enhanced competition. The approach of the RCEP will create a more flexible integration structure than the one pursued by the TPP and TTIP negotiation parties.

The co-existence of these diverse Mega-Agreements in parallel with the hundreds preferential agreements already created, with their own dispute settlement mechanism, is producing parallel and conflicting rules, generating conflicting decisions and the consequent fragmentation of the trade rule system.

BRICS' members do not have a direct participation in TTIP and TPP and excluded from these negotiations.

Although the Bali Package is considered to be a key step towards major achievements in the multilateral system, rules regarding contemporary trade concerns are currently being negotiated outside the WTO. Not participating in these negotiations reveals that BRICS countries will be also excluded from this new set of trade rules.

BRICS represents a new class of partners in the trade arena, as major emerging economies. They are also the main trade partners to be impacted by these Mega Agreements, not only in their trade performance but also in their capacity to make trade rules. Not only they will be left behind in the advances of international trade rules, but they will also lose their role as global rule makers.

For the BRICS, WTO still is their preferential forum for trade negotiation, supervision and conflict resolution.

RECOMMENDATIONS



In order to bring the negotiation of international trade rules back to the WTO, it is of utmost urgency to act together to strengthening the cooperation among BRICS countries to elaborate a joint trade strategy in the multilateral level. It has the aim of enhancing WTO's role in the international trade system and of ending the Doha Round with a positive result.

In order to assess the possible impacts of these Mega Agreements on their economies, it is important to create a high-level surveillance body in the WTO to the possible effects of these new rules on the regulatory system of the WTO and on the excluded parties.

It should be analyzed the trade effects of several extra-WTO rules. Because of that, a new Council on Preferential Trade Agreements should be envisaged, on a higher political level than the old Committee on RTAs.

The Secretariat should be empowered to realize legal and economic studies to clarify the impacts of these new rules to their excluded members.



I. THE IMPACT OF MEGA AGREEMENTS ON BRICS

Luiz Felipe de Seixas Corrêa

Opening Remarks

FUNDAÇÃO GETÚLIO VARGAS

RIO DE JANEIRO, 17/03/2014

The international system has been evolving in a slow and unpredictable fashion. The old order has not disappeared and the new one has not yet become apparent. The current economic crisis is evolving in unclear patterns. Recession and slowdowns continue to affect many developed and developing countries, extremism makes itself present in many parts of the World, the current crisis in Ukraine brings the World close to a revival of the Cold War; extreme poverty and exclusion still plague many areas in Latin America, Africa and Asia.

Events everywhere dramatically remind us that in today's globalized world, stability is still outside our reach. The current international system contains a number of elements of ambiguity, dispersion and disfunctionality that demand careful and sober consideration. International power has been applied in sometimes surprising and unilateral fashion while the institutional mechanisms of the UN system frequently reveal their shortcomings and their inadequacy to effectively deal with the evolving realities of the international scenario.

Given the consolidation of a number of regional systems and subsystems, whose impact on the international macro-structure has increased substantially over the past decades, today's international scenario is characterized by a number of rivalries, disputes and unilateralism.

The building of a new world order capable of coping with the challenges of this fragmented World, while promoting the harmonious integration between the most advanced segments and the most marginal areas, demands the strengthening of shared interests and responsibilities between developed and developing countries in favor of global governance in multilateral fora.

The industrialized world, however, remains stubbornly reluctant to fundamentally alter the dynamics of the international decision-making process. There is a flagrant contradiction between the admission by developed countries that the emerging powers are essential for the solution of global questions (environment, trade, human rights, peace and security, etc.) and the refusal by these same countries to negotiate with on a modicum of equality and on a regular basis. This would certainly be the appropriate way to generate meaningful operational convergences between some important countries (from the South and from the North) potentially capable of exerting influence in order to solve the global questions that in the long run will determine whether we will be able to compatibilize growth and development with social justice on a global basis.

It is basically in this context - the Mega Agreements - that the BRICS are being called to perform a role that has become increasingly crucial.



What has Brazil been trying to do in that regard?

Over the last few years, Brazil has undergone an unprecedented transformation through a progressive process, the first step of which has been the democratization of the country in the eighties. The second was the achievement of macro-economic stability in the nineties made possible by the control of inflation. The third step, achieved in the past years, has been accelerated social inclusion. Now we are going through the fourth stage: the fight against corruption, an essential element in consolidating democracy.

As the economy strengthened, Brazil began to play a more affirmative role in the international arena. It became a key partner on several global issues of the international agenda, particularly trade, energy, climate change, and the reform of multilateral institutions.

We can still change Brazil for the better, as we are trying hard to do. But for these changes to really hold it is imperative that external conditions also change for the better. Hence our persistent struggle to positively contribute to the global debate centered on a new agenda for the transformation of the international order in its political, economic and social dimensions.

Regionally, Brazil has acted as a mediator in bringing solutions to political crises. The UNASUL and the South American Defense Council have contributed to maintaining political stability and democracy in the region.

Globally, Brazil has also played an active role in innovative venues for South-South coordination, such as the IBSA Forum that brings together the three major democracies of Asia, Africa and South America: India, South Africa and Brazil, as well as the BRICs that brings us together here today.

Brazil plays a key role in the World Trade Organization, having actively worked towards bringing about a balanced conclusion of the dormant Doha Round, consistent with its goals of promoting economic development.

Brazil is committed to updating and reforming formal and informal governance arrangements, in particular the international financial institutions and the United Nations Security Council.

As a credible interlocutor with both developed and developing countries, we believe that we are in a position to contribute positively to the global debate on a new agenda for the transformation of the international political, economic and social order.

Along the way, Brazilians learned to develop a more balanced view of themselves, of their country, and of its place in the world. Looking at an imaginary mirror, Brazil has managed to finally see itself in its entirety. A huge country dealing with its contrasting circumstances: neither the most backward, nor the most advanced, neither the richest, nor the poorest, neither totally just, nor totally unjust. A country that tries to transform itself not through authoritarian impulses, nor through voluntary visions, but rather through the building of widening areas of



social convergence and consensus. This may not be the fastest way to bring about transformations. But we are convinced that it is by far the safest, long-lasting way.

Diplomacy's task consists essentially in mediating external opportunities and/or constraints with domestic - active or reactive - interests, so as to conduct each country's interaction with the World at large in a manner that is consistent with its own permanent or incidental objectives.

Diplomacy is normally conducted on the basis of an effective evaluation of the real power (military, financial, economic, political) that each country can mobilize in order to advance or to protect its interests, as well as of its capacity to exercise moral, social or political influence. On the one hand the so-called "hard power". And on the other hand, the so-called "soft power". Both categories of power interact and tend to complement each other in the day-to-day foreign policy operations of any given country. Countries can act alone or, more often, in coalitions, alliances, or ad hoc groupings.

A well-conceived and well-managed foreign policy is one that is capable of attenuating oppositions, and of enlarging coalitions of support. An ideal foreign policy tends to rely less on the deployment of the "hard power" of the country and more on actually maximizing its "soft power".

Territorial and political unity stands out as our single most important patrimony: a patrimony so powerful, so proudly shared by the Brazilian society at large that it consistently allowed us to coexist, with a minimal degree of unrest, with the extraordinary social, regional and cultural divisions that still characterize our fragmented and asymmetric national development process.

In fact, the idea that we Brazilians have about our country goes beyond a not so glorious past tarnished by slavery and a relatively unaccomplished present to incorporate the future. That long awaited point in time when the myth around which the country named Brazil evolved will materialize: the Brazilian dream, the Brazilian utopia.

Other important elements of our collective personality are nationalism, the search for sovereign equality among nations, and pragmatism, those last two deriving from the chronic inexistence of elements of hard power capable of enforcing externally the main objectives and interests as defined domestically.

Under this perspective, one can appreciate how Brazil's foreign policy has been unfailingly centered on the search for equality at the international level, as well as on the promotion of our national values.

Brazil remains convinced that the consolidation of a strong multilateral system can lead to better protection of small and medium nations, from every perspective: political, security, economic, trade and so on and so forth.



At the same time, Brazil displayed intense negotiating efforts in order to promote the launching of a new round of multilateral trade negotiations under the aegis of the WTO. Trade negotiations, including the Mercosul-European Union project, conceived as an adjunct to the development process of Brazil, acquired a central role in the formulation and implementation of our foreign policy as a whole. Unfortunately, both the WTO and the EU-Mercosul negotiations have stalled under the crush of the recent financial crises. We are still hopeful, however, that they will eventually revive.

Since we encompass within our own territory most of the asymmetries that prevail in the international system, we endeavor to render our domestic public policies compatible with our international policies. We try to achieve internally what we advocate for the World at large. We are, however, aware that the pursuance of our economic and social development goals does not depend only on domestic reforms – it requires a fair, stable and prosperous international environment. That is why we have been trying to play an increasingly active role in the development of international rules and regimes. That is why we attach a great importance to the BRICS process.

Consistent with the notion that the overall objective of foreign policy is to transform domestic needs into international possibilities, Brazil continues to attach the utmost priority to multilateral fora as the *loci* “par excellence” for developing and implementing global governance. Despite their shortcomings, international organizations such as the UN and the WTO provide the most favorable environment for all countries, big and small, rich and poor, powerful and weak, to influence the development of international regimes, allowing democratic participation in international decision making. We have been trying very hard to promote a more effective participation of developing countries in key international organizations such as the UN, the WTO, WIPO, WHO, to name just a few. We advocate an inclusive procedure of consensus building based on regional blocks and on coalitions of variable geometry such as the G20 in the WTO. We want to strengthen the perception of shared interests and responsibilities by developed and developing countries towards global governance in the multilateral fora. We have also been actively participating in regional and inter-regional negotiations.

The BRICS have a crucial role to play in that regard!

The mechanisms of international cooperation as well as the processes of international organization have not evolved in keeping with emerging realities worldwide. Proof of that is the lack of progress in reforming the UN system. And so is our inability to fundamentally alter the international trading system, in accordance with the Doha Mandate. Today’s international scenario is characterized by a tendency towards fragmentation and its corollaries: rivalries, disputes and unilateralism.

As a major developing country, Brazil is trying to cope with its enormously complicated domestic agenda, while at the same time trying, on the one hand, to take advantage of the opportunities offered by today’s globalized economy and, on the other hand, to overcome the manifold obstacles we face in a world structure that is still impervious to change in many domains that penalize us like, for instance, trade. The fact is that the promotion of democracy in international relations remains an elusive goal.



As BRICS, we must all strive to increase the participation of developing countries in the decision-making bodies of multilateral institutions.

We do not propose a conflictive or confrontational agenda. But we cannot accept the logic of accommodation.

Against this background, expect Brazil:

- To continue to work towards the strengthening of multilateral institutions;
- To maintain a high profile in the debate of major global questions such as trade, environment, energy, human rights, fight against poverty, financial institutions;
- To persevere in consolidating traditional bilateral partnerships, while forging new ones designed to handle specific agendas, as opposed to heterogeneous alliances around generic objectives;
 - To strive to recover at the regional level the original impetus of the process set in motion by the Brazil-Argentina Treaty and the Mercosul.
 - To strongly advocate the strengthening of the BRICS process

We are aware of the fact that we dispose of very limited hard power to enforce our positions on global questions. But we do certainly have the possibility – better still the responsibility! – to look for solutions to our own problems in harmony – not in contradiction - with the world. Our foreign policy thus will continue to be formulated and implemented, as it has been in the past, in order to generate synergies between our domestic projects and the existing international opportunities, challenges and constraints.

Expect us, then, to remain focused on the search for Brazil's competitive insertion in the global economy and to define our alliances rather by positive opportunities than by antagonisms. We will continue to be moved essentially by pragmatism and common sense. Whatever we lack in hard power we will try to compensate for with the soft power of persuasion and a firm belief in the virtues of diplomacy to enhance the credibility and the sustainability of our demands for wider participation in the international decision making system.

At the same time, expect us to preserve our capacity to act under a values based vision of the World, centered on transplanting to the international level our own ideals of human rights, freedom and social inclusion.

As it reflects elements of change and continuity, foreign policy is an evolving process – a never-ending narrative. Despite all of the difficulties, we will continue to pursue the Brazilian dream. We are therefore committed to ensure that the international system provides justice, peace and prosperity for all. We remain convinced that History is essentially a journey towards something better.

Our History, the History of the developing countries, has not come to an end. Our vision is that it will have to improve. All over the World, there will be fewer conflicts, more prosperity and better social conditions.



The manifold challenges ahead of the BRICS go well beyond the individual interests of its members. We should aim in the long run at increasingly larger objectives such as the opening up of spaces of dialogue capable of leading to a broad systemic change in the international order. In other words: a more balanced, more relevant and in the long run an effective multilateralism: a really operative mechanism of cooperation towards more equitable system of global governance.

Brazil has thus a great interest in adding value to the BRICS process, so that it can indeed become an increasingly relevant actor in the configuration of the future - and hopefully more just - international order.

May this meeting succeed as an important step in that direction!

Thank you.



II. BRAZIL AND THE IMPACTS OF NEW PTAS

Vera Thorstensen
Lucas Ferraz¹

Summary and Conclusions

The World is facing a significant transformation process supported by new paradigms: revolutionary innovations in all fronts, new information technologies, huge and speedy mobility of capital, invention of risky financial tools, and globalization of production. The impacts of these phenomena on trade and trade activities are strong and drastic, leaving no much time for the postponement of decisions.

The trading system is facing serious challenges caused by these transformations: a mounting difficulty in concluding a 15 years old multilateral negotiation at the WTO, the multiplication of preferential agreements (PTAs), and the necessity to re-invent trade rules used to support global value chains.

With the difficulties encountered in the Doha Round to adapt the old trade rules to the new reality, the US and the EU decided to launch a new profile of PTAs, the mega-trade agreements, based in the TTIP and the TPP, enclosing half of World trade.

More than the reduction of tariffs, these mega-agreements aim to define a new structure and modalities for all kinds of non-tariff barriers to trade, along with new rules for important trade related issues such as investment, competition and new concerns as environment, climate, labor, food scarcity, animal welfare, private standards and a mounting consumer pressure.

Brazil, as a global but relatively small international trader, has opted for giving priority to the multilateral track, where it assumed it could influence the game and better defend its interests. However, the conclusion of the Doha Round is more difficult to achieve than expected.

In contrast, the majority of countries chose to pursue an alternative track: to increase their trade through negotiations of PTAs. This strategy, in one hand, creates new market opportunities, but in the other, results in the fragmentation of international trade regulation, creating conflicts and lack of transparency.

In this context, Brazil is now facing an international dilemma. Which strategy should it follow?

One alternative is to keep its current strategy of focusing in the multilateral forum and concentrating its preferential trade only with developing countries, in a South-South relation. However, the multilateral system is blocked and the South-South preferential trade is not

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producing significant results. Another alternative is an historical option, the integration with South America, started in the 60's, but that, till the present time, has produced limited achievements.

New options are being explored, the main one, the negotiation with the EU. This track, which started in 1995, passed through different phases and now is facing its decisive moment.

However, there is a new reality that must be confronted. The EU is changing its priorities from WTO and smaller PTAs to opt for a new challenge – a negotiation with its most controversial trade partner – the US. The creation of the TTIP is a revolutionary initiative to the trading system. It will surely benefit the two parts but, at the same time, will create a troublesome scenario for all other trade partners, because, due to its size, it will establish a new system of rules, probably in conflict with WTO because it will discriminate parts-in from parts-out of the PTA. This will occur in areas expanding WTO rules (WTO plus) as service and intellectual property, but also, with rules in new areas as environment, climate change, labor, investment and competition (WTO extra rules).

A study of the TTIP proposals, already in the table, demonstrates, quite clearly, that the main focus of this agreement will be on the elimination of non-tariff barriers and regulatory coherence. The most import proclaimed achievement will be the construction of the 21st Century Trade System. For the outsiders, this brings the concern on the role to be played by the WTO.

The Project

The objective of this project is to analyze alternative paths open to Brazil. The focus is to exam the impacts on sectorial GDP and trade balances of possible new PTAs to be envisaged by Brazil, aiming to answer the challenges of this new World.

The research considers several different alternatives to be explored by Brazil: the already launched negotiation of a PTA with the EU, a new attempt to revive a PTA with the US and the alternatives of PTAs with China, India and South Africa. It also explores an audacious alternative: a hypothetical participation of Brazil in the TTIP under a partial reduction of agricultural tariffs by the US and EU markets, and a full liberalization of their agricultural markets.

The results can be summarized in the following:

1 - For Brazil, comparing the alternatives of the PTAs with EU, US, China, India and South Africa the most balanced option, considering gains and losses in agriculture and industry, is an agreement with the US.

2 - A PTA with the EU, overall, is also positive. However, it brings a concentration of gains in the agricultural sector, impacting the exchange rate and magnifying the negative effects over the Brazilian industry. These losses can be neutralized with the inclusion of flexibilities in the negotiation, such as differential tariff cuts, transition periods and adequate rules of origin.



3 - A PTA with China, would also present positive results, although for a narrower number of sectors if compared to the ones observed in the US and EU PTAs. Losses tend to be concentrated in labor intensive sectors.

4 - The PTAs with India and South Africa present overall positive results, indicating gains and losses for different sectors. More ambitious negotiation with each of them could be envisaged. Nevertheless, the negotiations with Brazil's major partners – the EU and the US, certainly, offer more robust results.

5 - These results have important messages to the Brazilian Foreign Trade Policy. The trade agreement with the EU, already on the table, should be concluded. The trade agreement with the US, swept off the table, should be reconsidered, due to the potential positive economic effects they can bring to Brazil. The PTA with the EU concentrates its gains in agriculture. The agreement with the US offers more balanced gains between industry and agriculture.

6 – The success of both trade agreements depends on the accomplishment of tasks by both industry and Government: the Brazilian industry should concentrate efforts to promote its competitiveness, and the Government should implement policies to support this goal, such as, the reduction of the tax burden, the reduction of energy costs, the qualification of the labor force, and a more conservative fiscal policy in order to promote a more competitive real exchange rate.

7 - The audacious hypothesis of including Brazil as a part of the TTIP presents a substantial gain for agriculture, but as expected, substantial losses for several industrial sectors. To make this hypothesis viable, Brazilian industry must face an arduous task to improve its competitiveness, and the Government must also play an important role through active economic policies.

In synthesis, the most important messages revealed by the results are:

The economic interests of Brazil in the international arena cannot be restrained to South America. The negotiations with important players such as the EU and also the US should receive a more supportive approach by Brazilian policy makers, in order to improve our access in these two large markets. The gains for agriculture will be impressive but the costs to industry should be attenuated.

The conclusion of TTIP by EU and US will represent a serious threat to Brazil. Not only it will be left behind in the advances of international trade, but it will lose its present role as relevant global rule maker, accepting a secondary role of passive rule taker.

It is time for action!



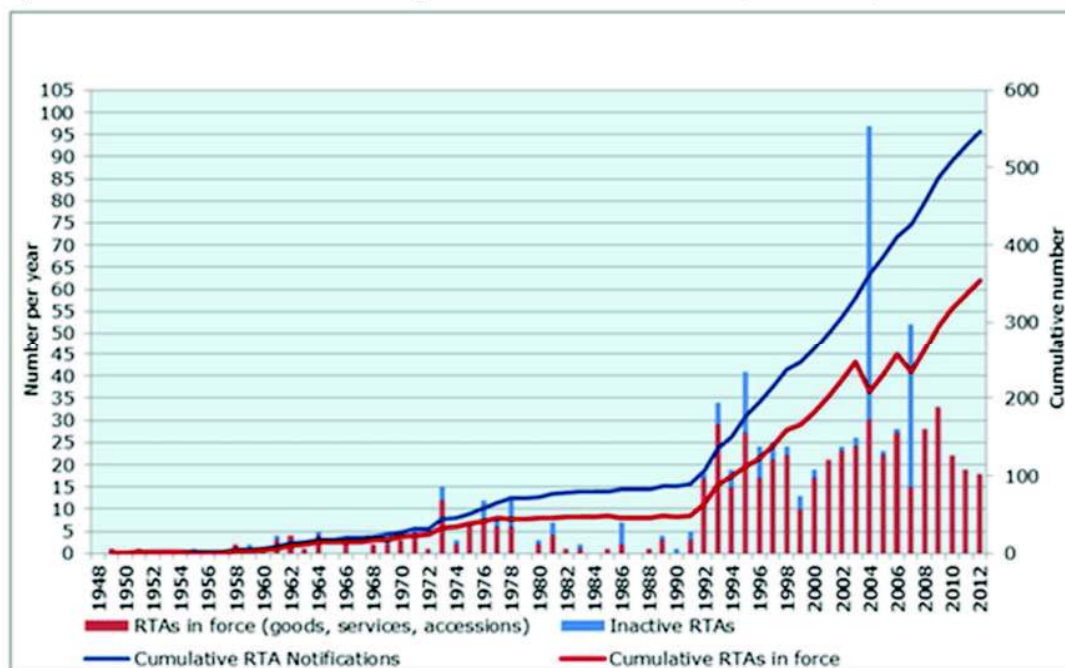
Section 1

I. INTRODUCTION

International trade is under a significant and complex change process. It represents a great challenge to Brazilian Foreign Trade Policy. The dead-lock in multilateral negotiations under the World Trade Organization's (WTO) Doha Round has lead major players in international trade, notably the United States (US) and the European Union (EU) to focus on the negotiation of preferential trade agreements (PTAs), where they could advance trade rules, lower trade barriers and promote integration with their partners, signaling the rules they want for the present century.

As the WTO graphic shows, there has been a huge increase in the number of Preferential Trade Arrangements (PTAs) in the past years, pointing to the importance that these agreements have acquired in the regulation of international trade flows. See Figure 1 below:

Figure 1 – Preferential Trade Agreements notifications (1948-2012)



Source: WTO Secretariat.

The first generation of PTAs had as objective the reduction or the elimination of tariffs in goods between its partners. This preferential access could either increase international trade flows, due to the market liberalization promoted by the agreement (trade creation) or to divert flows from more competitive players (trade diversion).

The following generation of PTAs has promoted, besides tariff reductions, the negotiation of rules on subjects not fully dealt by the multilateral system, establishing a relevant framework



of trade regulation on the regional level, that affected not only the partners of the respective PTA, but also influenced multilateral negotiations.

The current generation of PTAs keeps the trends of the previous agreements, but in a deeper process. These deep-integration PTAs promote a greater coordination and harmonization between trade partners, facilitating the establishment of production chains on the regional level, contributing to the major phenomenon of trade in the 21st century: global value chains.

This proliferation of PTAs, with rules that promote deep-integration between partners has an important effect in international trade flows, since countries that participate in these agreements have a wider market access, provided both by the reduction of tariff and non-tariff barriers, as well as harmonization of trade rules, trade facilitation, amongst others. In the other hand, countries that do not participate in any PTA tend to suffer loss in their share of exports to other countries, because products from preferential partners have a preferential access, and can be more competitive when enjoying the benefits conferred by the PTA.

For many years Brazil has prioritized multilateral negotiations in detriment of preferential ones. The rationale behind this option was that the country would have a greater bargaining power if negotiating in the multilateral forum together with other developing countries. But with the stalemate of the Doha Round, Brazil needs to change its strategy and reformulate its Trade Policy. Two are the priorities deserving a deep discussion: the participation of Brazil in new PTAs and the participation of Brazil in a world of global value chains. Immobilization will result in the isolation of Brazil in international trade.

Besides the Mercosul, Brazil has signed PTAs with Chile, Bolivia, Guyana, Suriname, Mexico, Peru, Colombia, Ecuador, Venezuela, Cuba, India, Israel, SACU², Egypt and Palestine³. Most of these agreements do not present significant innovations on trade regulation and some, as the PTA with India and South Africa, only provide preferential tariffs on a small number of products. Regarding trade in services, only the PTA with Chili presents a list of concessions. Mercosul is negotiating a FTA with the EU since 1995, but no conclusion is foreseeable till now.

The lack of a deeper integration of Brazil with its preferential partners and the absence of agreements with the country's major trade partners, notably the US and the EU, raise great concern about Brazil's future integration in this new trade world.

The negotiation of new PTAs by Brazil faces another challenge. The Decision n. 32/200 of the Common Market states that, since Mercosul is a customs union, with a common external tariff, the members of the bloc must negotiate trade agreements that include preferential tariffs conjointly. This implies a need to coordinate positions with the other members of the bloc, before it can negotiate new PTAs with external trade partners. This coordination may be difficult, especially with Argentina, facing a serious economic crisis and currently pursuing a more protectionist trade policy. Argentina, clearly, is against any further market liberalization.

² Southern African Customs Union – South Africa, Botswana, Lesotho, Namibia and Swaziland

³ The agreements with SACU, Egypt and Palestine are not yet in force.



This study will present simulations of PTAs with the most important trade partners of Brazil: US, EU, China, India and South Africa, as well as an eventual accession of Brazil to the TTIP, in order to evaluate the impacts each agreement could have on each sector of the Brazilian economy. Based on such simulations, it will be possible to analyze which of these agreements should be seen as a priority to Brazil.

II. TRADE PROFILE OF SELECTED TRADE PARTNERS

This analysis will begin with an overview of Brazil's imports and exports with its main partners: the US, the EU compared with China and South America countries as a group.

In 2012, Brazilian international trade flow registered US\$ 465,7 billion, which represented a decrease of 3.4 percent compared to the previous year, when the trade flow achieved was US\$ 482,2 billion (see Table 1).

Regarding Brazilian exports, it represented, in 2012, US\$ 242,5 billion, while its imports accounted for US\$ 223,1 billion. If compared to the previous year, in 2012 there was a retraction of 5.3 percent in the country's exports, while its imports presented a drop of 1.4 percent.

Table 1 – Brazil: Trade Balance (US\$ billion)

	2008	2009	2010	2011	2012
Exports	197.9	153.0	201.9	256.0	242.5
Imports	173.2	127.6	181.7	226.2	223.1
Trade Flow	371.1	281.0	383.6	482.2	465.7

Source: SECEX/MDIC.

The main destinies of Brazilian exports are: China, with a share of 17.0% of all Brazilian exports; US with 11.1%, Argentina with 7.4%; the Netherlands with 6.2%; and Japan with 3.3%. The EU accounts for 20.1% of all Brazilian exports.

The main origins of Brazilian imports are: China, with a share of 15.4% of all Brazilian imports; US with 14.6%; Argentina 7.4% share; Germany with 6.4%; and Korea with 4.1%. The EU accounts for 21.4% of all Brazilian imports⁴.

Considering exports for the US, the EU, China and South America, it is possible to infer that there is a huge increase of Brazilian exports to China, with a growth of 149.7% in the past five years, while exports to the EU and South America had a modest increase of, respectively, 5.4% and 4.7% in the past five years, while exports to the US had a decrease of 3.6% (see Table 2).

⁴ Cf. SECEX/MDIC.

Table 2 – Brazil: Exports to the US, the EU, S. America and China (2008-2012)

	US		EU		South America		China		Total	
	US\$ bi	% ¹	US\$ bi	% ¹	US\$ bi	% ¹	US\$ bi	% ¹	US\$ bi	% ¹
2008	27.4	9.4	46.4	14.76	38.4	20.25	16.5	53.72	197.9	23.21
2009	15.6	- 43.1	34.0	-26.6	27.0	-29.6	21.0	27.12	153.0	-22.7
2010	19.3	23.8	43.1	26.7	37.2	37.6	30.8	46.6	201.9	32.0
2011	25.8	33.7	52.9	22.7	45.3	21.8	44.3	43.9	256.0	26.8
2012	26.7	3.5	48.9	-7.7	40.2	-11.2	41.2	-7.0	242.6	-5.26

Source: SECEX/MDIC. ¹0: Variation related to the previous year.

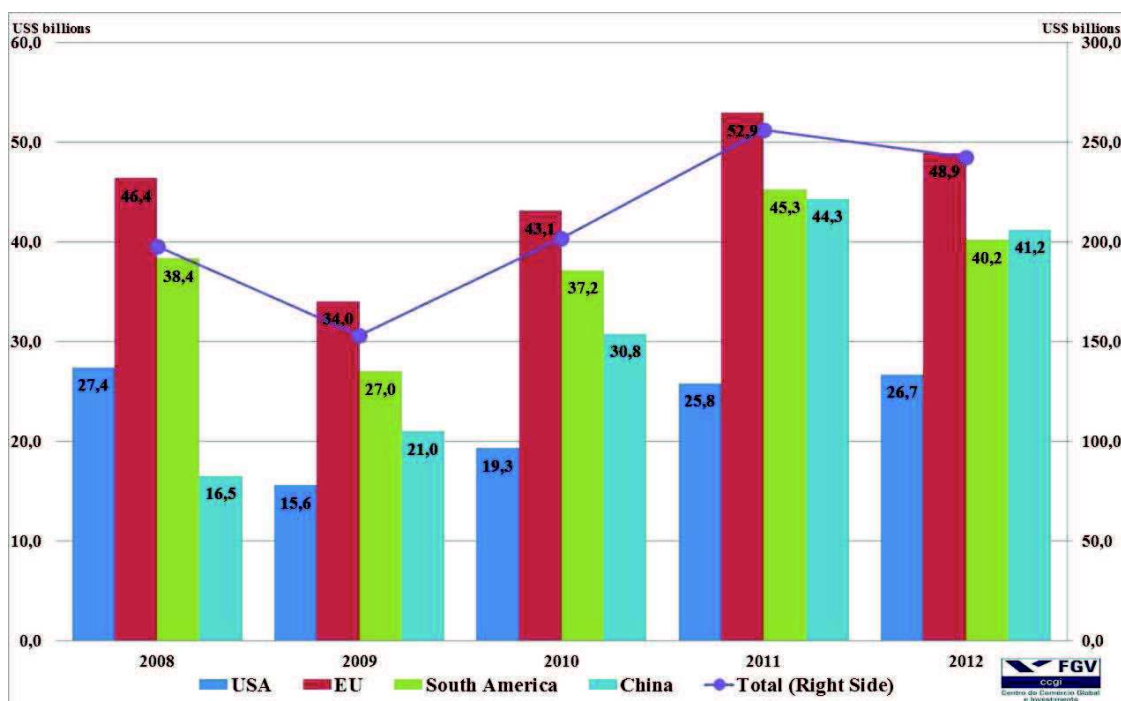
Regarding Brazilian exports, one can notice that the participation of the US (from 13.9% in 2008 to 11% in 2012), the EU (from 23.4% in 2008 to 20.1% in 2012), and South America (from 19.4% in 2008 to 16.6% in 2012) were reduced by approximately 3 percent; in turn, the Chinese participation increased by about 8% (from 8.4% in 2008 to 17% in 2012), which demonstrates the importance of trade with Chinese partners (see Table 3 and Chart 1).

Table 3 – Brazil: Share of Exports (%)

	US	EU	China	South America
2008	13.9	23.4	8.4	19.4
2009	10.2	22.3	13.7	17.7
2010	9.6	21.4	15.3	18.4
2011	10.1	20.7	17.3	17.7
2012	11.0	20.1	17.0	16.6

Source: SECEX/MDIC.

Chart 1 – Brazil: Foreign Trade – Exports (2008-2012)



Source: SECEX/MDIC. Elaborated by CGTI.

Analyzing Brazilian imports in the period of 2008-2012, it is possible to realize that there was a significant growth of imports from China (71.0%), while imports from US had an increase of 26.6%; imports from the EU had a growth of 31.8% and imports from South America increased in 26.6% (see Table 4).

Table 4 – Brazil: Imports from US, EU, S. America and China (2008-2012)

	US		EU		South America		China		Total	
	US\$ bi	% ¹	US\$ bi	% ¹	US\$ bi	% ¹	US\$ bi	% ¹	US\$ bi	% ¹
2008	25.6	36.9	36.2	35.3	24.1	30.4	20.0	58.8	173.0	43.4
2009	20.0	-21.8	29.2	-19.2	19.1	-20.8	15.9	-20.6	127.7	-
2010	27.0	35.0	39.1	33.9	25.9	35.6	25.6	60.9	181.8	42.3
2011	34.0	25.6	46.4	18.7	30.9	19.3	32.8	28.1	226.2	24.5
2012	32.4	-4.8	47.7	2.7	30.5	-1.2	34.2	4.5	223.1	-1.4

Source: SECEX/MDIC. ¹ %: Variation related to the previous year.

It is worth to be noted that, the average share of the major trade partners in Brazilian imports was maintained during the period of 2008 to 2012 (US: 14.9 – 14.5%; EU: 20.9 – 21.4%; South America: 14.0 – 13.7%), with the exception of China, which jumped from 11% in 2008 to 15.4% in 2012 (see Table 5).

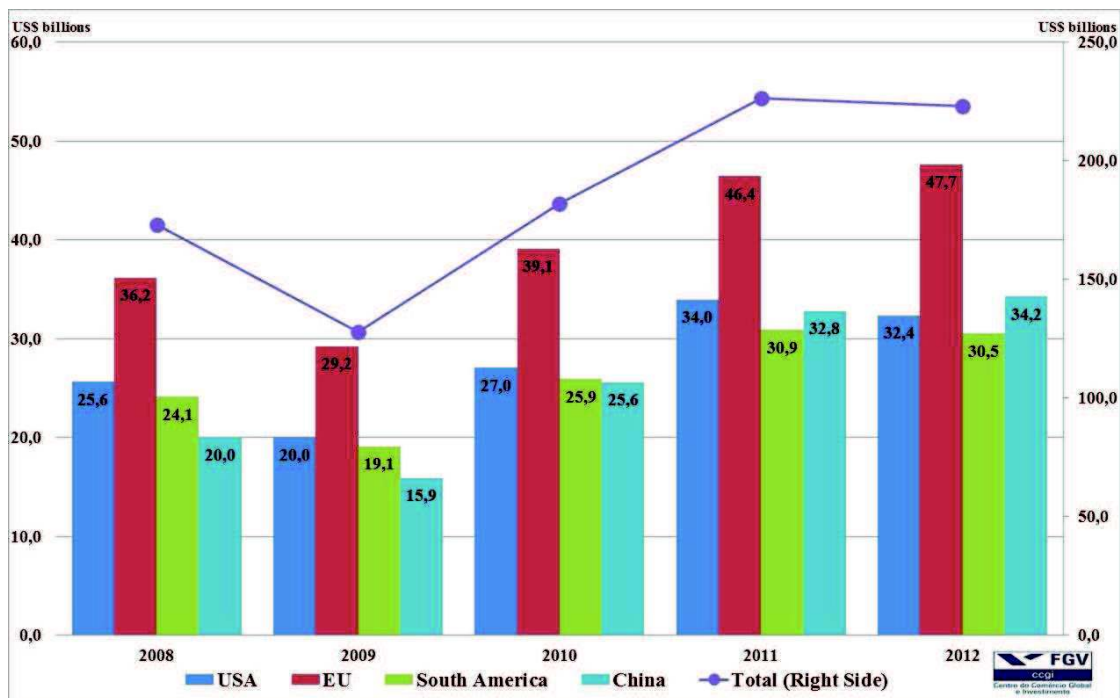
Table 5 – Brazil: Share of Imports (%)

	US	EU	China	South America
2008	14.9	20.9	11.6	14.0
2009	15.7	22.9	12.5	15.0
2010	14.9	21.5	14.1	14.3
2011	15.0	20.5	14.5	13.7
2012	14.5	21.4	15.4	13.7

Source: SECEX/MDIC.

It is possible to infer that both imports and exports have increased since 2008. In 2009, the period of the worldwide economic crisis, it can be observed the retraction of trade with all Brazilian trading partners here analyzed. Yet, in 2010, there was an economic upturn, and the trade flow was recovered (see Chart 2).

Chart 2 – Brazil: Foreign Trade – Imports (2008-2012)



Source: SECEX/MDIC. Elaborated by CGTI.



III. SIMULATIONS: POSSIBLE PTAS OF BRAZIL WITH US, EU, TTIP, CHINA, INDIA AND SOUTH AFRICA.

In this Section the construction of different scenarios are simulated, considering the following sectors: agriculture, industry and services.

Simulation 1 compares the impacts on Brazil of PTAs with US and EU. The hypothesis assumed in this exercise is, on the one hand, a partial liberalization for agriculture, with a 50% reduction of tariff barriers for the US and EU and full liberalization for all other tariffs.

Simulation 2 presents the audacious scenario of Brazil adhering to the TTIP, under the hypothesis of 50% tariff reduction on agriculture and full liberalization for industry of the US and EU markets, full liberalization in agriculture and 50% tariff reduction for the industry, in the Brazilian market.

Finally, Simulation 3 presents the impacts of Brazil negotiating with some of the BRICS countries (China, India and South Africa), considering the following scenarios. For the PTA with China, 50% for the Brazilian industry and full liberalization for all other tariffs; for the PTAs with India, 50% liberalization in the Indian agricultural market, 50% liberalization of the Brazilian industry and a full liberalization for all other tariffs; and for the PTAs with South Africa, a full liberalization is considered.

Section 2

I. MODELING ISSUES

The GTAP computable general equilibrium model was used in the present simulations in order to evaluate the first round effects of alternative preferential trade agreements involving Brazil and each of the possible partners. For a description of the standard GTAP model, see Hertel (1997).

The GTAP model is a global comparative static applied general equilibrium model. The model identifies 57 sectors in 153 regions of the world. Its system of equations is based on microeconomic foundations providing a detailed specification of household and perfect competitive firm behavior within individual regions and trade linkages between regions. In addition to trade flows the GTAP model also recognizes global transportation costs.

The GTAP model qualifies as a Johansen-type model. This model estimates the impacts of external shocks (gains and losses of a PTA) through a comparative static modeling (before and after the shock). The solutions are obtained by solving the system of linearized equations of the model. A typical result shows the percentage change in the set of endogenous variables (GDP, exports and imports, exchange rate and land value) after a policy shock is carried out, compared to their values in the initial equilibrium, in a given environment. The schematic presentation of Johansen solutions for such models is standard in the literature (see Dixon et al (1992) and Dixon and Parmenter (1996)).

For the modeling of the reduction of non-tariff barriers, this project used the same methodology presented in Ecorys, 2009.

II. DATA BASE

The GTAP 8 database combines detailed bilateral trade, transport and protection data characterizing economic linkages among 129 regions, together with individual country input-output data bases which account for inter-sectorial linkages within regions. The dataset is harmonized and completed with additional sources to provide the most accurate description of the world economy in 2007 (the last available data base for GTAP).

The main applied protection data used in the GTAP 8 data base originates from ITC's MacMap database, which contains exhaustive information at the tariff line level. The ITC database includes the United Nations Conference on Trade and Development's (UNCTAD's) Trade Analysis and information system (TRAINS) data base, to which ITC staff added their own data. The model transforms all specific tariffs in ad valorem tariffs.

In order to capture the first round effects from each preferential trade agreement, the simulations were carried out using a standard GTAP hypothesis, which considers perfect factor mobility for labor and capital and imperfect factor mobility for land and natural resources.



National aggregate supply of factors of production is exogenous and production technology for firms is given.

The way the Brazilian economy variables are affected by horizontal reductions in bilateral import tariffs will depend on the resulting behavior of domestic relative prices. However, in all scenarios under consideration domestic relative prices will be altered in such a way that import competition from the PTA partner will be favored, as the economy becomes more preferentially open to trade. Overall efficiency in resource allocation tends to be improved and, by the same token, possible gains from trade may take national welfare a step up.

Notwithstanding the aggregate benefits from improved resource allocation, regions might be adversely affected through re-orientation of trade flows – trade diversion – as relative accessibility changes in the system. Thus bilateral aggregate gains from trade are not necessarily accompanied by generalized regional gains in welfare. This issue of trade diversion versus trade creation has been an important one in the international trade literature, especially in the case of welfare evaluations of preferential trade agreements.

III. RESULTS OF THE SIMULATIONS

The results in these simulations present the impacts for exports and imports, as well as the gains and losses for the sectorial GDP, in order to evidence the sensitiveness of each sector of the Brazilian economy in relation to a possible PTA negotiation.

The choice for impacts on sectorial GDP can be explained as an attempt to explore the global effect of each PTA in a more complete evaluation since GDP includes the impacts on production, exports and imports.

The sectorial results are presented according to the following classification:

Variation on GDP (%)	Classification
0 – 1	(+) or (-)
1 – 2	(++) or (--)
2 – 3	(+++)
More than 3	(++++)

In this section, the main results from the simulations are presented.

A. Simulation 1– Brazil x US – EU

This simulation compares benefits and costs for Brazil after the negotiations of PTAs with the US and the EU.

The hypotheses assumed for the US and the EU are a partial liberalization on agriculture with a tariff reduction of 50%, and a full liberalization on industry.



Results

Comparing the four agreements, Brazilian exports to the PTA partner increase by 20% for the PTA with the EU and 10% for the PTA with the US. Brazilian bilateral imports increase by 43% for the PTA with the EU and by 43% for the US.

Considering the values given by Secex for the year of 2012 (US\$ F.O.B.), this would correspond to an increase of: US\$10.0 billion in exports to the EU and US\$2.6 billion in exports to the US. Regarding imports, the increase would be of US\$20.4 billion in imports from the EU and US\$13.9 billion in imports from the US.

With a PTA with the EU there is a significant increase in the exports of agricultural products, which explains the gains in the land value and the valorization of the Brazilian real exchange rate. The effect on the exchange rate has as impact the increase of industrial imports from the EU.

Simulation 1- Brazil x US – EU – China - SA: Macro economic variables

Macroeconomic Variables	EU 27	US
Increase in bilateral exports (US\$ mi, F.O.B., 2012)	9,967	2,590
Increase in bilateral exports %	20.4%	9.7%
Increase in bilateral imports (US\$ mi, F.O.B., 2012)	20,447	13,946
Increase in bilateral imports %	42.9%	43.1%
Terms of trade	0.2%	-0.3%
Real wage	0.0%	0.0%
Capital gains	0.2%	0.1%
Land gains	15.2%	2.8%
Real exchange rate	0.4%	-0.2%

Source: CGTI-FGV

In the sectorial analysis, the simulation presents the following results for each sectorial GDP:

For the agricultural sector, the PTAs with the US and the EU present positive results for almost all sectors, with more expressive gains for the EU.

For the industry, the PTA with the US is the one that presents the better results for Brazil. The negative results for the EU can be explained by the Brazilian real overvaluation, caused by the increase in the agricultural exports.



Simulation 1– Brazil x US – EU –China - SA: Sectorial Analysis

	EU 27	US
Agriculture	15	18
Industry	5	14
Services	0	5
+	10	32
++	4	4
+++	1	0
++++	5	1
Total	20	37

Source: CGTI-FGV.

B. Simulation 2 – Impacts of the participation of Brazil on the TTIP

This simulation presents the impacts to the Brazilian economy of a hypothetical participation of the country in the negotiations of the TTIP.

The hypothesis assumed for this participation is 50% liberalization of EU and US's agricultural sectors, 50% liberalization of Brazil's industry and 50% reduction of non-tariff barriers for all partners.

Results

When Brazil adheres to the TTIP, Brazilian exports to the US and EU increase by 67,6%, corresponding to US\$ 51,1 billion⁵, while Brazilian imports from these partners increase by 52,9%, corresponding to US\$ 42.3 billion⁶

In the TTIP, there is a very expressive increase in the exports of agricultural products, which explains the gains in the land value and the valorization of the Brazilian real.

⁵ Values from Secex (US\$ F.O.B.) for 2012

⁶ Values from Secex (US\$ F.O.B.) for 2012

Simulation 2 – Impacts of the participation of Brazil on the TTIP - Macroeconomic Variables

Macroeconomic Variables	TTIP + Brazil (50% ag + 50% ind. + 50% NTB)
Increase in bilateral exports (US\$ mi, F.O.B., 2012)	51,079
Increase in bilateral exports %	67,6%
Increase in bilateral imports (US\$ mi, F.O.B., 2012)	42,330
Increase in bilateral imports %	52,9%
Terms of trade	5,4%
Real wage	1,0%
Capital gains	1,2%
Land gains	57,9%
Real exchange rate	6,3%

Source: CGTI-FGV.

In the sectorial analysis, the simulation presents the following results for each sectorial GDP:

In a scenario of participation of Brazil in the TTIP, there are highly expressive gains for the majority of agricultural sectors in all three scenarios. This presents the greatest costs of opportunity of Brazil remaining outside the Trans-Atlantic integration process.

For the industry, when Brazil participates in the TTIP, there are significant losses for the majority of Brazil's industrial sectors in all cases, explained by the impact of the exchange rate.

Simulation 2 – Impacts of of the participation of Brazil on the TTIP - Sectorial Analysis

	TTIP + Brazil (50% ag + 50% ind. + 50% NTB)
Agriculture	12
Industry	4
Services	6
+	7
++	4
+++	0
++++	11
Total	22

Source: CGTI-FGV.



C. Simulation 3 – Brazil x China – India – South Africa

This simulation presents the impacts for Brazil of negotiations of PTAs with: China, India and South Africa

The hypotheses assumed are: (i) for the PTA with China, 50% reduction of Brazilian industrial tariffs and full liberalization of all other tariffs; (ii) for the PTA with India, 50% liberalization in the agricultural sector of the Indian market, 50% liberalization in the Brazilian industrial sector, and a full liberalization for all other tariffs; and (iii) for the PTA with South Africa, full liberalization in all sectors.

Results

Comparing the four agreements, Brazilian exports increase by: 12% for the PTA with China, 87% for the PTA with India, 60% for the PTA with South Africa. Brazilian imports increase by 36% for the PTA with the China, 10% for the PTA with India and 71% for the PTA with South Africa.

Considering the values given by Secex for the year of 2012 (US\$ F.O.B.), this would correspond to an increase of: US\$4,8 billion in exports to China; US\$4.9 billion in exports to India and US\$1.0 billion in exports to South Africa. Regarding imports, the increase would be of US\$12,4 billion in imports from China; US\$0.5 billion in imports from India and US\$0.6 billion in exports from South Africa .

Simulation 3 – Brazil x Canada – Japan – South Korea – Mexico – India – South Africa: Macroeconomic outlook

Macroeconomic Variables	China	India	South Africa
Increase in bilateral exports (US\$ mi, F.O.B., 2012)	4,782	4,874	1,053
Increase in bilateral exports %	11.6%	87,4%	59,7%
Increase in bilateral imports (US\$ mi, F.O.B., 2012)	12,432	519	600
Increase in bilateral imports %	36,3%	10,3%	70,8%
Terms of trade	0,0%	0,1%	0,1%
Real wage	0,0%	0,0%	0,0%
Capital gains	0,1%	0,0%	0,0%
Land gains	1,8%	0,1%	0,2%
Real exchange rate	0,0%	0,1%	0,1%

Source: CGTI-FGV.



In the sectorial analysis, the simulation presents the following results for each sectorial GDP:

For the agricultural sector, the PTA with China presents positive results for almost all sectors, while the PTA with India presents very expressive gains concentrated in few sectors. The PTA with South Africa presents small losses for the majority of sectors.

For the industry, the PTA with China presents positive results for several sectors, while the PTAs with India and South Africa present small losses for the majority of sectors.

**Simulation 7 – Brazil x Canada – Japan – South Korea – Mexico – India – South Africa:
Summary of gains: GDP by sector**

	China	India	South Africa
Agriculture	13	5	6
Industry	12	3	4
Services	5	5	2
+	28	11	12
++	2	1	0
+++	0	0	0
++++	0	1	0
Total	30	13	12

Source: CGTI-FGV.



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ANNEX I – SIMULATIONS

I. Simulation 1 – Brazil x US – EU

Hypothesis: US and EU – Partial liberalization on Agriculture + Agribusiness = 50% reduction
Full liberalization on Industry

Table I.1 – Variation on GDP by sector (%) – Agriculture

Agricultura	EU 27	US
Paddy rice	0,06	0,02
Wheat	0,51	0,08
Other cereals	1,60	0,22
Vegetables/fruits	1,76	0,22
Oil seeds	-0,06	0,30
Sugar (cane&beet)	2,16	0,44
Plant fibres	-0,65	0,73
Other crops (unprepared)	0,50	1,32
Cattle, horses, sheeps	11,81	0,38
Animal products	4,77	0,37
Raw milk	-0,09	-0,02
Wool, silk	-0,04	0,02
Forestry products	0,03	0,36
Meat: cattle, sheeps, horses	14,89	0,46
Meat products	9,11	0,68
Vegetables oils and fats	0,34	0,29
Processed rice	0	0
Sugar	3,47	0,85
Food products (animal feed)	1,36	0,17
Beverage, Tobacco products	0,09	0,01

Source: CGTI-FGV.



Simulation 1 – Brazil x US – EU

Hypothesis: US and EU – Partial liberalization on Agriculture + Agribusiness = 50% reduction
Full liberalization on Industry

Table I.2 – Variation on GDP by sector (%) – Industry

Industry	EU 27	US
Extractive		
Fishing	0,14	0,01
Coal	-0,01	0,18
Oil	-0,05	0,14
Gas	-0,14	0,09
Minerals	-0,27	0,19
Manufacturing		
Textiles	-0,92	1,08
Apparel	-0,15	0,32
Leather products	1,72	6,29
Wood products	0,62	1,19
Paper products	-0,66	0,00
Petroleum products	-0,09	0,14
Chemical, rubber, plastics	-1,38	-0,68
Mineral (non-metallic)	-0,58	0,94
Iron, steel	-2,13	-0,11
Metals (non-ferrous)	0,52	0,85
Metal products	-2,78	-0,67
Motor vehicles and parts	-0,92	0,16
Transport equipment	0,75	1,56
Electronic equipment	-0,72	-0,75
Machinery and equipment	-5,22	-2,09
Manufactures	-0,51	-0,42

Source: CGTI-FGV.



Simulation 1 – Brazil x US – EU

Hypothesis: US and EU – Partial liberalization on Agriculture + Agribusiness = 50% reduction
Full liberalization on Industry + Services

Table I.3 – Summary of gains - GDP by sector

	EU 27	US
Agriculture	15	18
Industry	5	14
Services	0	5
+	10	32
++	4	4
+++	1	0
++++	5	1
Total	20	37

Source: CGTI-FGV.

Table I.4 – Macroeconomic outlook

Macroeconomic Variables	EU 27	US
Increase in bilateral exports (US\$ mi, F.O.B., 2012)	9,967	2,590
Increase in bilateral exports %	20.4%	9.7%
Increase in bilateral imports (US\$ mi, F.O.B., 2012)	20,447	13,946
Increase in bilateral imports %	42.9%	43.1%
Terms of trade	0.2%	-0.3%
Real wage	0.0%	0.0%
Capital gains	0.2%	0.1%
Land gains	15.2%	2.8%
Real exchange rate	0.4%	-0.2%

Source: CGTI-FGV.



Simulation 1 – Brazil x US – EU

Table I.5 – Trade Balance: Agriculture

Hypothesis: US and EU – Partial liberalization on Agriculture + Agribusiness = 50% reduction
Full liberalization on Industry + Services

Agriculture	EU 27			US		
	Δ Trade balance (US\$ Million)	% Exports	% Imports	Δ Trade balance (US\$ Million)	% Exports	% Imports
Paddy rice	-1,2	11,76	1,92	0,4	8,95	-0,52
Wheat	-28,68	-1,27	1,97	-2,1	3,07	0,21
Other cereals	9,07	0,8	4,13	3,36	0,15	-0,02
Vegetables/fruits	47,88	6,69	2,27	3,2	0,47	0,19
Oil seeds	-18,84	-0,27	0,56	11,68	0,17	-0,04
Sugar (cane&beet)	-0,2	-5,89	2,84	0	-0,01	0,05
Plant fibres	3,4	0,4	-1,07	-9,48	0,57	9,89
Other crops (unprepared)	102,34	1,96	4,02	374,09	6,54	2,66
Cattle, horses, sheeps	-39,43	-14,47	32,38	-0,19	-0,03	0,5
Animal products	-22,94	-3,56	8,06	-0,41	0,29	1,11
Raw milk	-0,02	-0,8	0,24	0,07	1,82	-1,12
Wool, silk	-1,32	-3,33	26,63	0,24	1,77	-1,18
Forestry products	-0,47	0,15	2,44	-0,46	0,43	2,76
Meat: cattle, sheeps, horses	3719,34	104,52	21,27	22,33	0,69	1,68
Meat products	1513,08	21,43	29,1	93,93	1,36	12,64
Vegetables oils and fats	-37,63	0,71	13,46	32,86	0,84	0,58
Processed rice	1,72	4,4	0,62	1,64	1,11	-0,47
Sugar	588,58	11,74	4,66	126,65	2,53	4,06
Food products (animal feed)	249,35	9,21	5,43	42,84	2,11	2,17
Beverage, Tobacco products	-4,42	4,11	9,79	8,8	0,6	0,11

Source: CGTI-FGV.



Simulation 1 – Brazil x US – EU - China – SA

Table I.6 – Trade Balance: Industry

Hypothesis: US and EU – Partial liberalization on Agriculture + Agribusiness = 50% reduction
Full liberalization on Industry + Services

Industry	EU 27			US		
	Δ Trade balance (US\$ Million)	% Exports	% Imports	Δ Trade balance (US\$ Million)	% Exports	% Imports
Extractive						
Fishing	0,62	3,34	0,60	0,64	0,72	-0,31
Coal	6,64	0,23	-0,53	-1,19	0,02	0,09
Oil	17,66	0,09	-0,15	-2,93	0,07	0,09
Gas	8,50	7,43	-0,87	2,09	2,45	-0,21
Minerals	32,56	0,01	-1,01	21,45	0,05	-0,36
Manufacturing						
Textiles	-138,57	5,32	7,75	139,26	16,7	4,09
Apparel	-49,15	18,67	20,32	57,64	28,68	6,35
Leather products	228,05	7,16	13,58	707,13	16,78	2,35
Wood products	103,86	4,80	26,69	126,68	3,55	7,39
Paper products	-200,78	0,37	12,83	-11,45	1,58	4,94
Petroleum products	61,79	0	-0,62	81,62	1,29	-0,07
Chemical, rubber, plastics	-1330,58	1,71	5,74	-864,54	3,34	4,70
Mineral (non-metallic)	-94,77	0,57	12,17	199,36	9,93	4,45
Iron, steel	-151,53	0,61	10,39	113,86	1,65	1,64
Metals (non-ferrous)	320,68	5,19	0,46	176,51	2,49	-0,4
Metal products	-677,68	0,18	32,27	-151,12	2,13	9,06
Motor vehicles and parts	-519,61	5,06	13,01	21,60	1,86	2,64
Transport equipment	47,91	2,32	1,04	100,87	4,00	1,52
Electronic equipment	-212,66	1,43	2,96	-309,6	3,49	4,81
Machinery and equipment	-2627,32	3,02	13,53	-1213,15	3,6	7,57
Manufactures	-114,21	0,74	14,42	-94,76	2,62	13,25

Source: CGTI-FGV.

II. Simulation 2 – Impacts of the participation of Brazil on the TTIP

Hypothesis 50% liberalization on agriculture (US and EU) + 50% liberalization on industry (Brazil) + NTBs (50%)

Table II.1 - Variation on GDP by sector (%): Agriculture

Agriculture	TTIP + Brazil (50% ag + 50% ind. + 50% NTB)
Paddy rice	-2,27
Wheat	-26,11
Other cereals	4,63
Vegetables/fruits	9,49
Oil seeds	1,28
Sugar (cane&beet)	1,35
Plant fibres	-10,15
Other crops (unprepared)	10,45
Cattle, horses, sheeps	28,92
Animal products	21,34
Raw milk	-2,91
Wool, silk	-0,57
Forestry products	-1,98
Meat: cattle, sheeps, horses	36,22
Meat products	41,73
Vegetables oils and fats	8,63
Processed rice	-0,51
Sugar	4,50
Food products (animal feed)	4,42
Beverage, Tobacco products	-0,66

Source: CGTI-FGV.



Simulation 2 – Impacts of the participation of Brazil on the TTIP

Hypothesis: 50% liberalization on agriculture (US and EU) + 50% liberalization on industry (Brazil) + NTBs (50%)

Table II.2 - Variation on GDP by sector (%): Industry

Industry	TTIP + Brazil (50% ag + 50% ind. + 50% NTB)
Extractive	
Fishing	0,61
Coal	-4,38
Oil	-0,61
Gas	-3,29
Minerals	-3,78
Manufacturing	
Textiles	-3,66
Apparel	1,05
Leather products	11,27
Wood products	-3,78
Paper products	-3,18
Petroleum products	-0,64
Chemical, rubber, plastics	-7,2
Mineral (non-metallic)	-1,16
Iron, steel	-6,95
Metals (non-ferrous)	-11,34
Metal products	-7,18
Motor vehicles and parts	-3,18
Transport equipment	0,66
Electronic equipment	-6,56
Machinery and equipment	-17,19
Manufactures	-1,07

Source: CGTI-FGV.



Simulation 2 – Impacts of the participation of Brazil on the TTIP

Hypothesis: 50% liberalization on agriculture (US and EU) + 50% liberalization on industry (Brazil) + NTBs (50%)

Table II.3 – Summary of gains: GDP by sector

TTIP + Brazil (50% ag + 50% ind. + 50% NTB)	
Agriculture	12
Industry	4
Services	6
+	7
++	4
+++	0
++++	11
Total	22

Source: CGTI-FGV.

Table II.4 – Macroeconomic outlook

Macroeconomic Variables	TTIP + Brazil (50% ag + 50% ind. + 50% NTB)
Increase in bilateral exports (US\$ mi, F.O.B., 2012)	51,079
Increase in bilateral exports %	67,6%
Increase in bilateral imports (US\$ mi, F.O.B., 2012)	42,330
Increase in bilateral imports %	52,9%
Terms of trade	5,4%
Real wage	1,0%
Capital gains	1,2%
Land gains	57,9%
Real exchange rate	6,3%

Source: CGTI-FGV.

Simulation 2 – Impacts of the participation of Brazil on the TTIP

Table II.5 – Trade balance – Agriculture

	TTIP + Brazil (50% ag + 50% ind. + 50%NTB)		
	Δ Trade balance (US\$ mi)	% Exports	% Imports
Agriculture			
Paddy rice	-58,93	286,09	91,74
Wheat	-349,37	-24,4	23,85
Other cereals	162,66	9,59	23,51
Vegetables/fruits	439,28	58,9	16,99
Oil seeds	215,41	3,53	41,43
Sugar (cane&beet)	-1,21	-34,73	22,8
Plant fibres	-160,79	-17,15	58,77
Other crops (unprepared)	3615,72	66,75	95,98
Cattle, horses, sheeps	-88,47	-28,18	107,08
Animal products	-34,56	3,7	37,12
Raw milk	0,63	104,1	46,86
Wool, silk	-14,33	62,39	597,59
Forestry products	13,95	91	48,92
Meat: cattle, sheeps, horses	9050,04	255,39	79,88
Meat products	7364,64	104,94	339,82
Vegetables oils and fats	1683,57	53,87	120,88
Processed rice	-37,58	0,57	19,72
Sugar	1152,52	23,04	60,86
Food products (animal feed)	1098,18	47,07	39,01
Beverage, Tobacco products	-26,68	7,07	19,49

Source: CGTI-FGV.



Simulation 2 – Impacts of the participation of Brazil on the TTIP

Table II.6 – Trade balance – Industry

Industry	TTIP + Brazil (50% ag + 50% ind. + 50%NTB)		
	Δ Trade balance (US\$ mi)	% Exports	% Imports
Extractive			
Fishing	-6,74	10,36	9,35
Coal	79,06	10,14	-6,27
Oil	306,42	26,1	14,84
Gas	31,34	40,32	-3,19
Minerals	89,74	-0,5	-6,45
Manufacturing			
Textiles	-438,62	23,22	27,97
Apparel	-15,57	74,38	47,29
Leather products	1505,9	41,38	46,47
Wood products	-108,43	0,92	36,82
Paper products	-802,87	-8,07	25,44
Petroleum products	772,06	13,96	0,37
Chemical, rubber, plastics	-5670,61	-2,78	20,07
Mineral (non-metallic)	63,71	15,5	34,75
Iron, steel	102,21	6,04	21,91
Metals (non-ferrous)	-198,77	-2,87	0,32
Metal products	-1142,44	-9,47	45,69
Motor vehicles and parts	-519	8,19	17,78
Transport equipment	570,2	22,71	8,69
Electronic equipment	-2169,63	-12,72	20,31
Machinery and equipment	-5244,75	6,11	27,05
Manufactures	-336,89	8,06	46,29

Source: CGTI-FGV.



III. Simulation 3 – Brazil x China – India – South Africa

Hypothesis: South Africa: Full liberalization

India - Agriculture (50% - India) + Industry (50% - Brazil)

China – Agriculture (100%) + Industry (50% - Brazil)

Table 3.1 - Variation on GDP by sector (%): Agriculture

Agriculture	China	India	South Africa
Paddy rice	0	-0,02	-0,01
Wheat	0,04	3,31	-0,09
Other cereals	0,04	-0,08	-0,01
Vegetables/fruits	-0,06	-0,08	0,00
Oil seeds	1,27	0,29	-0,04
Sugar (cane&beet)	0,51	0,02	-0,09
Plant fibres	0,92	-0,26	-0,08
Other crops (unprepared)	0,29	-0,08	-0,05
Cattle, horses, sheeps	0,08	-0,07	-0,03
Animal products	0,22	-0,13	0,20
Raw milk	0	-0,01	0,59
Wool, silk	-0,02	-0,01	0,00
Forestry products	-0,03	-0,10	-0,04
Meat: cattle, sheeps, horses	0,10	-0,08	-0,03
Meat products	0,43	-0,24	0,40
Vegetables oils and fats	0,88	1,35	0,15
Processed rice	0	-0,01	-0,01
Sugar	0,66	0,03	-0,09
Food products (animal feed)	0,09	-0,07	0,04
Beverage, Tobacco products	-0,01	-0,01	-0,01

Source: CGTI-FGV.



Simulation 3 – Brazil x China – India – South Africa

Hypothesis: South Africa: Full liberalization

India - Agriculture (50% - India) + Industry (50% - Brazil)

China – Agriculture (100%) + Industry (50% - Brazil)

Table 3.2 - Variation on GDP by sector (%): Industry

Industry	China	India	South Africa
Extrative			
Fishing	0,01	-0,01	0,00
Coal	0,03	-0,04	-0,05
Oil	0,02	-0,04	-0,04
Gas	0,01	-0,04	-0,06
Minerals	0,04	0,05	-0,09
Manufacturing			
Textiles	-1,57	-0,36	-0,04
Apparel	-0,40	-0,01	0,04
Leather products	1,92	-0,08	0,46
Wood products	-0,14	-0,22	-0,04
Paper products	0,02	-0,06	-0,07
Petroleum products	0,03	0,00	-0,02
Chemical, rubber, plastics	0,10	0,00	-0,09
Mineral (non-metallic)	-0,13	-0,02	0,03
Iron, steel	-0,11	0,44	-0,15
Metals (non-ferrous)	0,30	-0,26	-0,40
Metal products	-0,38	-0,02	-0,03
Motor vehicles and parts	0,15	-0,07	0,61
Transport equipment	0,29	-0,25	-0,26
Electronic equipment	-0,89	-0,09	-0,08
Machinery and equipment	-0,51	0,16	-0,13
Manufactures	-0,54	-0,01	-0,03

Source: CGTI-FGV.



Simulation 3 – Brazil x China – India – South Africa

Hypothesis: South Africa: Full liberalization

India - Agriculture (50% - India) + Industry (50% - Brazil)

China – Agriculture (100%) + Industry (50% - Brazil)

Table 3.3 – Summary of gains: GDP by sector

	China	India	South Africa
Agriculture	13	5	6
Industry	12	3	4
Services	5	5	2
+	28	11	12
++	2	1	0
+++	0	0	0
++++	0	1	0
Total	30	13	12

Source: CGTI-FGV.

Table 3.4 – Macroeconomic outlook

Macroeconomic Variables	China	India	South Africa
Increase in bilateral exports (US\$ mi, F.O.B., 2012)	4,782	4,874	1,053
Increase in bilateral exports %	11,6%	87,4%	59,7%
Increase in bilateral imports (US\$ mi, F.O.B., 2012)	12,432	519	600
Increase in bilateral imports %	36,3%	10,3%	70,8%
Terms of trade	0,0%	0,1%	0,1%
Real wage	0,0%	0,0%	0,0%
Capital gains	0,1%	0,0%	0,0%
Land gains	1,8%	0,1%	0,2%
Real exchange rate	0,0%	0,1%	0,1%

Source: CGTI-FGV.

Simulation 3 – Brazil x China – India – South Africa

Hypothesis: South Africa: Full liberalization

India - Agriculture (50% - India) + Industry (50% - Brazil)

China – Agriculture (100%) + Industry (50% - Brazil)

Table 3.5 – Trade balance – Agriculture

Agriculture	China			India			South Africa		
	Δ Trade balance (US\$ Million)	% Exports	% Imports	Δ Trade balance (US\$ million)	% Exports	% Imports	Δ Trade balance (US\$ million)	% Exports	% Imports
Paddy rice	-0,02	0,02	0,03	-0,26	-0,71	0,38	-0,25	-0,78	0,37
Wheat	-1,7	-0,11	0,12	43,04	315,11	3,58	-2,20	-0,41	0,14
Other cereals	-0,9	-0,03	0,12	-1,47	-0,07	0,02	-2,78	-0,11	0,19
Vegetables/fruits	-4,03	0,12	0,86	-1,46	-0,08	0,12	0,23	0,12	0,15
Oil seeds	160,53	2,36	2,75	-37,61	-0,52	2,32	-10,76	-0,15	0,36
Sugar (cane&beet)	-0,03	-0,96	0,58	-0,01	-0,38	0,28	-0,01	-0,18	0,11
Plant fibres	73,15	14,32	-0,22	1,44	0,19	-0,4	-1,18	-0,20	0,11
Other crops (unprepared)	84,09	1,48	0,8	-14,87	-0,15	2,12	-11,19	-0,17	0,33
Cattle, horses, sheeps	-0,32	-0,12	0,2	-0,32	-0,14	0,07	-0,44	-0,19	0,16
Animal products	-1,91	-0,03	1,41	0	0,01	0,04	-1,32	-0,24	0,37
Raw milk	0	-0,09	0,05	-0,02	-0,66	0,38	-0,1	-2,46	1,76
Wool, silk	-0,04	-0,42	-0,07	-0,14	-1,09	0,54	-0,14	-1,03	0,61
Forestry products	0,08	0,34	0,07	0,05	0,71	0,66	-0,11	-0,29	0,15
Meat: cattle, sheeps, horses	-4,77	-0,1	0,86	-16,15	-0,44	0,29	-11,26	-0,30	0,47
Meat products	68,22	0,98	7,16	-32,26	-0,45	0,32	71,10	1,01	1,49
Vegetables oils and fats	150,71	3,69	1,29	228,52	5,52	1,32	26,50	0,67	0,37
Processed rice	-0,07	0,03	0,04	-0,71	-0,35	0,25	-0,68	-0,38	0,22
Sugar	109,05	2,18	9,92	9,23	0,19	2,15	-9,29	-0,19	0,21
Food products (animal feed)	29,54	1,25	1,02	-17,72	-0,34	0,35	7,70	0,32	0,24
Beverage, Tobacco products	-0,72	-0,01	0,07	-2,34	-0,09	0,12	-3,10	-0,07	0,27

Source: CGTI-FGV.

Simulation 3 – Brazil x China – India – South Africa

Hypothesis: South Africa: Full liberalization

India - Agriculture (50% - India) + Industry (50% - Brazil)

China – Agriculture (100%) + Industry (50% - Brazil)

Table 3.6 – Trade balance – Industry

Industry	China			India			South Africa		
	Δ Trade balance (US\$ Million)	% Exports	% Imports	Δ Trade balance (US\$ million)	% Exports	% Imports	Δ Trade balance (US\$ million)	% Exports	% Imports
Extrative									
Fishing	-0,06	-0,02	0,04	-0,17	-0,07	0,12	-0,21	-0,11	0,14
Coal	-0,16	0,50	0,01	-1,17	-0,07	0,09	0,70	-0,02	-0,06
Oil	-6,78	-0,04	0,05	-12,82	-0,13	0,06	-7,48	-0,09	0,03
Gas	-0,40	-0,24	0,04	-0,72	-0,77	0,07	0,67	0,34	-0,07
Minerals	9,31	0,06	0,07	23,74	0,12	0,03	-2,41	-0,02	-0,07
Manufacturing									
Textiles	-207,95	2,33	8,58	-55,69	0,61	2,29	-8,37	0,80	0,73
Apparel	-91,21	2,74	18,68	-8,75	0,08	1,68	4,40	3,05	1,00
Leather products	226,89	9,15	28,42	-6,23	-0,09	0,41	55,62	1,41	0,85
Wood products	-2,11	0,30	3,78	-19,06	-0,4	0,36	0,49	0,04	0,34
Paper products	8,37	0,34	0,41	-18,10	-0,32	0,21	-20,26	-0,32	0,32
Petroleum products	-1,97	0,04	0,04	-9,33	0,01	0,10	4,14	0,02	-0,03
Chemical, rubber, plastics	75,98	2,03	0,60	2,81	0,93	0,40	-103,37	-0,16	0,32
Mineral (non-metallic)	-20,24	0,48	3,58	-2,51	0,08	0,51	6,30	0,43	0,46
Iron, steel	37,01	0,88	2,07	174,63	2,12	0,68	-71,83	-0,26	2,48
Metals (non-ferrous)	76,39	0,98	-0,35	-30,98	-0,41	0,11	-38,49	-0,47	0,21
Metal products	-90,68	1,26	5,42	-14,26	0,02	0,69	-7,40	0,16	0,49
Motor vehicles and parts	76,27	0,63	0,19	-29,19	-0,07	0,19	342,28	2,82	0,85
Transport equipment	35,05	1,14	0,35	-19,15	-0,36	0,01	-20,62	-0,39	0,01
Electronic equipment	-348,73	1,46	4,53	-38,95	-0,44	0,29	-39,58	-0,49	0,28
Machinery and equipment	-228,98	1,95	2,19	96,16	1,26	0,33	-56,64	0,02	0,27
Manufactures	-110,59	1,89	14,72	-6,69	0,28	1,00	-6,36	-0,24	0,62

Source: CGTI-FGV.

ANNEX II – GTAP Data Bases: Detailed Sectorial List

Number	Description
1	Paddy Rice: rice, husked and unhusked
2	Wheat: wheat and meslin
3	Other Grains: maize (corn), barley, rye, oats, other cereals
4	Veg & Fruit: vegetables, fruit vegetables, fruit and nuts, potatoes, cassava, truffles,
5	Oil Seeds: oil seeds and oleaginous fruit; soy beans, copra
6	Cane & Beet: sugar cane and sugar beet
7	Plant Fibres: cotton, flax, hemp, sisal and other raw vegetable materials used in textiles
8	Other Crops: live plants; cut flowers and flower buds; flower seeds and fruit seeds; vegetable seeds, beverage and spice crops, unmanufactured tobacco, cereal straw and husks, unprepared, whether or not chopped, ground, pressed or in the form of pellets; swedes, mangolds, fodder roots, hay, lucerne (alfalfa), clover, sainfoin, forage kale, lupines, vetches and similar forage products, whether or not in the form of pellets, plants and parts of plants used primarily in perfumery, in pharmacy, or for insecticidal, fungicidal or similar purposes, sugar beet seed and seeds of forage plants, other raw vegetable materials
9	Cattle: cattle, sheep, goats, horses, asses, mules, and hinnies; and semen thereof
10	Other Animal Products: swine, poultry and other live animals; eggs, in shell (fresh or cooked), natural honey, snails (fresh or preserved) except sea snails; frogs' legs, edible products of animal origin n.e.c., hides, skins and furskins, raw , insect waxes and spermaceti, whether or not refined or coloured
11	Raw milk
12	Wool: wool, silk, and other raw animal materials used in textile
13	Forestry: forestry, logging and related service activities
14	Fishing: hunting, trapping and game propagation including related service activities, fishing, fish farms; service activities incidental to fishing
15	Coal: mining and agglomeration of hard coal, lignite and peat
16	Oil: extraction of crude petroleum and natural gas (part), service activities incidental to oil and gas extraction excluding surveying (part)
17	Gas: extraction of crude petroleum and natural gas (part), service activities incidental to oil and gas extraction excluding surveying (part)
18	Other Mining: mining of metal ores, uranium, gems. other mining and quarrying
19	Cattle Meat: fresh or chilled meat and edible offal of cattle, sheep, goats, horses, asses, mules, and hinnies. raw fats or grease from any animal or bird.
20	Other Meat: pig meat and offal. preserves and preparations of meat, meat offal or blood, flours, meals and pellets of meat or inedible meat offal; greaves
21	Vegetable Oils: crude and refined oils of soya-bean, maize (corn),olive, sesame, ground-nut, olive, sunflower-seed, safflower, cotton-seed, rape, colza and canola, mustard, coconut palm, palm kernel, castor, tung jojoba, babassu and linseed, perhaps partly or wholly hydrogenated,inter-esterified, re-esterified or elaidinised. Also margarine and similar preparations, animal or vegetable waxes, fats and oils and their fractions, cotton linters, oil-cake and other solid residues resulting from the extraction of vegetable fats or oils; flours and meals of oil seeds or oleaginous fruits, except those of mustard; degreas and other residues resulting from the treatment of fatty substances or animal or vegetable waxes.
22	Milk: dairy products
23	Processed Rice: rice, semi- or wholly milled
24	Sugar
25	Other Food: prepared and preserved fish or vegetables, fruit juices and vegetable juices, prepared and preserved fruit and nuts, all cereal flours, groats, meal and pellets of wheat, cereal groats, meal and pellets n.e.c., other cereal grain products (including corn flakes), other vegetable flours and meals, mixes and doughs for the preparation of bakers' wares, starches and starch products; sugars and sugar syrups n.e.c., preparations used in animal feeding, bakery products, cocoa, chocolate and sugar confectionery, macaroni, noodles, couscous and similar farinaceous products, food products n.e.c.
26	Beverages and Tobacco products

27	Textiles: textiles and man-made fibres
28	Wearing Apparel: Clothing, dressing and dyeing of fur
29	Leather: tanning and dressing of leather; luggage, handbags, saddlery, harness and footwear
30	Lumber: wood and products of wood and cork, except furniture; articles of straw and plaiting materials
31	Paper & Paper Products: includes publishing, printing and reproduction of recorded media
32	Petroleum & Coke: coke oven products, refined petroleum products, processing of nuclear fuel
33	Chemical Rubber Products: basic chemicals, other chemical products, rubber and plastics products
34	Non-Metallic Minerals: cement, plaster, lime, gravel, concrete
35	Iron & Steel: basic production and casting
36	Non-Ferrous Metals: production and casting of copper, aluminium, zinc, lead, gold, and silver
37	Fabricated Metal Products: Sheet metal products, but not machinery and equipment
38	Motor vehicles and parts: cars, lorries, trailers and semi-trailers
39	Other Transport Equipment: Manufacture of other transport equipment
40	Electronic Equipment: office, accounting and computing machinery, radio, television and communication equipment and apparatus
41	Other Machinery & Equipment: electrical machinery and apparatus n.e.c., medical, precision and optical instruments, watches and clocks
42	Other Manufacturing: includes recycling
43	Electricity: production, collection and distribution
44	Gas Distribution: distribution of gaseous fuels through mains; steam and hot water supply
45	Water: collection, purification and distribution
46	Construction: building houses factories offices and roads
47	Trade: all retail sales; wholesale trade and commission trade; hotels and restaurants; repairs of motor vehicles and personal and household goods; retail sale of automotive fuel
48	Other Transport: road, rail ; pipelines, auxiliary transport activities; travel agencies
49	Water transport
50	Air transport
51	Communications: post and telecommunications
52	Other Financial Intermediation: includes auxiliary activities but not insurance and pension funding (see next)
53	Insurance: includes pension funding, except compulsory social security
54	Other Business Services: real estate, renting and business activities
55	Recreation & Other Services: recreational, cultural and sporting activities, other service activities; private households with employed persons (servants)
56	Other Services (Government): public administration and defense; compulsory social security, education, health and social work, sewage and refuse disposal, sanitation and similar activities, activities of membership organizations n.e.c., extra-territorial organizations and bodies
57	Dwellings: ownership of dwellings (imputed rents of houses occupied by owners)

III. Impacts of trade ‘meta-agreements’ on Russia*

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Non-Technical Summary

The paper focuses on assessing possible effect on Russia of trade ‘meta-agreements’: the Transatlantic Trade and Investment Treaty (TTIP) and the Trans-Pacific Partnership (TPP). The results of the GLOBE model runs suggest that Russia would not gain unless Eurasian Customs Union joins the trade liberalization process. Given the broad scope of new initiatives the legitimate question is what should be the basis for the new trade liberalization effort – should it be WTO or multilateral negotiations platforms. We tend to agree with Thorstensen and Ferraz (2014) that, in the presence of ‘meta-agreements’, revitalizing trade talks under WTO umbrella would be beneficial for countries excluded from TTIP and TPP, such as Russia.

Key words: International Trade Agreements; Eurasian Customs Union; Eurasian Economic Union; Russia; TTIP; TAFTA; TTP; CGE; Computable General Equilibrium; GLOBE model.

JEL classification: F13; F15; C68.

Current version: June 2014

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⁷ The authors are grateful to David Tarr and participants of the TIGER workshop (February 27-28, 2014, Moscow), participants of the BRICS-TERN Workshop (March 17th, 2014, Rio de Janeiro) for useful remarks and suggestions.

Introduction

Present state of the Russian trade policy

At August 22, 2012, after 18 years of negotiations, Russia finally became the World Trade Organization member. While it is too soon for the deep analysis, we can say that the Russian economy almost did not notice this important event. Neither negative outlook describing substantial damage to agriculture and light industry nor positive forecasts of increase in GDP, services, and FDI, did not materialize due to a number of reasons, mainly of domestic origin.

Thought Russian trade policy is not idle. Regional trade integration in the form of Customs union with Belarus and Kazakhstan (Eurasian CU) goes deeper and stretches further. The core of the Eurasian Customs Union (the EaEU) is cemented with the political wills of the leaders of the three countries, which are aimed on further integration and call for the removal of all barriers to trade in goods, services and movements of factors. Deeper integration of Belarus, Kazakhstan and Russia will be formalized in creation of the Eurasian Economic Union on January 1, 2015.

Despite the fact that all three countries were once part of the Soviet Union and developed under uniform standards and rules of administrative economy, there have been significant changes in the regulatory environment during independent reforms since 1991. This applies to laws, standards and administrative procedures affecting the free movement of goods, services and factors. Ongoing work on the unification of technical standards, the elimination of technical barriers to trade, identified significant differences that must be overcome, both at the legislative and practical levels.

Along with the unification of regulation in the countries of the Eurasian CU, which are to be the members of the EaEU, the enlargement process started: Armenia, Kyrgyzstan and Tajikistan expressed their interest in joining the EaEU. The timing or technical details of the possible enlargement are still unknown. All three-candidate countries are WTO members, which have much more stringent tariff commitments than the current unified customs tariff of the Customs Union of Belarus, Kazakhstan and Russia.

Enlargement of the EaEU is not the only regional initiative coming from this trade bloc. In October 2011, countries of the Eurasian CU and five other members of the Commonwealth of Independent States (CIS) signed a free trade agreement, which, as of June 2014, was ratified in seven countries: Belarus, Kazakhstan, Russia, Armenia, Kyrgyzstan, Moldova, and Ukraine. Uzbekistan joined CIS FTA in early 2014.

There are also on-going talks on bilateral free trade zones between the Eurasian CU and India, Israel, Vietnam, New Zealand, as well as several other countries.

Russia and 'meta-agreements'

Activity of various countries in the creation of regional trading blocs and free trade zones achieved a completely new level with the start of negotiations on the Transatlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP). The Transatlantic Trade and Investment Partnership agreement is negotiated between the United States and the European Union. The Trans-Pacific Partnership is negotiated by the United States and 11 other countries of the Asia-Pacific region (Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam), as of June 2014.

These agreements go beyond 'traditional' FTA agreements: in addition to the reduction of tariff protection, a significant part in the negotiations is dedicated to the

harmonization of technical regulation, which could lead to a reduction in non-tariff barriers to trade. For example, prior to the sixth round of talks on TTIP European proposals for possible convergence of regulation in chemical industry, textiles and clothing, cosmetics, motor vehicles, and pharmaceuticals were published⁸.

Along with redesign of the regulatory environment, there are proposals that raised a lot of controversy: investor protection, including the proposed mechanism for disputes settlement between states and investors (SIDS), and proposed measures aimed at strengthening the protection of intellectual property rights.

Russia, as the countries of the Eurasian CU, and other BRICS countries, do not participate in the negotiations on the new 'meta-agreements'. Theoretically, countries excluded from trade liberalization initiatives may suffer a welfare loss due to trade diversion effect. Research on implications of the TTIP (Francois et al., 2013) shows the total positive effects of the creation of TTIP for the rest of the world, without regional details on the level of the Eurasian CU countries. According to authors' estimates, presented in section 3, there is no evidence of a significant reduction in welfare of the Eurasian CU countries in simulations of the TTIP and the TPP. However, there is no positive effect either, as economies of Russia and Kazakhstan are neutral to the 'meta-agreements', and the economy of Belarus suffered a minor loss.

Along with the TPP in the Asia-Pacific region, there are several other initiatives aimed at bringing together the countries of the region based on free trade and partnership agreements: free trade area of the Asia-Pacific or FTAAP, Regional Comprehensive Economic Partnership, a free trade zone of China-ASEAN and a large number of bilateral free trade agreements. Several years ago, Russia was considering the possibility of joining a free trade zone with ASEAN countries, but has so far refrained from decisive steps in this direction, limited only to the negotiations of a free trade zone with one country in the region - Vietnam.

As a hypothetical experiment, the authors evaluated the effects of Russia, Kazakhstan and Belarus joining a comprehensive free trade zone and a partnership agreement in the Asia-Pacific region (Free Trade Area in Asia-Pacific, FTAAP)⁹.

Results of the FTAAP simulations, presented in section 3, show that the all countries of the Eurasian CU has an opportunity to obtain economic benefits from joining the multilateral trade initiative in the Asia-Pacific region.

The rest of the paper is organized as follows. Section 2 reviews the model used for simulations, presents data and describes the design of experiments. Part 3 follows with numerical results for three scenarios: TTIP, TPP, and FTAAP, and Part 4 concludes.

Numerical simulations: the GLOBE model, data review, and scenario design

The GLOBE model

Authors use static version of the GLOBE model for numerical simulations. The detailed description of the model is presented in McDonald, Thierfelder, and Robinson (2007). Distinctive features of the GLOBE model are treatment of nominal and real exchange

⁸ EUROPEAN COMMISSION. **Ensuring transparency in EU-US trade talks:** EU publishes negotiating positions in five more areas. Brussels, 14 May 2014. Available at <<http://trade.ec.europa.eu/doclib/press/index.cfm?id=1076>>.

⁹ ASEAN has 20 members: Australia, Brunei, Canada, China, Chile, Indonesia, Japan, Malaysia, Mexico, New Zealand, Peru, Philippines, Singapore, South Korea, Thailand, USA, Vietnam, plus Russia, Kazakhstan and Belarus.

rates and use of a ‘dummy’ region (globe) for treatment of interregional transactions with unidentified source or destination.

The structure of a regional economy in the GLOBE model is quite standard in many ways: perfectly competitive producers with CES or Leontief production functions offers output to domestic market or for export¹⁰. Consumers with Stone-Geary utility functions purchase composite final goods, which are an Armington mix of domestically produced and imported varieties. Consumers save a fixed proportion of after-tax income with investment-driven savings rates, according to default closure rules. Each region’s government collects taxes, purchases final goods and makes transfers to households. Government consumes fixed proportion of aggregate real demand, thus endogenizing internal balance. Investment sector with implicit Cobb-Douglas utility function demands a fixed share of total aggregate demand in real terms.

Data

The GLOBE model uses data in the form of Social Accounting Matrices (SAM) derived from the GTAP database (see Hertel, 1997). Detailed methodology of constructing a set of SAMs from the GTAP dataset is discussed in McDonald and Thierfelder (2004).

Authors use GTAP version 8.0¹¹ database for the 2007 base year, with product coverage of 51 GTAP product and services groups, of which there are 42 commodities and 9 services.

Out of possible 129 countries and regions, contained in the version 8.0 of the GTAP database, the authors identified 19 countries and regions for numerical simulations. List of all the countries is shown in Table I.4 in the Appendix.

Tariff and non-tariff barriers

All new regional integration initiatives focus on non-tariff barriers in goods and services. Estimation of tariff equivalent of non-tariff barriers is a difficult question, which raises lots of attention nowadays. There are studies employing different techniques and, therefore, delivering different set of tariff equivalents for trade in services. We use tariff equivalent data published in Lee and Itakura (2013) (see Table I.6), as well as GTAP 8.0 estimates of tariff protection around the world.

The only exception is the trade protection of countries of the Eurasian CU (Belarus, Kazakhstan and Russia). For those three countries we use updated tariff data, calculated on the basis of the latest available tariff schedule of the Eurasian CU, including estimation of tariff equivalents of combined tariff lines, as of the end of 2013.

Detailed description of the calculation of ad valorem equivalent of the current level of Eurasian CU’s tariff protection is presented in Abramov and Ananyev (2014). Trade-weighted tariffs of the Eurasian CU used in the current model are presented in Table I.5 in the Appendix.

Scenario design

¹⁰ The GLOBE model uses a three-stage export procedure with CET elasticities that differs for commodity, region and region group. In this respect, the GLOBE model differs from the structure of the GTAP model. Authors plan to alter treatment of exports in the GLOBE model in sensitivity and robustness checks as a part of the future work.

¹¹ GTAP. GTAP 8 Data Base. Available at <https://www.gtap.agecon.purdue.edu/databases/v8/>

In all experiments, it was assumed that the creation of a free trade zone would be carried out without exemptions, thus setting all tariffs rates on goods to zero. Tariff equivalents of non-tariff trade barriers will be reduced by 25% because of the implementation of the package of ‘deep’ integration part or the partnership agreements.

TTIP

The Transatlantic Trade and Investment Partnership (TTIP) between 28 countries of the European Union and the United States is an example of a ‘deep’ free trade agreement. In addition to removal of tariff protection the partnership agreement is aimed on harmonization of technical regulations, as well as on increase in protection of investors’ rights. In our simulations TTIP is designed as setting zero tariffs on trade in goods between the EU and the US. Additional 25% reduction of tariff equivalents of NTMs in services depicts efforts on regulatory harmonization in services trade.

TPP16

The Trans-Pacific Partnership (TPP) expanded to trade negotiations process involving 12 countries in the Pacific rim: Australia, Brunei, Canada, Chile, , Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Thailand, and the United States, as of June 2014. For the modeling purposes, we model TTP16 instead of TPP12, adding Indonesia, the Philippines, South Korea, and Vietnam to the TPP club.

The experiment design is very similar to the one in the TTIP simulation: all countries of the TTP16 abolish tariffs on imports from each other, and there is a 25% decrease of NTMs in services trade among the TPP16 countries.

FTAAP

Free Trade Area in Asia-Pacific is considered by APEC countries as a way to proceed in the presence of various trade and economic challenges of the region (Kim et al, 2013).

We simulated FTAAP as a ‘deep’ free trade area between TTP16, China, and the Eurasian CU. The assumption behind this list of countries is that in the presence of TPP initiative and active position of the US in the Pacific, comprehensive regional trade agreement should include US as well. Our hypothesization lies in addition of the Eurasian CU countries to this trade block.

The experiment design is very similar to the previous two simulations: all 20 countries of the FTAAP abolish tariffs on imports from each other, and there is a 25% decrease of NTMs in services trade among the group.

Modeling Results

Effects on Russia

The results of the model runs suggest that Russia would not gain unless it joins the trade liberalization process. Given the broad scope of the new initiatives, the legitimate question is what should be the basis for the new trade liberalization effort – should it be WTO or multilateral negotiations platforms. We tend to agree with Thorstensen and Ferraz (2014) that, in the presence of TTIP and TTP initiatives, revitalizing trade talks under WTO umbrella would suit Russia’s long-term goals.

Effects on Kazakhstan and Belarus

Taking into account plans to deepen economic integration between Belarus, Kazakhstan, and Russia, we can predict the growth of the mutual influence of these economies on each other. Consequently, the results of the changing landscape of international trade, affecting Kazakhstan and Belarus, could be important in shaping Russia's position on the issue of trade integration of third countries.

Considering the response of Belarus, Kazakhstan, and Russia to common external shocks, it should be noted, that the structure of the economies of Russia and Kazakhstan are much closer to each other than to the economy of Belarus. Russia and Kazakhstan - both are resource-rich countries, with a large share of exports in GDP. The main exports of these two countries are hydrocarbons and raw materials. The main imports are machinery and equipment, as well as consumer goods. Given the similarity of the economies of these countries, it is not surprising, that Russia and Kazakhstan tend to react similarly to common external shocks caused by changes in relative prices due to trade integration of third countries. Structure of Belarus economy differs from the economies of Russia and Kazakhstan. Chemical and petrochemical industries, as well as agriculture are significant industries for Belarus. Belarus is a hydrocarbon importer and exporter of semi-processed petrochemical products. Chemical and petrochemical industries in Belarus were founded during the Soviet era and lacking significant advantages in productivity, dependent on low energy prices set by Russia and Kazakhstan.

Differences in the structure of production between Belarus and other members of the Eurasian CU, can partly explain differences in reaction of Belarusian economy to external shocks common with other members of the Eurasian CU.

Detailed description of modeling results

TTIP

As it was mentioned earlier, the core of the Transatlantic Trade and Investment Partnership (TTIP) is a 'deep' FTA between USA and EU, which includes harmonization of regulation in order to decrease non-tariff barriers to trade. In modeling terms creation of the TTIP results in zero tariffs on trade in goods and a 25% decrease in NTMs on services among members.

Table 0.1. Scenario 1: TTIP, percentage changes in macro parameters (in real terms).

Parameter	USA	EU	Kazakhstan	Belarus	Russia
Export supply	0.608	0.160	-0.003	-0.004	-0.012
Real GDP	0.074	0.044	0.002	-0.002	0.002
Import demand	0.385	0.144	0.014	-0.006	0.036
Domestic final demand	0.073	0.040	0.009	-0.004	0.015
Household consumption	0.073	0.047	0.009	-0.005	0.015
Government consumption	0.044	0.024	0.005	-0.004	0.012
Investment consumption	0.097	0.040	0.010	-0.003	0.017
Total domestic production	0.101	0.061	0.001	-0.007	0.000
Intermediate inputs	0.132	0.077	0.000	-0.009	-0.003
Exchange Rate	-0.123	-	-0.034	-0.014	-0.035

Source: Author's estimates

According to authors' estimations, the creation of an FTA between the EU and the U.S. coupled with harmonization of regulatory services will leave Russia neutral. There are no real changes in Russian output (0%), real exports are falling (-0.012%), and real imports increases (0.036%). These changes correspond to the strengthening of the real exchange rate (-0.035%).

TPP16

As it was mentioned earlier, in our interpretation, the Trans-Pacific Partnership (TPP16) is a «deep» FTA between 16 countries of the Pacific Rim, which includes harmonization of regulatory procedures. In modeling terms creation of the TPP16 results in zero tariffs on trade in goods and a 25% decrease in NTMs on services among members.

Table 0.2. Scenario 2: TPP16, percentage changes in macro parameters (in real terms).

Parameter	USA	EU	Belarus	Kazakhstan	Russia
Export supply	0.896	-0.016	-0.032	-0.010	-0.021
Real GDP	0.155	-0.009	0.031	0.008	0.019
Import demand	0.919	0.003	-0.035	0.029	0.175
Domestic final demand	0.203	-0.002	0.014	0.025	0.070
Household consumption	0.214	-0.001	0.016	0.020	0.071
Government consumption	0.133	-0.004	0.016	0.017	0.048
Investment consumption	0.225	-0.001	0.010	0.036	0.088
Total domestic production	0.188	-0.011	-0.040	0.007	0.010
Intermediate inputs	0.223	-0.011	-0.067	0.005	0.002
Exchange Rate	-0.313	-	-0.055	-0.056	-0.039

Source: Author's estimates

The authors tend to view results of the TPP16 simulation in the same vein as the results of the TTIP: economies of Russia and Kazakhstan are neutral with respect to the introduction of the TPP16, though Belarus's economy suffers a small lost (real output declines by 0.04%). The TPP16 leads to strengthening of the exchange rate in all three economies of the Euraisan CU, drop in exports, and increase in imports, stagnation of the total real output (an increase of 0,007% in Kazakhstan and 0.01% in Russia).

Note that the EU is not involved in the trade integration of the TPP16, which leads to a downward pressure on the EU's economy: there is slight decline in real GDP, output, exports, and an increase in imports. From the U.S. perspective - TPP16 brings more benefits than TTIP: U.S. real GDP grows by 0.3% in the case of TPP16, compared with 0.15% in the case of TTIP.

FTAAP

As it was mentioned earlier, in authors' interpretation, the Free Trade Area in Asia-Pacific (FTAAP) is a 'deep' FTA between 20 countries: countries of the Pacific rim, including USA, and China, and countries of the Eurasian CU. In modeling terms creation of the FTAAP results in zero tariffs on trade in goods and a 25% decrease in NTMs on services among members.

Table 0.3. Scenario 3: FTAAP, percentage changes in macro parameters (in real terms).

Parameter	USA	EU	Belarus	Kazakhstan	Russia	China
Export supply	1.876	0.021	0.473	1.801	1.323	4.340
Real GDP	0.302	0.012	0.287	0.664	0.308	1.398
Import demand	1.670	0.061	0.275	1.671	1.466	5.876
Domestic final demand	0.366	0.027	0.172	0.605	0.340	1.849
Household consumption	0.380	0.029	0.226	0.707	0.418	1.934
Government consumption	0.235	0.019	0.195	0.367	0.160	1.641
Investment consumption	0.427	0.030	0.086	0.536	0.328	1.847
Total domestic production	0.376	0.019	0.197	0.833	0.390	1.938
Intermediate inputs	0.467	0.029	0.162	0.950	0.468	2.205
Exchange Rate	-0.706	-	0.751	0.948	0.869	0.219

Source: Author's estimates

The FTAAP scenario, where countries of the Eurasian CU are included in the trade liberalization effort, can bring significant gains to participants of the FTAAP. There is also evidence that it would not harm countries excluded from the integration process. For Russia, the FTAAP scenario is interesting in terms of growth of the real GDP (0.3%), final demand (0.34%), household consumption (0.4%), output (0.39%) and export (1.3%). Similar processes are occurring in the other countries of the Eurasian Customs Union: Kazakhstan's real GDP is growing by 0.6% and real GDP of Belarus is growing by 0.28%.

Concluding remarks

We conducted numerical simulation of 'meta-agreements', the TTIP and the TPP, using the GLOBE model. The modeling results suggest that Russia remains neutral with respect to the creation of 'meta-agreements'. A possibility to obtain economic benefits for Russia and other members of the Eurasian CU appears only in the case of joining a trade liberalization process, for example, the FTAAP initiative. If Russia and countries of the Eurasian Customs Union join FTAAP, real GDP growth in Russia could reach 0.3%, according to the simulation results.

The FTAAP scenario mimics creation of a trade block in Asia-Pacific with 20 members, which is an extensive trade initiative. It could be difficult to implement, due to diverse interests of the countries involved. Negotiations can take a long time, and the outcome of these negotiations is not defined.

It is a common view, that 'meta-agreements' springing around the globe can be explained by the lack of progress in the WTO negotiations. Nevertheless, any regional agreement inherently will leave behind a group of countries. This process is especially obvious in the case of 'deep' initiatives to liberalize trade, where the focus of the negotiation process is not so much on the reduction of tariff protection, but rather on the harmonization of technical regulation of trade and cross-border provision of services. Initiatives to promote trade liberalization may actually hinder the development of trade between the members of the trade bloc and third countries, due to disparate standards of technical regulations and other non-tariff measures restricting trade.

In this context, authors suggest that, Russia may take a more active stance in WTO negotiations. The World Trade Organization, as a negotiation platform, is adapted to address all issues dealt with in the negotiations on 'deep' free trade areas and partnership agreements. Development of common global rules, harmonization and the removal of technical barriers to

trade in goods and services will attract support among countries that are excluded from negotiations on the ‘meta-agreements’. Currently, the natural allies of Russia in the WTO are the BRICS countries: Brazil, India, China and South Africa. The authors agree with the conclusions of Thorstensen and Ferraz (2014) that, in the presence of ‘meta-agreements’, revitalizing trade talks under WTO umbrella would be beneficial for Russia’s long-term interests.

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Appendix I. Supplementary data tables

Table I.4. List of model's regions

Nº of regional group	Countries, constituting regional groups
1	Russia
2	Belarus
3	Kazakhstan
4	Armenia
5	Israel
6	Viet Nam
7	India
8	Brazil
9	South Africa
10	China
11	European Union
12	Iceland, Liechtenstein, Norway, and Switzerland
13	Turkey
14	USA
15	Canada and Mexico
16	Chile; Peru; Taiwan; Japan; South Korea; Malaysia; Australia; New Zealand; Singapore;
17	Indonesia; Philippines; Laos; Colombia; Cambodia; Bangladesh
18	Rest of the World
19	Auxiliary model's region – GLO

Source: Author's estimates



Table 1.5. Trade-weighted Eurasian Customs Union tariffs for some countries

	China	Europe	India	Indonesia	Japan	ROW	Singapore	South Korea	USA	Ukraine	Viet Nam
Paddy rice	9.71	5.05	9.71	9.71	9.71	26.34	9.71	9.71	3.91	9.71	9.71
Wheat	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	0.00	5.00
Cereal grains nec	4.97	1.72	5.00	4.55	4.55	1.24	4.55	4.55	0.00	0.15	4.55
Vegetables fruit nuts	11.85	8.95	10.25	5.00	5.38	7.50	5.00	6.48	2.62	0.47	0.53
Oil seeds	1.19	2.80	0.02	3.10	0.00	0.50	3.10	3.10	2.06	0.03	0.00
Sugar cane sugar beet	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Plant-based fibers	5.00	0.13	5.00	5.00	5.00	1.13	5.00	5.00	0.00	5.00	5.00
Crops nec	2.87	7.53	1.46	0.41	1.34	2.54	7.58	5.38	5.24	1.74	0.66
Cattle sheep goats horses	3.89	0.08	3.89	3.89	3.89	0.54	3.89	3.89	0.12	0.00	3.89
Animal products nec	14.85	2.60	5.81	7.19	5.81	3.63	6.72	5.81	1.59	0.04	5.03
Raw milk	11.67	15.00	11.67	11.67	11.67	11.67	11.67	11.67	15.00	11.67	11.67
Wool silk-worm cocoons	5.00	5.00	5.00	5.00	5.00	2.64	5.00	5.00	5.00	5.00	5.00
Forestry	5.96	19.28	5.65	15.00	15.00	17.57	15.00	15.61	8.57	5.03	15.00
Fishing	5.41	9.92	8.70	10.00	6.69	9.99	9.74	5.00	9.99	10.07	10.00
Coal	5.00	0.39	5.00	5.00	5.00	4.34	5.00	5.00	0.00	0.11	5.00
Oil	5.00	5.00	5.00	5.00	5.00	0.00	5.00	5.00	5.00	5.00	5.00
Gas	1.67	4.74	1.67	1.67	0.00	1.67	1.67	0.00	1.67	1.67	1.67
Minerals nec	4.83	3.39	1.68	5.00	5.00	4.19	4.30	4.91	4.57	0.11	0.11
Meat cattle sheep goats horse	18.41	8.83	18.41	18.41	18.41	13.53	18.41	0.00	15.06	0.00	18.41
Meat products nec	5.00	8.97	5.00	44.76	44.76	11.03	44.76	15.00	16.48	0.00	15.00
Vegetable oils and fats	11.91	5.64	5.00	0.40	6.52	1.95	0.62	17.17	13.61	0.05	9.96
Dairy products	15.00	12.25	5.00	15.61	15.61	15.03	15.61	15.61	6.16	0.00	15.61
Processed rice	20.09	12.54	15.00	10.59	6.35	11.06	10.59	15.27	11.83	10.59	14.99
Sugar	15.76	18.78	2.62	0.14	15.20	19.22	0.14	12.86	6.10	18.77	21.93
Food products nec	11.59	10.96	12.61	9.03	11.54	10.46	11.20	14.66	11.13	0.18	11.73
Beverages and tobacco products	40.51	22.56	30.00	30.00	38.47	15.77	41.40	26.64	20.42	0.02	8.17
Textiles	13.14	11.03	13.88	6.52	9.22	10.16	10.92	8.43	10.31	2.92	14.51
Wearing apparel	18.57	11.90	12.04	13.42	11.15	11.82	11.93	13.43	11.26	1.16	12.10
Leather products	17.61	12.88	4.15	14.20	14.65	14.52	17.81	10.71	15.00	0.81	14.15
Wood products	6.26	5.67	4.70	3.25	6.90	5.21	0.23	8.29	10.57	0.22	4.16
Paper products publishing	9.74	7.89	11.17	13.23	0.54	4.78	5.02	11.41	9.60	1.21	0.19



	China	Europe	India	Indonesia	Japan	ROW	Singapore	South Korea	USA	Ukraine	Viet Nam
Petroleum coal products	5.00	4.78	5.00	4.95	5.00	3.53	1.12	4.97	3.95	4.87	4.95
Chemical rubber plastic prods	7.95	8.26	9.27	5.05	7.12	7.53	4.26	6.76	8.43	1.18	2.49
Mineral products nec	14.69	13.58	14.80	15.97	10.43	10.33	16.52	9.56	9.78	0.85	21.45
Ferrous metals	6.69	4.92	5.04	1.67	7.01	5.64	8.38	4.30	9.99	0.06	4.67
Metals nec	9.44	7.27	7.87	0.96	3.87	2.36	9.42	8.30	6.95	0.11	5.00
Metal products	12.10	10.77	9.51	5.84	9.35	10.13	7.61	10.06	8.39	0.78	14.70
Motor vehicles and parts	6.61	17.75	3.76	5.02	17.12	7.57	2.42	9.13	10.43	11.66	10.75
Transport equipment nec	9.76	5.21	2.15	20.00	1.99	2.98	0.00	19.75	6.92	0.11	20.00
Electronic equipment	2.16	2.48	5.00	6.97	0.82	3.89	0.77	4.47	3.79	1.12	4.92
Machinery and equipment nec	5.07	3.19	2.92	4.57	4.74	3.86	4.07	4.75	3.00	0.33	4.79
Manufactures nec	1.96	2.60	0.52	8.44	2.49	3.01	4.65	2.22	1.57	0.05	0.19
Construction and utilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Trade	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Transport nec	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sea transport	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Air transport	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Communication	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial services and insurance	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Business and private services	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PubAdmin Defence Health Education	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Abramov and Ananyev (2014)



Table I.6. Tariff equivalents of non-tariff barriers for services

	Russia	Belarus	Kazakhstan	Ukraine	Europe	USA	Canada	Mexico	India	China	Japan	South Korea	Australia	New Zealand	Indonesia	Singapore	Viet Nam	Malaysia	Philippines	Thailand	Rest of ASEAN	Chile	Peru	Rest of the World
Construction and utilities	52.9	52.9	52.9	26.7	5.6	2.3	9.2	40.8	109.7	25.2	5	13	4.3	1	64.4	0	53.7	17.4	52.6	44.9	20.6	25.8	27.2	26.7
Trade	73.5	73.5	73.5	48.2	12	6.8	20.7	61.8	153.3	109.6	22.7	33	18.2	8.2	98.5	1.3	82.7	36	80.2	63.5	32.5	33.8	51	48.2
Transport nec	48.2	48.2	48.2	22.0	5.4	6.8	6	38.8	109.6	21.5	7.6	15.7	3.3	3.3	67.3	1.3	54.4	17.6	53.5	40.5	6.4	16.7	30.7	22
Sea transport	68.1	68.1	68.1	49.5	11.1	6.8	17.6	56.9	144.1	61.5	19.5	29.4	15.1	5.7	91.9	1.3	76.7	32.1	74.6	58.7	28.4	30.2	46.7	49.5
Air transport	69.3	69.3	69.3	39.9	10.3	6.8	18.3	58	146.1	74.3	20.2	30.2	15.7	6.2	93.4	1.3	78	33	75.8	59.7	14.9	31	47.7	39.9
Communication	65.3	65.3	65.3	36.6	9.3	6.8	15.9	54.3	139.2	48.1	17.8	27.4	13.4	4.3	88.4	1.3	73.5	30	71.5	56.1	32.8	28.3	44.4	36.6
Financial services and insurance	65.9	65.9	65.9	43.3	8.7	7.8	19.8	57.6	139.5	83.3	17.1	30.4	13.5	4.3	92.5	1.5	74.7	30.2	72.6	58.1	20	27.5	46.4	43.3
Business and private services	65.1	65.1	65.1	40.5	9.7	7.8	19.2	58.2	137.1	81.2	16.6	29.2	13.5	3.7	91.1	1.5	73.7	29.8	70.8	54.9	7.3	26.5	43.8	40.5
Public Administration, Defense, Health Education	69.7	69.7	69.7	45.8	14.2	6.3	17.5	60.3	154.8	84.1	25.9	34.3	23.5	10.2	97.8	2.8	84.2	36.5	76.9	61.5	24.1	33	47.3	45.8
Mean value	64.2	64.2	64.2	39.2	9.6	6.5	16.0	54.1	137.0	65.4	16.9	27.0	13.4	5.2	87.3	1.4	72.4	29.2	69.8	55.3	20.8	28.1	42.8	39.2

Source: Lee & Itakura (2013)

IV. AN ANALYSIS OF MEGA-REGIONALS ON INDIA¹²

Archana Jatkar
Chennai Mukumba¹³

Introduction

One of the most defining features of the global economy today has been the rapid expansion of trade liberalisation. For the last two decades, the ratio of global trade to global GDP has been no less than 40 per cent and the World Trade Organisation (WTO) has unquestionably facilitated this process. A growing trend within this liberalisation process however is that trade liberalisation seems to be proceeding everywhere, but at the WTO. While indeed the success of the Bali Ministerial at the end of 2013 reignited faith into a system that many had increasingly begun to view as defunct, the international trading system is still reeling from the repercussions of the decade-long process of fruitless negotiations that marred that global landscape.

With each unsuccessful ministerial conference, the growing sense of collective disillusionment with the WTO began to permeate the global trade policy regime causing members to turn towards the use of regional trade agreements to achieve their objectives. In 2011 it was reported that in the last two decades alone, the number of RTAs had increased more than four-fold recording more than 300 active agreements.¹⁴ In light of the burgeoning number of these regional trade agreements in the last two decades and the new trend towards mega-regional trade agreements, the global economic and political landscape has indeed been witnessing a major shift. Depending on which participatory side of this trend members fall, the impacts of these agreements not only on individual countries but on the global economy as whole could provide challenging results.

To date, some 583 notifications of RTAs have been received by the WTO with 411 of these notifications made under Article 24 of General Agreement on Trade and Tariff (GATT), 1994. Given that this trend does not seem to be abating, the overall number of RTAs in force is likely to increase given the number of RTAs currently under negotiation.¹⁵ On the basis of this provision, Members are permitted to engage in these regional trade agreements however, for less developed countries this development does not bode well. Given that decisions within the WTO are made on the basis of broad consensus, the WTO provides a platform for smaller, less developed countries that tend to have less to the negotiating table, to negotiate the terms of an agreement on an equal playing field. While indeed it would be naïve to think that power-dynamics do not play a role at all within the multilateral organisation, the WTO provides a platform where these power asymmetries can be mitigated. Therefore, while indeed the WTO remains the most important trade body, its relevance is of more particular significance for

¹² This paper has been prepared for the BRICS-TERN Meeting held on 17 March in Rio, Brazil for the session on 'Impacts of mega-agreements on India'.

¹³ The authors are with CUTS Centre for International Trade, Economics & Environment

¹⁴ WTO, World Trade Report (2011), "The WTO and preferential trade agreements: From coexistence to coherence." Available at: http://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report11_e.pdf

¹⁵ WTO, 'Regional Trade Agreements', see at: http://www.wto.org/english/tratop_e/region_e/region_e.htm



developing countries and the least developed among them. The consequences of deals that are therefore more exclusive in nature are of more adverse consequence for the smallest and most vulnerable countries within the global community.

Recently negotiated RTAs have increasingly become cross-regional in nature involving parties from different regions. Although nearly three-quarters of RTAs were within the same region in the mid-1990s, this fraction had dropped to around half by 2010.¹⁶ Stemming from this evolution, a growing trend in the global trading arena has been the development of mega-regional trading agreements which constitute large-scale cross-regional trading arrangement aptly named due to the significant amount of world output, population, trade and foreign direct investment they encompass.

Undeniably, the direction of global trade is set to change as these mega agreements such as the Trans-Pacific Partnership (TPP) and Trans-Atlantic Trade and Investment Partnership (TTIP) come into force. The TPP includes 12 of the Pacific Rim countries including United States (US) and Australia whereas TTIP is between the United States (US) and the European Union (EU). One of the main reasons for this surge in large RTAs is stipulated to be driven by a motivation to expand trade rules and degree of market access which goes beyond what is possible under the multilateral trading system functioning under the WTO unless the WTO alters its agenda.

As a result of the mega regional trade agreements, respectively, these arrangements represent around 39 and 60 per cent of the world GDP and have the potential to adversely affect excluded countries such as India by diverting trade and investment away from them and weakening their positions in global value chains.

The deepening of plurilateral commercial relations is set to affect emerging countries like India in many ways, especially when they are excluded from regional trading arrangements (RTAs) between countries that are important trading partners. Three of the main mega-regional trading agreements that are currently under negotiation, the TPP, TTP and the EU-ASEAN, account for more than 40 per cent of India's exports and imports. Given that India's trade dependency on countries belonging to these regional trade agreements is high, India therefore faces a high risk of diversion of both trade and other economic activities. These deepening regional arrangements will therefore have serious implications for the Indian economy.

In a novel approach to tackling of these agreements, India has decided to counteract these mega-regional agreements by initiating similar trading and comprehensive economic cooperation agreements. India is currently negotiating two large free trading agreements of its own, namely: a bilateral free trade agreement with the European Union and a regional trading agreement called the Regional Comprehensive Economic Agreement in Asia as well as a number of bilateral agreements.

¹⁶ World Trade Report (2011), "The WTO and preferential trade agreements: From coexistence to coherence", World Trade Organisation (WTO) Available at: http://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report11_e.pdf



This paper will address the impacts of these mega trade agreements on goods and services and then provide some information on how the inclusion of WTO-Plus mechanisms may impact the Indian economy. It will then conclude with a look at India's National Foreign Trade Policy and how best it can be used to counter the effects of these RTAs and provide a way forward.¹⁷

The impacts of RTAs on excluded countries

The usual approach to addressing the effects of a free trade agreement (FTA) on excluded countries is to focus on trade creation and trade diversion. Trade diversion occurs when as a result of offering preferential access to a specific trading partner, a higher cost foreign supplier replaces a lower cost foreign supplier. The vast majority of literature on RTAs emphasizes the positive and negative effects of trade creation and trade diversion. In the event that trade creation outweighs the negative effects of trade diversion, the RTA is deemed to be beneficial. This understanding of the repercussions of RTAs however is limited in scope. While this understanding of RTAs is relevant for countries that are participating within the RTA, its usefulness for excluded countries is limited. For excluded countries, the concept of trade creation remains largely irrelevant while trade diversion may or may not at times represent a loss.¹⁸

RTAs can also have welfare effects on excluded countries. While the most common argument is that of trade diversion, if the price of the lost export is equal to its marginal cost of production cost and the loss of exports is not very large, apart from its cost of adjustment, then the excluded country does not suffer a first-order welfare loss. If however, the price of the goods exceeds its marginal cost, then for each unit of exported good lost, real income falls by the difference between the value of exports in terms of imports bought and the value of the resources forgoing them.¹⁹ For many countries that are likely to fall outside of these mega-regional agreements, particularly, in the case of India, the TTIP, a loss of access to the US and EU market can have negative impacts because of the high prices exporting countries garner from these markets.

One way in which export price may exceed marginal cost is if exporting generates supernormal profits because export markets are imperfectly competitive. Such profits are then lost on trade that is diverted and cannot be replaced by alternative sales at the same price. The way in which an excluded country can suffer from a loss of exports is through the prices at which exporters can sell their products. This depends partly on the size of the RTA in question or more importantly, on the importance of the trade flows on which preference are granted.

While small RTAs rarely matter, large RTAs such as the ones in question could be large enough to affect world prices having implications for everyone in the market whether or not they

¹⁷ In light of the impacts that this shift will unquestionably have on the economic prospects of individual countries, CUTS International is working on a project entitled 'External RTAs and the Indian Economy: An Analysis of Impacts and Counter Measures.' The bulk of the results reflected in this paper have been drawn from the preliminary results of the aforementioned study.

¹⁸ Winters, A. et al., "Innocent Bystanders: Implications of an EU-India Free Trade Agreement for Excluded Countries", Centre for the Analysis of Regional Integration

¹⁹ Winters, A. et al., "Innocent Bystanders: Implications of an EU-India Free Trade Agreement for Excluded Countries", Centre for the Analysis of Regional Integration

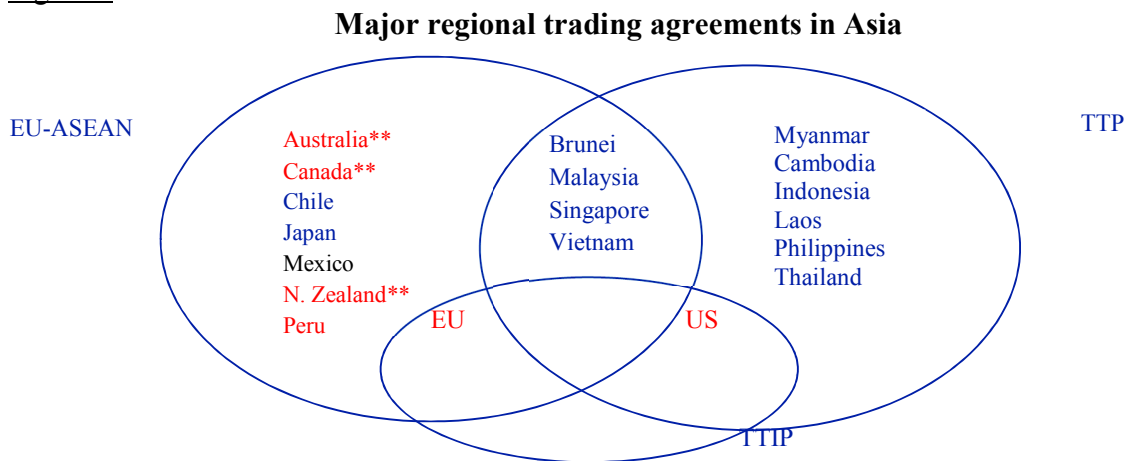


deal with the RTA itself. In cases of large RTAs, it has been shown that excluded countries tend to lose at every turn. For a single preferential tariff change by one member, the preferred exporting partners’ terms of trade improves while that of the excluded countries deteriorates. Given that RTAs amount to tariff swapping, countries that are not party to these arrangements suffer from a terms of trade effect.²⁰ Additionally, given the increasingly “deep” nature of these RTAs, large RTAs have the ability to not only influence world prices but trade rules as a whole as a well.

Economic impacts of the TTIP and TPP on India

The results of a scoping study undertaken by CUTS International indicated that a large number of products in India’s export basket are likely to be threatened by these two mega-regional agreements. Much of this impact however will not be as a result of a reduction in tariffs in TPP and TTIP as these already stand quite low, but it will largely be as a result of the removal and harmonisation of non-tariff measures, particularly in respect to process and product standards, the application of property rights and other behind the border trade facilitation measures. As a result, some of the TTIP and TPP countries are likely to enhance their internal supply potential which could further shrink the existing export relationships that India has with these countries. The data from the preliminary research indicates that in India, the agriculture and manufacturing sectors are most likely to be threatened by these agreements.

Figure 1



* FTA under negotiations. ** CECA under negotiation.

The European Union (EU) consists of 28 countries therefore in total the TTIP has 29 countries. The TTP has 12 countries and the EU-ASEAN free trade agreement has 38 countries consisting of the 28 EU countries and the 10 ASEAN members. The countries without formal

²⁰ Mundell, R. (1964), “Tariff preferences and the Terms of Trade”, Manchester School of Economic and Social Studies, XXXII

trade agreements in India are highlighted in red. In the event of the successful negotiations of the TPP and the TTIP, India is likely to face challenges of both complementarity and capacity.

Table 1: India's Export basket

External RTA	% Share in World GDP	% Share of Exports in World Trade	% Share of Imports in World Trade	Intra-Regional Trade in Group	% Share of India's Imports	% Share of India's Exports
TPP	38.42	31.4	39.86	26.79	18.98	23.03
TTIP	45.09	40.28	44.42	37.17	24.65	31.27
EU-ASEAN	26.35	38.72	38.42	41.11	27.46	27.78
ALL	63.74	58.66	62.96	49.27	41.85	44.72

Excluding petroleum and its derivatives, which dominate India's trade basket, the TPP and TTIP account for 23.03 and 31.27 per cent of India's exports respectively. India's imports from these two regions account for 18.98 and 24.65 per cent. In aggregate, a third of India's exports go to TPP-TTIP region and a fourth of India's imports come from it. India is export-dependent on the region (US and EU in particular) in some of the most sensitive traded services sectors such as IT and IT-enabled services (33 per cent of services exports) and financial services (modes 1& 3).

As regards dependency on investment in the US and EU together contributed to 27 per cent of investment inflow to India over the period 2000-12.

Trade in Goods

Preliminary research by CUTS has indicated that the TPP and the TTIP agreements are likely to have negative impacts on all of the BRICS members with South Africa the most affected and China the least. In India's case the TTIP is most likely to have a higher negative impact on India's trade than the TPP primarily because the composition of India's trade basket with the US and EU has a higher degree of similarity with the composition of its overall trade basket. The combined export volume of threatened and sensitive products because of TTIP seems to be as high as 17 per cent of India's total exports and the likelihood of finding alternative markets in case of displacement of these products from TTIP is very low.

The composition of India's overall export basket has a very high similarity with the export basket it maintains with the US.²¹ Share of individual products lines at 6-digit level in the total of overall and US export baskets share a correlation coefficient of 0.79 between them, indicative of high export dependency (structurally) on US markets (US is the single largest export destination after EU, accounting for 13 per cent of total exports). The corresponding figures with that of TPP

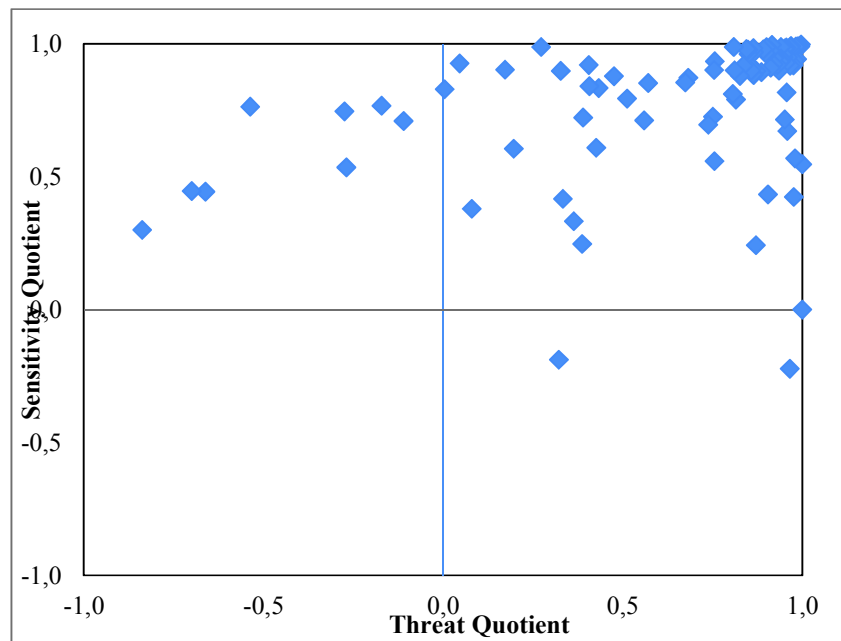
²¹ Calculated at HS07 6-digit level excluding chapter 27 (Petroleum)

and TTIP are 0.44 and 0.62 respectively. To select the most vulnerable product lines, two comparative indices were employed: one to rank products in the export baskets (at 6-digit level) according to sensitivity/dependency and another to rank them according to level of threat.

Even a conservative selection approach shows around 200 highly sensitive top products under severe threat of diversion, together accounting for almost a fifth of India’s total exports. In this regard impact of TTP appears to be less severe than TTIP. While 79 product lines (6.2 per cent of exports) faces threat from TPP, 129 product lines (17.2 per cent of exports) seems to high likelihood of market displacement from TTIP. Changes in market scenarios in US (which will be influenced by both TPP and TTIP) are of particularly severe consequences for India. Though there are significant product differentiations (beyond 6-digit level, which could not be captured) with each of these product categories and all of them are not likely to face competitive pressure from within the TPP-TTIP region in the same intensity, intra-regional supply capacity in these categories in the TPP-TTIP region is found to be high. Besides, trade complementarity of India in these products with non-TPP/TTIP region is noted to be low on an average, increasing the likelihood of severe export market losses.

CUTS International made use of macro-level impact assessment and identification of threatened sectors for precautionary measures at a sectoral level. It employed the use of ex-ante projections using a set partial equilibrium model for tracking current account shocks on key macro-economic variables and exploratory analysis using trade indicators to identify the most vulnerable sectors provided the following results (See Annex 1).

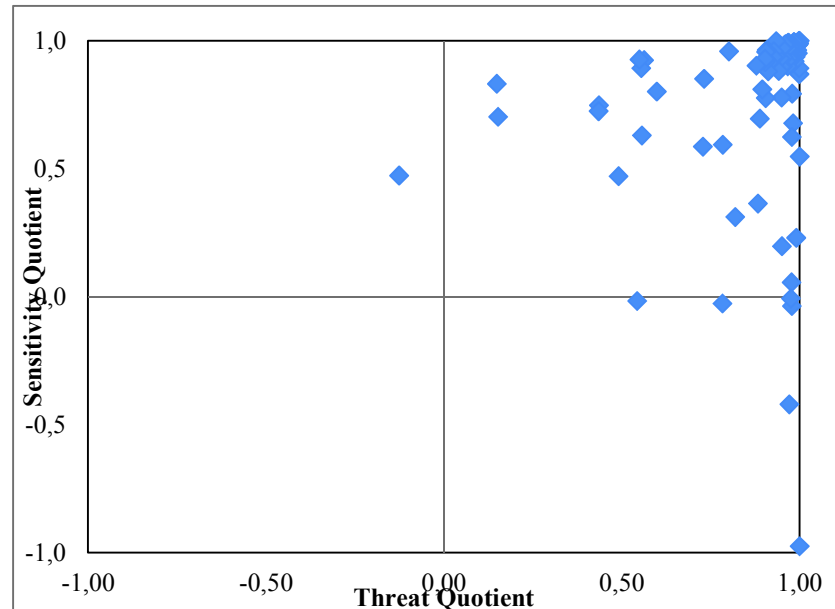
Figure 2: Trans-Pacific Partnership





India shares a 79 highly vulnerable product lines with the TPP. The TPP accounts for 6.2 per cent of Indian exports and has a low complementarity with the non-TPP region.

Figure 3: Transatlantic Trade and Investment Partnership



India shares 129 highly vulnerable product lines with the TTIP. It accounts for 17.2 per cent of Indian exports and also has a low complementarity with the non-TPP region.

Regarding complementarity, there are likely to be three specific challenges that India is likely to face with the advent of these regional trading agreements:

- i) India will most likely experience difficulty in identifying alternatives markets for displaced products outside TPP-TTIP region given that product sophistication varies significantly
- ii) There will be an increase in competition within the markets of excluded countries and
- iii) The price differences as TPP- and TTIP-bound goods elicit higher prices and NTB costs are likely to accumulate.

Regarding capacity, India in all likelihood will face challenges relating to:

- i) Relatively high trade costs with non-TPP and TTIP partners and weak NTB resolution mechanisms
- ii) Weak regional trading arrangements with non-TPP-TTIP partners and
- iii) India's National Foreign Trade Policy (2009-14) which has limited coverage for trade promotion policy instruments only over threatened products.

Given this context, India's policy options seem to be limited at the moment, particularly given India's capacity constraints both at a domestic and international trade negotiation level. As far as domestic trade promotion polices are concerned, instruments such as the National Foreign Trade Policy (NFTP 2009-14) does not cover most of the threatened products which is one of

India's major weaknesses with regards to countering the effects of these RTAs. In the past, planning and administration of the policy instruments under the NFTP has often taken its own course without thorough consideration of the sectoral needs that get preferential market access through trade agreements. India has immense trading potential with its neighbouring countries in many sectors and products however most of these products are not included in the list of focus markets and focus products selected under India's current NFTP.

In external trade negotiations, India's reach in terms of RTAs with trading partners outside TPP/TTIP region has remain limited. Even with ASEAN, India's biggest preferential trade block, coverage of non-tariff trade rules has not been completed. Additionally preferential trade negotiations with crucial trading partners such as EU-28 and other OECD countries has not made any significant breakthrough in the post-crisis period therefore competition between other countries in the TPP/TTIP excluded region is set to rise.

Ganesh-Kumar and Chatterjee (2014)²² have examined the impacts of the TTIP, TPP and the EU-ASEAN FTA on India using the GTAP model combined with POVCAL poverty analysis tool, the simulation results show that each of these RTAs indeed causes trade diversion. However, the impacts on India's trade flows, domestic output, returns to factors, aggregate welfare, inequality and poverty levels are rather small.²³ In all the cases trade amongst member countries displaces the trade with non-member countries including India, both with regard to imports and exports. The results also show that the trade diversionary impacts of RTAs vary across the non-members however, if a non-member country already enjoys a preferential trade regime with one of the RTA member state then it does not suffer too much from the RTA in concern. Thus, for instance, some of the ASEAN member states that are not part of the TPP are likely to remain protected when this RTA comes into force.

They further demonstrate that each of these RTAs causes considerable trade diversion. However, the impacts on India's trade flows, domestic output, returns to factors, aggregate welfare, inequality and poverty levels are rather small. It has looked first at the bilateral trade flows of the RTA member countries, and suggested that the theoretical prediction that RTAs lead to trade diversion holds true for all the mentioned mega regional trade agreements. In all the cases trade amongst member countries displaces the trade with India, both with regard to imports and exports. For instance, in the case of TPP scenario, the South Eastern Asian members of the TPP (TPPSEASIA) countries import significantly more from other TPP members whereas reduce their imports from non-member countries. The percentage rise/fall in imports varies across commodities and as per the member / non-member countries. Similarly, Oceania, USA and TPPLATIN also increase their imports from TPP member countries while cutting down imports from non-member countries.

Ganesh – Kumar & Chatterjee conduct thorough analyses of bilateral imports by member countries in TPP and suggests that contrasting impacts of imports by various TPP member countries from SEASIA reinforce the trade diversion results. It articulates that intra-ASEAN trade preferences warrants augmentation of TPPSEASIA's imports from SEASIA, however, such

²² Ibid 10

²³ Ganesh-Kumar and Chatterjee, "Mega External Preferential Trade Agreements and Their Impacts on Indian Economy", a chapter in the forthcoming CUTS publication in 2014



preferences are not available in case of SEASIA vis-à-vis the other TPP member states. As a result, imports by Oceania, USA and TPPLATIN from SEASIA fall. Similar, patterns are seen in the case of bilateral exports of the TPP countries wherein exports to member states increase at the cost of exports to non-member states, which has a potentially puts some stress on domestic availability of various commodities in the non- member states.

The impact of trade diversion due to the RTAs on India's imports, however, is different from that on exports as per Ganesh-Kumar & Chatterjee²⁴. Unlike in the case of exports, imports of all commodities are lower under all the three RTAs.

The above changes in the country's exports under different scenarios indeed has an effect on the demand for domestic producers especially in regards to the associated consequences for output, product prices, factor prices, factor returns and income generation, which in turn prompt further impacts on domestic demand, output and prices. Similarly, changes in imports affect domestic availability, domestic prices and hence demand for various goods.

From a welfare perspective, the results indicate that aggregate welfare in India is lower in all the these mega regional agreements scenarios, but the welfare loss even when both the mega trade agreements are in force is about US\$ 757 million or just about 0.06 per cent of GDP. In contrast, the aggregate welfare under a multilateral agreement is significantly higher by over USD 21 billion or 1.7 per cent of the GDP. The impact on inequality and poverty conforms to the aforementioned changes in aggregate welfare: Both the Gini index and the various measures of poverty are only slightly higher under the RTA scenarios, but significantly lower under a multilateral agreement.

Subject to various caveats, the results indicate that the country is much better off when there is multilateral free trade in the world, although it does not suffer much under the mentioned mega trade agreements. From a policy perspective, this suggests that the country should continue with its efforts for achieving a multilateral trade agreement. However, at the same time, the country also needs to protect its interests against the possibility that a global trade agreement does not materialise within a reasonable time in future. One way to protect the country's interest is to aggressively pursue preferential trading arrangements parallelly with key members of these three mega PTAs.

Trade in Services

India's services sector has emerged as a prominent sector in terms of its contribution to national and states incomes, trade flows, FDI inflows, and employment. Services constitute India's most important export sector and account for 58 per cent of GDP. Accounting for almost USD 140 billion worth of exports, it remains a primary export sector. India is export-dependent particularly on the TIPP regions in some of its most sensitive traded services sectors such as IT and IT-enabled (ITES) and financial services.

²⁴ Ganesh-Kumar and Chatterjee, "Mega External Preferential Trade Agreements and Their Impacts on Indian Economy", a forthcoming CUTS publication in 2014, table 13, page 19

Table 2: Destination of Software Services Exports

	2010-11			2011-12			Annual Growth in (per cent)
	billion	US\$ billion*	Share (per cent)	billion	US\$ billion*	Share (per cent)	
USA & Canada	1410.4	30.9	65.0	1597.4	33.3	64.3	13.3
Europe	508.4	11.1	23.5	578.8	12.1	23.3	13.8
Asia	111.9	2.5	5.1	129.2	2.7	5.2	15.5
Australia & New Zealand	59.3	1.3	2.7	87.0	1.8	3.5	46.7
Other countries	80.1	1.8	3.7	91.9	1.9	3.7	14.7
Total	2170.1	47.6	100.0	2484.3	51.8	100.0	14.5

Source: Reserve Bank of India²⁵

India's export of software services and ITES/BPO services during 2011-12 is estimated at USD 51.8 billion, showing an annual growth of 14.5 per cent.²⁶ The United States alone accounted for 62.9 per cent of India's export services and together, Europe and the United States account for 86.2 per cent of these exports as per the 2011-12 data.

In line with the results as indicated with Trade in Goods, India will face some similar challenges. In the event of displaced products outside of the TTIP, India will most likely experience difficulty in identifying alternative markets. The Asian region only accounted for 5.2 per cent of India's exports therefore this TPP will not likely have large effects on this services sector of India's export basket however, due to the inclusion of the US, trade diversion to the US remains a concern. Each of the TPP member countries have on average about five regional agreements on services and have proposed a NAFTA-type negative listing. These mega-regionals are likely to result in the strengthening of sector-specific regulatory disciplines, expansion of coverage irrespective of modes and stress on horizontal commitments. They will also most likely result in capacity-building provisions for developing countries and include additional provisions on ease of payments and transfers. Such an approach could have harmful effects on India's services exports.

WTO-Plus issues

The extent, to which these mega-regional trade agreements and other regional trade and investment agreements will succeed in going significantly beyond, will become more apparent as time progresses. It is clear however that the thematic agenda of these agreements is far more extensive and complex than has traditionally been the case, including a significant number of areas not covered by the WTO agreements such as environmental and labour regimes, the degree

²⁵ RBI, 'India's Exports of Computer Services 75.2 per cent of Total Software Services Exports in 2011-12: RBI', available at: Survey http://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=29029

²⁶ RBI, 'India's Exports of Computer Services 75.2 per cent of Total Software Services Exports in 2011-12: RBI', available at: Survey http://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=29029

of protection of intellectual property and personal data in the digital environment, the operation of state enterprises, and the possibility of using capital controls. The agreements further put strong emphasis on regulatory convergence/coherence between the normative frameworks in the countries involved in both trade in goods (for example, technical regulations on automobiles and sanitary rules for agricultural products) and services (for example, prudential standards for financial services).

The Indian economy however is not yet fully in a position to adhere to such high standards and still be competitive. According to a senior Indian government official ‘India’s exports have often run into the wall of standards, which have in the past been dismissed as non-tariff barriers to block imports by countries, but there is a growing realisation that the country needs to take the issue seriously’.²⁷ Despite the views, it may take much longer time for these efforts to materialise and show effect while the TTIP & TPP negotiations are fast paced.

In the area of environmental standards, narrow, product specific origin rules on sensitive sectors including textiles and dairy products as the TPP are set to follow narrow, strict cumulation, high threshold rules such as in other FTAs such as NAFTA and KORUS. India does not harbour high environmental standards not because the producers do not want it or that it is not driven by consumer demands but because compliance with high eco-standards is very expensive for the manufacturers/supply chain in India. Nonetheless, the existence of environmental standards reveal the dichotomy of such standards and eco-labels as although labels provide necessary information and guidelines in the complex textile market, these standards can impede trade and prohibit trade with countries that cannot meet these standards.²⁸

Another non-trade issue that is likely to be included in trade debate through these trade agreements is labour standards. India’s current position on the subject suggests it is not in favour of the inclusion of labour standards within the international trade regime. By far it has been opposing the inclusion of such social clauses within the ambit of the WTO. However, increasingly given that the global economy is beginning to see the regional and plurilateral approaches to dealing with global concerns, this issue will crop up from time to time. Although this topic is unlikely to be included in the TPP agreement due to political uncertainty, the input of labour standards within the TTIP agreements could result in protectionist abuse of strict labour standards. Even within the TTIP, the direction of the chapter on labour standards in the TTIP remains uncertain however the introduction of labour standards will also have the ability to influence consumer preferences in member countries. In the area of Rules of Origin, comprehensive rules for liberalisation of trade in EGSs in TPP are looking to bring rules on fisheries subsidies, regionalization of existing environmental commitments under FTAs.

Although India has taken a strong stance against the inclusion of a social clause within multilateral organisations, this discourse is increasingly becoming more prevalent outside the WTO within such FTAs and as such, discussion of these topics within the TTP and the TTIP is

²⁷ Mr Rajiv Kher, Commerce Secretary, India speaking on the role of standards in international trade organised by CII and the commerce & industry ministry, available on http://articles.economictimes.indiatimes.com/2014-04-17/news/49214524_1_rajeev-kher-indian-standards-quality-standards

²⁸Jatkar, Archana, (2013). “The curious case of environmental standards and its trade impact: An integrated Indian and Norwegian perspective”, GREAT Insights, Volume 2, Issue 8

likely to have repercussions on global trade rules and thereby adversely affect developing countries, such as India that may not yet be in a position to apply stringent standards owing to socio-economic factors of fear of loss of employment/livelihood. While indeed standards are intrinsically important, most developing countries believe that their implementation and successful observance is subject to a positive strategy of national development and poverty reduction.

Indeed one of the most important concerns is whether regulatory harmonisation under TTIP will positively influence standard-setting for emerging country like India. This is assuming, of course, that TTIP and TPP implement deeper liberalisation and attains regulatory coherence in the near future. In the event that this does occur, it is most likely that it will entail restructuring and/or fragmentation of global supply chains. There are two ways that India could respond to this situation. It could either look to adopting or upgrading to the higher standards even at financial and political costs, just like China during its WTO accession, in order to reduce business costs for serving the world market. Experts have indicated that, in this context, India's experience from the past suggests that pragmatically adapting to new realities could indeed earn fruits. The second could be that India rejects selectively rules and production standards on the basis of domestic interest and perceived market for its products in new global economic architecture.²⁹ In the most likely scenario, however, India could potentially take the *sui generis* dual regulatory especially in case of intellectual property and product standards. This situation would see the export oriented firms in India adopting higher standards whereas the domestic producers would continue to use a less rigorous IP regime or standards. This is also found by one of CUTS studies on 'A study on Environmental Standards and its Trade Impact on Indian Textile & Clothing Sector',³⁰ wherein the standards followed for export market in case of textile product may not be same as that followed in Indian market for want of consumer demand and other related factors.

Possible Counter Measures and India's Strategy

Given the deep integration proposed by the TPP & TTIP Agreements, it is clear that India may not benefit positively from these agreements and will have adverse impact on its trade as analysed earlier. This section will attempt at examining the possible counter measures available to India and will look at the possible strategy India may undertake in view of the adverse impact from the mega regional trade agreements.

i) A possible measure for countering the effects of mega regional trade agreements is either to join these agreements or to enhance domestic preparedness as a long term strategy. These agreements and their potential impact are to prepare the country domestically by way of addressing these issues domestically through instruments such as national manufacturing policy, National Trade Policy of India and other macroeconomic policies. The paper will focus on the National Foreign Trade Policy of India, which employs a two-pronged approach to trade promotion that deals with both supply-side and demand-side constraints. India's trade policy aims

²⁹ Karmakar, Suparna, (2013). 'Prospects for Regulatory Convergence Under TTIP,' , Brugel Policy Contribution, Issue 2013/15, Brussels

³⁰ For details about the project please refer <http://www.cuts-citee.org/SESTI/>. Further, the research report provides findings of this study & can be accessed at http://www.cuts-citee.org/SESTI/pdf/Report-Environmental_Standards_Trade-A_Study_of_Indian_Textiles_and_Clothing_Sector.pdf accessed on 31 May ,2014

to both implement domestic policies to enhance its supply capacity as well as address the demand-side of trade promotion by engaging in international trade negotiations to secure better market access. India achieves the latter of the two by engaging in international trade negotiations, both regional and multilateral. It pursues its domestic policies through the use of its National Foreign Trade Policy (NFTP) which is adopted every five years and augmented with annual supplements every.

In the past, the planning and administration of the policy instruments under the NFTP has often not taken thorough consideration of the sectoral needs that get preferential market access through trade agreements. India has immense trading potential with its neighbouring countries in many sectors and products however most of these products are not included in the list of focus markets and focus products selected under India's current NFTP.³¹ In order to best position India to face the repercussions of exclusion from the mega-regional trade agreements, India will need to improve its coordination with external trade negotiations as well as the role of its NFTP in exploring and strengthening participation of Indian business units in regional/global value chains.³²

Another adverse effect that may also result due to these mega-regional negotiations is the potential for changes in negotiating positions on outstanding issues that have yet to be resolved in its FTAs with RCEP and ASEAN. These as these countries are likely to accommodate the requirements of the larger FTAs. India's NFTP therefore will have to include a proactive approach to dealing with this current shift in the global international order.

Specific trade policy measures including their compatibility with India's commitments to the WTO regime and its negotiating strategy with respect to free trade agreements would need to be taken to safeguard Indian exports and enhance its trade competitiveness against far-reaching expected changes in global trade scenario over the next five years or so.

i) Treaty shopping in future negotiations as a counter-measures

Given the weight that WTO-Plus issues may play in these agreements this will most probably determine India's approach to these mega-regionals. India is not yet fully in a situation to adhere to high standards that may be adopted by the members of the TTIP and TTP. For India, the ability to adhere to standards is likely to be gradual and incremental as it continues along its development trajectory. In the face of these mega-regionals, excluded countries face two options: either join the agreements or negotiate counter agreements. India is not in a position to join these agreements as the standards set by the members of both these agreements are likely to be very high and likely to be higher than those set by the WTO while the agreements may also have technical clauses restricting entry of new members. India therefore is more likely to, and is actually in the process of, negotiating a counter agreement to these agreements.

³¹ CUTS (2012), "Grassroots Reach out of National Foreign Trade Policy: Evidences from Indian States". Available at: http://www.cuts-citee.org/pdf/Grassroots_Reachout_of_Foreign_Trade_Policy.pdf

³² CUTS (2012), "Grassroots Reach out of National Foreign Trade Policy: Evidences from Indian States". Available at: http://www.cuts-citee.org/pdf/Grassroots_Reachout_of_Foreign_Trade_Policy.pdf



India is likely to therefore throw its weight on bilateral agreements with large countries within the TPP region with focus on on-going CEAs with Canada, Australia and New Zealand. This is because of the relative ease of proceeding with bilateral agreements and also because the import baskets of these countries has a higher degree of similarity with India's export basket with the TPP and TTIP region. For the same reasons, India's interests in on-going FTA negotiations with EU will probably also go up in the coming years. Although India has taken a hard stance towards liberalising certain sectors, relaxations on the offensive interests with EU such as market access in IT-enabled services and tariff structure on generic drugs may even be relaxed. In the case of CECA with ASEAN, with which India maintains huge negative trade balance in goods, the interest now could probably be to shift to services commitments and investment protocols, expecting trade related investment inflows and outflows with the region.

India is also currently negotiating a mega-regional trade agreement of its own, namely the Regional Comprehensive Economic Partnership agreement (RCEP), which is being negotiated among India, Australia, New Zealand and the ASEAN+3 countries (China, Japan and South Korea). Once concluded, the Regional Comprehensive Economic Partnership (RCEP) Agreement will have the potential to be one of the world's largest FTAs with a total gross domestic product of almost USD 20 trillion and an integrated market of over three billion people accounting for more than a quarter of world trade.

The RCEP Agreement presents an opportunity for India to further integrate itself into the Asian market as intra-Asian trade is becoming increasingly important for India. Not only will this agreement also contribute to increased trade and development opportunities, but India will also benefit from the consolidation of overlapping FTAs within the region. Given that Asia has become known as a 'noodle bowl' of multiple trade rules, the RCEP Agreement would benefit India in its effort to build upon the existing provisions within the plethora of FTAs to reduce the complexity of regional trade.

It has been reported that many negotiating members of the RCEP Agreement actually see this agreement as a stepping stone to the TPP agreement. To this extent, the RCEP and the TPP agreement could actually play complementary roles. In this regard, as a proponent of the RCEP agreement, India is actually aiding in the fostering of multilateralism through facilitating a regional trade agreement that is working as a 'stepping stone' towards multilateralism as opposed to a 'stumbling block'.

Another way of tackling these mega regional trade agreements and to mitigate their negative impact is that BRICS countries come together in a more objectively as the impact on each of these countries is huge. For this to happen, and build upon institutions

Concluding thoughts

The negotiation of the mega regional trade agreements will undoubtedly have considerable impact on the geographical distribution and governance of world trade and investment flows over the next few years and, depending on how the WTO decides to navigate this shift, the magnitude of these initiatives, in terms of both the economic weight of the participants and their ambitious thematic agenda, could either contribute to the global trade



agenda by serving as building blocks for the MTS or, they could mean that in the next few years the rules of international trade will have been rewritten outside the multilateral framework.

Over the last two decades, India's attention has increasingly shifted eastwards, and accordingly efforts to strengthen the country's economic partnership with those in the Asia-Pacific region, particularly in East and South East Asia, are in place. By effectively negotiating the RCEP agreement and its FTAs with key trading partners such as the European Union, Australia, India could gradually remove and harmonise non-tariff measures affecting trade among these countries and improve its domestic regulatory regimes for process and product standards, intellectual property rights and other behind-the-border trade facilitation measures. In a recently held conclave on Standards by a leading Indian industry association, the cabinet secretary laid down the importance of standards building and that of business in India. He has also called upon to involve Bureau of Indian Standards (BIS) to actively engage in this. Such unilateral measures could aid in mitigating the effect of mega-regionals on its economy.

While these broad-based agreements have clear benefits for the countries that are included in the RTAs, the growing ambit of research in this area is showing that that due to trade and investment diversion, such mega-regionals like the TPP and the TTIP could potentially have negative consequences on excluded countries. Trade diversion for third nations justifies the involvement of the WTO through multilateralisation efforts aimed at limiting the overall restrictiveness of these RTAs and it is in this respect that India can champion the interests of both itself and other developing countries within the international trading system.

In light of these agreements the evolution of the WTO will depend on how best it is able to navigate this changing global dynamic. As with traditional regional trade agreements, the WTO's ability to multilateralise these RTA-related initiatives into the WTO framework over time will determine the effect that these mega-regionals will have on international trade policy. As the BRICS countries are finding themselves excluded from these regional trade agreements this could serve as an impetus to for BRICS to draw attention back to the WTO by effectively calling for increased WTO involvement in RTAs. BRICS could therefore play an important role in advocating for the multilateralisation of the regionalism.

In the long run, with the help of the excluded BRICS bloc, these regional trade agreements could return to the role they played in the 1960s and 70s and once again serve as building blocks of the MTS - restoring the legitimacy of the WTO. If BRICS and the WTO choose to not address these mega-regional trade agreements the outcome could be the rewriting of trade rules outside of the WTO which will not only delegitimise the WTO but result in less than optimum outcomes for the international community and more importantly, for developing countries.



Annex 1

Sensitivity measure – given by $S = (X_{ij}^k | X_i^k) / (X_i^k | X_w^k)$ scales the export dependency of India on product category ‘k’ ; Threat measure - given by $T = (X_{jj}^k | X_{wj}^k) / \{X_{ij}^k | (X_{ij}^k + X_{jj}^k)\}$, scales likelihood of intra- regional trade in TPP-TTIP on product category ‘k’ ; X_{ij}^k represents India’s exports to the region considered (TPP/TTIP), X_{jj}^k represents intra-regional trade and the subscript ‘w’ stands for rest of the world. Both measures are normalized to a scale of -1 to 1 by applying $(S/T-1)/(S/T+1)$.

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V. THE IMPACT OF MEGA AGREEMENTS ON CHINA

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March 2014

ABSTRACT

The rising mega agreements are believed to undermine the further development of China's economy as a result of US's strategy. Instead of merely measuring the impacts of mega agreements on China, this paper also analyzes the potential trade policy options for China and finds that China should promote intra-BRICS FTA equal or above the current Doha negotiation level to offset the negative impacts of mega agreements.

Keywords: Mega Agreements, BRICS, FTA, TPP

Introduction

The “Bali Package” has recently been reached in the ninth World Trade Organization (“WTO” for short) Ministerial conference held in Indonesia, but very limited progress has been made on the WTO Doha development agenda. There are still many efforts to make for the long implementation period and the work programme in the “post-Bali”.

Meanwhile, the stagnancy of multilateralism is faced with more trouble, as “preferential tariffs raise several challenges for the multilateral trading system” and both developed and developing members are making more efforts on “deep integration at the regional/bilateral level”³³ (WTO 2013). The United States advocate the Trans-Pacific Partnership (“TPP” for short) and the Transatlantic Trade and Investment Partnership³⁴ (“TTIP” for short) that attract great attention. The two mega regional/free trade agreements (“MTAs” for short) involve a large proportion of the trading entities and are considered a big threat “undermining” (Bhagwati 2013)³⁵ the multilateral trading system (WTO 2011). As the second largest trade economy in the WTO system but excluded from such MTAs, quite a lot of academic research finds negative impacts of MTAs on the growth of China's economy. For example, the estimation results of the negative impact of TPP range from -0.03% to -0.31% on China's GDP (Petri, Plummer and Fan 2011, Wan 2011).³⁶

However, some Chinese political scholars regard the MTAs as US's strategy to restrain China's further development (Zhang 2013, Li 2013, Wu 2013)³⁷, which provides another meaningful perspective to analyze the impact on China. Therefore, it is necessary to take into consideration the international relationship between China and USA. Also, the previous literatures have only estimated the impacts of TPP and TTIP respectively, but it is also

³³World Trade Organization (WTO) (2013), *World Trade Report 2013: Factors shaping the future of the world trade*, Geneva: WTO.

³⁴The Transatlantic Trade and Investment Partnership is a trade and investment agreement under negotiation between the EU and the US, in order to boost economy growth and job creation, <http://ec.europa.eu/trade/policy/in-focus/ttip/>.

³⁵ Jagdish Bhagwati (2013), Why the TPP is undermining the Doha Round, *East Asia Forum*, January 14, 2013, see <http://www.eastasiaforum.org/2013/01/14/why-the-tpp-is-undermining-the-doha-round/>.

³⁶Peter A. Petri, Michael G. Plummer, and Fan Zhai (2011), *The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment*, East-West Center Working Paper, Economics Series, No.119, October 24, 2011; Wan Lu (2011), The Economic Implications of the New American Trans-Pacific Economic Partnership (TPP) Strategy: An Analysis Based on the GTAP Model, *Journal of Contemporary Asia-Pacific Studies (Bimonthly)*, No. 4, 2011, pp. 59-73.

³⁷Zhang Qizuo (2013), *US Motivation to Accelerate TPP and TTIP Establish and the Impacts on the World and China*, speech delivered in Boao Forum for Asia 2013, http://jckb.xinhuanet.com/2013-03/30/content_437924.htm; Li Chunding (2013), TPP and TTIP New Development Brief, *China International Studies*, discussion paper, December 2013, <http://www.iwep.org.cn/news/727920.htm>; Wu Wei (2013), US Motivation to Promote “Two Ocean Economy and Trade Framework” and China's Challenge”, *China State Finance*, July 2013, pp. 66-67.

possible for US to conclude both TPP and TTIP (“DTP” for short) to shape the world trade rules. Thus it is necessary to assess the possible conclusion of both MTAs. Further, the negotiation process is a dynamic process that involves great interactions between each participator action and reaction, thus the impacts of MTAs on China would also be affected by China's trade policy changes (PTA signature for example). This requires further analysis on China's trade policy changes in reaction to MTAs. This paper intends to analyze whether and to what extent should China advocate another MTA (BRICS FTA) to balance the impacts³⁸ of MTAs advocated by the USA. The paper will first briefly go through US's MTAs and China's potential policy changes. The following section will simulate the dynamic impacts of MTAs and policy changes, and policy recommendations will be proposed based on the simulation results for China in the last section.

Part One: The Impact of Mega FTA on BRICS

I. Overview of TPP & TTIP

A. TPP

TPP has expanded quickly from four partners (Brunei, Chile, New Zealand and Singapore) to twelve partners after USA's involvement since 2009. The TPP has included advanced economies like USA, Japan, Canada, Australia, and emerging economies like Mexico and Vietnam. The leading economy is still the United States, in both merchandise trade and commercial service trade. (See Table 7) The TPP negotiation is considered to have a high level standard with ambitious trade liberalization goals. The negotiation covers e-commerce, financial service, investment, telecommunication and textile sectors, as well as labor standards and environment standards.

Table 7 Trade Profiles of TPP Partners in 2012 (Million USD)³⁹

Economy	Year	Merchandise Imports	Merchandise Exports	Merchandise Total Trade	Commercial Services Imports	Commercial Services Exports	Commercial Services Total Trade
Brunei	2012	12,982	3,582	16,564	1,171	915	2,086
Chile	2012	78,277	79,468	157,745	14,723	12,502	27,225
New Zealand	2012	37,305	38,254	75,559	10,993	9,874	20,867
Singapore	2012	408,393	379,723	788,116	117,744	111,932	229,676
United States	2012	1,545,709	2,335,537	3,881,246	411,110	621,218	1,032,328
Australia	2012	256,680	260,942	517,622	63,018	51,927	114,945
Peru	2012	45,639	42,545	88,184	7,210	4,952	12,162
Vietnam	2012	114,529	113,780	228,309	12,353	9,490	21,843
Malaysia	2012	227,388	196,615	424,003	41,964	37,532	79,496
Mexico	2012	370,827	380,477	751,304	25,247	16,018	41,265

³⁸This paper will only analyze the impacts of trade tariff liberalization due to inadequate data information on non-tariff trade measures and service and trade measures.

³⁹The trade profiles represent each partners' total trade value with the world.

Canada	2012	454,794	474,920	929,714	105,151	77,531	182,682
Japan	2012	798,568	885,843	1,684,411	174,757	142,407	317,164

Data Source: WTO Statistics Database (SDB)⁴⁰.

Among the TPP partners, most advanced economies will have a small tariff reduction in manufacture products due to the already low tariff level but a relatively high tariff reduction in agriculture products. For example, Japan and Canada will only have 2.6% and 2.4% tariff rate in manufacture products but 16.6% and 16.2% tariff cut in agriculture products. By contrast, developing economies will have relatively high bound tariff cuts in both sectors, although the current applied tariff rate is much lower than the bound rate. Vietnam and Mexico will have the largest tariff cuts, as Mexico will have 21.2% tariff cut in agriculture sector and Vietnam will have 8.4% tariff cut in manufacture sector. Comparatively, (See Table 8)

Table 8 Bond and Applied Tariff Rates of TPP Partners 2012⁴¹

Economy	Overall Bound Rate	Overall Applied Rate	AGR Bound Rate	AGR Applied Rate	MANU Bound Rate	MANU Applied Rate
Brunei	25.4	2.5	31.4	0.1	24.5	2.9
Chile	25.1	6	26	6	25	6
New Zealand	10.2	2	6	1.4	10.8	2.2
Singapore	10.2	0.2	26.5	1.4	6.4	0
United States	3.5	3.4	4.7	4.7	3.3	3.2
Australia	10	2.7	3.5	1.2	11	2.9
Peru	29.3	3.7	30.8	4.1	29.1	3.6
Vietnam	11.4	9.5	18.5	16.1	10.4	8.4
Malaysia	23	6.5	66.9	11.2	14.9	5.8
Mexico	36.1	7.8	44.5	21.2	34.8	5.8
Canada	6.9	4.3	17.5	16.2	5.3	2.4
Japan	5.2	4.6	22.1	16.6	2.6	2.6

Data Source: WTO Statistics Database (SDB)⁴².

Recently, media reported the TPP negotiation just fell to stall because of USA and Japan's “gap” on market access that remained deadlocked in the latest talks between the 12 Pacific Rim, despite of progress made on some area. However, Japan and USA are now holding talks on tariffs in relation to TPP at working levels in Washington.⁴³

⁴⁰ WTO Statistics Database (SDB), see http://www.wto.org/english/res_e/statis_e/trade_data_e.htm.

⁴¹ AGR stands for agricultural products, and MANU stands for non-Agricultural products.

⁴² WTO Statistics Database (SDB), see http://www.wto.org/english/res_e/statis_e/trade_data_e.htm.

⁴³ Japan, US resume working-level talks on TPP, NHK World, March 12, 2014, see http://www3.nhk.or.jp/nhkworld/english/news/20140312_10.html.

On the one side, Japan is interested in tariff cuts on US automobiles and tariff protection in five agricultural products, including rice, meat, wheat, dairy and sugar, which are believed as “sacred” commodities. Although some Japanese scholars (Harada 2013⁴⁴, Yamashita 2013⁴⁵) believe that Japan needs TPP as an opportunity to revise Japanese agriculture “misguided” policies, as well as to improve agriculture competitiveness, the “Resolution on Japan’s Participation in the Negotiations of Trans-Pacific Partnership” (NDJ 2013⁴⁶) demands national interests protection and requires that “Sensitive products of agriculture, forestry and fisheries, such as rice, wheat and barley, beef, dairy products, and sugar, must be excluded from negotiation or subject to renegotiation for the purpose of maintaining their sustainable domestic production.” The food security issue still exists in Japan and the risk of “food trade prisoner” is still too high for Japan (Simpson 2013⁴⁷). Also, Japanese Prime Minister Shinzo Abe shows his cautiousness by avoiding time limit for Japan-US TPP.⁴⁸

On the other side, media reported that USA demands Japan to eliminate various technical barriers for US cars, but US is also reluctant to cut the tariff imposed on Japanese cars. Even U.S. Trade Representative Michael Froman acknowledged the “frustration with Japan's auto market” as well as agriculture market access, and both “are working to see if those gaps can be bridged”⁴⁹. Although expectation is added to Obama’s April visit in Asian countries, especially Japan, US still needs to make a careful calculation on what industry priorities need to be met to have sufficient support for getting a deal approved by Congress.⁵⁰ Furthermore, there are also voices worrying the negative impacts on TPP on US economy. For example, TPP may undermine the North American Free Trade Agreement (NAFTA), and even cause massive job loss in US and the Caribbean nations as Vietnam’s threat in textile and shoes exports(Simpson 2013⁵¹).

⁴⁴Yutaka Harada (2013), *Japan's Agriculture and the TPP*, The Tokyo Foundation, November 21, 2013, see <http://www.tokyofoundation.org/en/articles/2013/japan-agriculture-and-tpp>.

⁴⁵Kazuhiro Yamashita (2013), *Nihon nogyo o hakai shita no wa dareka (Who Destroyed Japanese Agriculture?)*, Tokyo: Kodansha.

⁴⁶National Diet of Japan (NDJ), (2013), Resolution on Japan’s participation in the Trans-Pacific Partnership (TPP) negotiations, Standing Committee, House of Councils, see <http://www.sangiin.go.jp/eng/report/standing-committee/20130617-TPP.pdf>.

⁴⁷James R. Simpson (2013), TPP a risky venture for Japan, *The Japan Times*, Commentary, March 12, 2013, see http://www.japantimes.co.jp/opinion/2013/03/12/commentary/tpp-a-risky-venture-for-japan/#.Ux_5AUbOC44.

⁴⁸Abe: Avoid time limit for Japan-U.S. TPP, *The Japan News*, February 27, 2014, see <http://the-japan-news.com/news/article/0001072671>.

⁴⁹Gaurav Raghuvanshi (2014), Trans-Pacific Partnership Talks End Without Deal: Officials Claim They Made Progress but Didn't Set a Deadline to Reach Agreement, *The Wall Street Journal*, February 25, 2014, see <http://online.wsj.com/news/articles/SB10001424052702303880604579404222850842380>.

⁵⁰USTR TPP Briefing To Cleared Advisers Reveals Major Outstanding Issues, *Inside U.S. Trade*, Vol. 32, No. 7, February 14, 2014.

⁵¹James R. Simpson (2013), TPP a risky venture for Japan, *The Japan Times*, Commentary, March 12, 2013, see http://www.japantimes.co.jp/opinion/2013/03/12/commentary/tpp-a-risky-venture-for-japan/#.Ux_5AUbOC44.

Last but not least, the TPP needs to deal with other issues like large difference between advanced economies and emerging economies. Some TPP opponents are concerning their sovereignty and don't want “red line” policies to be crossed during the negotiation. For example, some ASEAN countries, like Malaysia, are not willing to cover intellectual property protection issues.⁵²

B. TTIP

In addition, although USA and EU are affected by the global economy crisis since 2008, the TTIP partnership is still world influential not only because EU and USA are the top one and top three world traders (See Table 9), but also because negotiation topics are so ambitious that includes market access for goods and agriculture, labor rights, environment protection, electronic commerce, financial services, intellectual property and transparency for drug reimbursement programs, state owned enterprises (SOEs); rules of origin, dispute settlement for sanitary and phytosanitary issues, and investment, non-conforming measures and investor-state dispute settlement.

Table 9 Trade Profiles of TTIP Partners in 2012 (Million USD)

Economy	Year	Merchandise Imports	Merchandise Exports	Merchandise Total Trade	Commercial Services Imports	Commercial Services Exports	Commercial Services Total Trade
United States	2012	1,545,709	2,335,537	3,881,246	411,110	621,218	1,032,328
European Union	2012	2,166,754	2,301,104	4,467,858	651,144	830,608	1,481,752

Data Source: WTO Statistics Database (SDB)⁵³.

Both USA and EU have relatively low tariff levels in manufacture products, but EU has relative higher tariffs in agriculture products over 10%. (See Table 10) However, some study estimated welfare gains from a tariff-only agreement accrued by tariff-only arrangement will still be around \$3 billion for USA and \$4.5 billion for EU, while dynamic welfare gains will be \$58 billion-\$86 billion for EU and \$59 billion-\$82 billion for USA under further liberalization in administrative costs of tariffs. (Erixon and Bauer 2010)⁵⁴ Also, the TTIP negotiation is believed to reshape the world trade mechanism, not only because the MTAs respectively encompass largest and the third largest trading economies, but also because the MTAs set an ambitious schedule of reduction of tariff and non-tariff barriers, investment protection, market access on services, intellectual property protection, rules on competition, government procurement, labor and environment, and new “21st Century” issues including

⁵²Kazi Mahmood, TPP opponents wary of ‘hidden agenda’, *Malaysia Reserve*, October 22, 2013, see <http://themalaysianreserve.com/main/news/corporate-malaysia/4942-tpp-opponents-wary-of-hidden-agenda>.

⁵³ WTO Statistics Database (SDB), see http://www.wto.org/english/res_e/statistics_e/trade_data_e.htm.

⁵⁴ Fredrik Erixon and Matthias Bauer (2010), *A Transatlantic Zero Agreement: Estimating the Gains from Transatlantic Free Trade in Goods*, European Center for International Political Economy (ECIPE), ECIPE Occasional Paper No. 4/2010, 2010.

trade facilitation and support for small- and medium-sized enterprises (SME) that far exceeds the contemporary trade regulations. (Akhtar and Jones 2013)⁵⁵

Table 10 Bond and Applied Tariff Rates of TTIP Partners

Economy	Overall Bound Rate	Overall Applied Rate	AGR Bound Rate	AGR Applied Rate	MANU Bound Rate	MANU Applied Rate
United States	3.5	3.4	4.7	4.7	3.3	3.2
European Union	5.2	5.5	13.7	13.2	3.9	4.2

Data Source: WTO Statistics Database (SDB)⁵⁶.

Recently, the latest 4th round of TTIP negotiations between USA and EU is taking place in Brussels from 10th March until 14th March. It covers services, labor, rules of origin, intellectual property, and regulatory sectors.⁵⁷

On one side, EU's Chief Negotiator Ignacio Garcia Bercero said he was satisfied by the talk after the 3rd round of TTIP negotiations. He said both parties “remain on track to deliver an ambitious trade and investment deal” to boost economies, deliver growth and create jobs. He also expected TTIP to strengthen the multilateral trading system and set the benchmark for developing global rules. EU emphasized ambitious on market access issues including slash customs tariffs on imported goods, allow firms from either side to bid for government procurement contracts, and open up services markets and make it easier to invest. It also expects to start working on the wording of provisions that would include rules on food safety and animal and plant health (sanitary and phytosanitary issues), and technical regulations and product standards, and testing and certification procedures (technical barriers to trade or TBT). (EC 2013)⁵⁸

On US side, the factsheet released early March shows US ambitious goals in the TTIP negotiation. For example, 1) The market access not only covers all products, but also requires no transition periods except for sensitive products; 2) The non-tariff barriers and regulatory issues focuses on unwarranted sanitary and phytosanitary (SPS) restrictions (not based on science), unjustified technical barriers to trade (TBT), and other “behind-the-border” barriers, including the restrictive administration of tariff-rate quotas and permit and licensing

⁵⁵Shayerah Ilias Akhtar and Vivian C. Jones (2013), *Proposed Transatlantic Trade and Investment Partnership (TTIP): In Brief*, Congressional Research Service, CRS Report for Congress, July 23, 2013, see <https://www.fas.org/sgp/crs/row/R43158.pdf>.

⁵⁶ WTO Statistics Database (SDB), see http://www.wto.org/english/res_e/statis_e/trade_data_e.htm.

⁵⁷EU-US Trade Talks: EU and US announce 4th round of TTIP negotiations in March; Stocktaking meeting in Washington D.C. to precede next set of talks, press release from European Commission, January 18, 2014, see <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1020>

⁵⁸European Commission (EC 2013), *EU Chief Negotiator says EU-US trade deal not about deregulation, as third round of talks end in Washington*, News archive, December 20, 2013, see <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1007>.

barriers;3) Trade in services addresses operation of any designated monopolies and state-owned enterprises, and emphasizes transparency, impartiality and regulatory cooperation; 4) Electronic commerce and information and communication technology aims to facilitate the movement of cross-border data flows; 5) Investment seeks to secure US investors' accorded rights with respect to investment protection, to reduce or eliminate artificial or trade-distorting barriers on investment, and to provide maintain meaningful procedures for resolving disputes; 6) Customs and trade facilitation focuses on transparent, efficient, and predictable conduct of customs operations and avoids unwarranted procedural obstacles on customs operations; 7) Labor and Environment that requires EU commitment consistent with US priorities and objectives; 8) Intellectual property rights that reflect high level of IPR protection and enforcement; 9) SOEs aims at appropriate, globally relevant disciplines with promotion in transparency and trade distortion reduction; 10) Transparency, anticorruption and competition seeks transparency in EU administration, adoption and application in trade and rules regimes; 11) Dispute settlement demands fair, transparent, timely, and effective procedures to settle disputes on matters arising under a trade and investment agreement with the EU, including through early identification and settlement of disputes through consultation.⁵⁹ USTR seems to push hard on transparency in the EU regulatory process to increase regulatory compatibility in specific sectors, especially non-tariff barriers and regulatory issues including sanitary and phytosanitary (SPS) and technical barriers to trade (TBT), which “appears to further confirm a major disconnect between the U.S. and EU on regulatory cooperation”.⁶⁰

However, it is widely argued that the MTAs will have large negative impacts on China. For example, the government official of MOFCOM worries that TTIP will have much negative impacts on China's long term performance due to the investment diversion away from China and the losing speech power on the world trade system. (Sun 2013)⁶¹ The high standards of TTIP will also have pressure and indirect influence on developing countries. (Li 2013)⁶²

Also, MTAs far exceeds the current regulation status for most emerging economies. Take TPP for example, the Chinese government official expressed that China can hardly withstand the high standard of TPP negotiation despite of China's willingness of

⁵⁹ Office of the United States Trade Representative (USTR 2014), *U.S. Objectives, U.S. Benefits In the Transatlantic Trade and Investment Partnership: A Detailed View*, Fact Sheets, see <http://www.ustr.gov/about-us/press-office/press-releases/2014/March/US-Objectives-US-Benefits-In-the-TTIP-a-Detailed-View>.

⁶⁰ U.S. Says 'Successful' TTIP Deal Will Eliminate EU Barriers To Meat Exports, *Inside US Trade*, March 12 2014, see <http://insidetradetrade.com/201403112463924/WTO-Daily-News/Daily-News/us-says-successful-ttip-deal-will-eliminate-eu-barriers-to-meat-exports/menu-id-948.html>.

⁶¹ Sun Yuanjiang (2013), The Impacts of US-EU FTA on China-EU Economy and Trade, *Foreign Trade*, May 2013, No. 5, Vol. 227, pp. 8-9.

⁶² Li Chunding (2013), TPP and TTIP New Development Brief, *China International Studies*, discussion paper, December 2013, <http://www.iwep.org.cn/news/727920.htm>

participation.⁶³ Also, by comparing the liberalization level of current TPP standards and that of China, scholars acknowledge many major liberalization challenges of TPP standards on China: 1) high standard in manufacture sector market access with high or complete exemption in tariff and traditional tariff quota protection⁶⁴ and strict rules of origins, of which impact is believed to largely affect sectors automakers, machinery, petrochemical, nature rubber and plant oil; 2) high standards in services sectors market access including finance, telecommunication, legislation affairs and audio-visual services; 3) high standard of competition regulations targeting competition neutrality for SOEs and antitrust laws aiming preferential treatment like financial subsidies and credits; 4) high standard in intellectual property protection on patents, medicines, copyrights, geographic indications, etc.; 5) high standard in labor standards due to different understanding of labor rights like group negotiation rights; 6) high standard in environment protection that go far beyond China's current status; 7) high standard in dispute settlement that requires stronger enforcement and goes beyond WTO's current standard on SPS, labor and environment clauses; and 8) high standards of investment rules that require national treatment on pre-establishment and negative list for market access that exceed China's WTO accession commitment.(Xu 2013⁶⁵, Liu 2013⁶⁶, Song 2013⁶⁷)

II. China's FTA Practice

Compared to US's active participation in bilateral and regional trade agreements, China put more efforts on multilateralism and is not as active as US in its preferential trade agreements. China has signed 12 free/regional trade agreements with 20 trading partners, including Association of South East Asian Nations (ASEAN), Singapore, Pakistan, New Zealand, Chile, Peru, Costa Rico, Iceland, Switzerland, Hong Kong, Macao, and Chinese Taipei. There are 6 free/regional trade agreements under negotiation, of which include 22 trading partners: Korea, Gulf Cooperation Council, Australia, Norway and Japan-Korea, as well as Regional Comprehensive Economic Partnership (RCEP) with ASEAN, Japan, Korean, Australia, New Zealand, India (so called "ASEAN + 6"). China is currently conducting three FTA/RTA feasible studies, one with India, one with Columbia and the other with Sri Lanka. Also, China is a member of Asian Pacific Economic Cooperation.⁶⁸

⁶³In Boao Forum April 2013, Yu Jianhua, Deputy China International Trade Representative (vice ministerial level), expressed hope lower level of the TPP standards for China to join, see http://news.xinhuanet.com/fortune/2013-04/08/c_115308367.htm.

⁶⁴Diary products, sugar, rice, textile and fabrics, shoes, tobacco and automaker, etc.

⁶⁵Xu Xiujun (2013), TPP's High Standard, to What Extent?, *World Affairs*, November 2013, pp.13-14.

⁶⁶Liu Chenyang (2013), *Process of TPP Chapter Negotiation and China's Resolution Strategy*, Specialties Perspective Column of China National Committee for Pacific Economic Cooperation, November 6, 2013, <http://www.pecc-china.org/z/achievement/2013-11-06/A921.html>.

⁶⁷Song Qing (2013), Slight Swift of Official Attitude: Cost and Benefit for China Join TPP, *21 Century Business Herald*, June 5, 2013, <http://www.21cbh.com/HTML/2013-6-5/wNNjUxXzcwMDAwNw.html>.

⁶⁸China's Free Trade Agreements updates from the official website of Ministry of Commerce of PRC, see <http://fta.mofcom.gov.cn/>.

Table 11 Ranking of 2012 WTO Member's Total Merchandise Export⁶⁹

Rank ⁷⁰	WTO Member	Total Merchandise Export 2012 (million US dollars)	BRICS	TPP	TTIP	FTA with China
1	European Union (27)	11,740,920.00			●	
2	United States	3,881,245.20		●	●	
3 ⁷¹	China	3,867,119.00	●			-
4	Japan	1,684,410.90		●		Negotiation
5	Korea, Republic of	1,067,454.30		○		Negotiation
6	Hong Kong, China	1,046,394.00				CEPA
7	Canada	929,714.20		●		
8	Russian Federation	864,701.00	●			
9	Singapore	788,116.20		●		●
10	India	783,825.50	●			
11	Mexico	751,304.00		●		
12	United Arab Emirates	580,000.00				Negotiation
13	Chinese Taipei	571,653.60		○		ECFA
14	Kingdom of Saudi Arabia	543,962.40				Negotiation
15	Australia	517,621.60		●		Negotiation
16	Thailand	477,108.90		○		ASEAN
17	Brazil	475,951.60	●			
18	Malaysia	424,003.00		●		ASEAN
19	Switzerland	423,735.70				●
20	Turkey	389,014.10				
21	Indonesia	378,879.70		○		ASEAN
22	Sweden	334,952.10				
23	Norway	248,342.20				
24	Viet Nam	228,309.60		●		ASEAN
25	South Africa	211,501.20	●			

⁶⁹ “●” means confirmed partnership, and “○” means unconfirmed partnership because Korea, Chinese Taipei, Thailand, Philippines, Laos, Indonesia have expressed their willingness to join TPP, see http://en.wikipedia.org/wiki/Trans-Pacific_Partnership.

⁷⁰ Author excludes individual EU countries in order to avoid double accounting.

⁷¹ According to preliminary statistics data from WTO secretary, China has become the largest traders in merchandise in 2013, 2.21 trillion USD exports, 1.95 trillion USD imports and 4.16 trillion USD total trades, see <http://www.mofcom.gov.cn/article/ae/ai/201403/20140300504001.shtml>.

Data source: WTO International Trade and Market Access Data⁷²

As can be seen in Table 11, China has signed very few FTAs with the world top merchandise exporters, except for the ASEAN countries. The FTA negotiations with most top advanced economies have not been concluded for a rather long period of time, such as China's FTA negotiation with Australia and GCC has been undergoing since 2005. By contrast, TPP and TTIP have successfully attracted most world top merchandise exporters, except several BRICS members and Gulf Cooperation Council (GCC) members. Therefore, unless China could make solid movement on its FTAs with top world traders, like Australia, GCC, and Japan-Korea, it is hard to expect China to balance the negative impacts of US MTAs, although there are arguments that even these potential FTAs cannot compensate the negative impacts as well. (Sun 2013)⁷³

III. The feasibility of a mega BRICS FTA

A. Background

In addition to the FTAs, China is also strengthening cooperation with other BRICS members. The BRICS countries (Brazil, Russia, India, China and South Africa) are five major emerging economies in the world. With large population and fast economy growth for decades, the BRICS are the leading developing countries, and attract investments and great attentions from all over the world. Among the members, China is the dominant trader in the BRICS and the disparity for merchandise trade is even larger than the sum of the other members, while South Africa is the smallest one. However, the BRICS members are still the leading economies in their own region. (See Table 12)

Table 12 Trade Profiles of BRICS in 2012 (Million USD)

Economy	Year	Merchandise Imports	Merchandise Exports	Merchandise Total Trade	Commercial Services Imports	Commercial Services Exports	Commercial Services Total Trade
Brazil	2012	242,580	233,372	475,952	77,751	38,121	115,872
Russia	2012	529,255	335,446	864,701	104,170	58,299	162,469
India	2012	294,158	489,668	783,826	127,482	140,705	268,187
China	2012	2,048,714	1,818,405	3,867,119	280,164	190,440	470,604
South Africa	2012	87,256	124,245	211,501	17,195	14,711	31,906

Data Source: WTO Statistics Database (SDB)⁷⁴.

⁷² International Trade and Market Access Data, see http://www.wto.org/english/res_e/statis_e/statis_bis_e.htm?solution=WTO&path=/Dashboards/MAPS&file=Map.wcdf&bookmarkState={%22impl%22:%22client%22,%22params%22:{%22langParam%22:%22en%22}}.

⁷³Sun Yuanjiang (2013), The Impacts of US-EU FTA on China-EU Economy and Trade, *Foreign Trade*, May 2013, No. 5, Vol. 227, pp. 8-9.

⁷⁴ WTO Statistics Database (SDB), see http://www.wto.org/english/res_e/statis_e/trade_data_e.htm.



In addition, the BRICS has much higher tariff level than that of most TPP partners and TTIP partners, and the difference of current tariff are still large within the BRICS members. For example, the applied rate of India's agricultural products is 33.5%, two to four two times of the other BRICS members. But still, the overall applied rates of India and Brazil are much lower compared to the overall bound rate, while China and Russia have relatively low tariffs on both bound and applied rates. (See Table 13)

Table 13 Bond and Applied Tariff Rates of BRICS members⁷⁵

Economy	Overall Bound Rate	Overall Applied Rate	AGR Bound Rate	AGR Applied Rate	MANU Bound Rate	MANU Applied Rate
Brazil	31.4	13.5	35.4	10.1	30.8	14.1
Russia	7.8	10	11.2	13.3	7.2	9.4
India	48.6	13.7	113.1	33.5	34.5	10.4
China	10	9.6	15.8	15.6	9.1	8.7
South Africa	19	7.6	39.6	8.4	15.8	7.4

Data Source: WTO Statistics Database (SDB)⁷⁶.

B. Potential BRICS FTA

With the development of BRICS cooperation, BRICS economies are getting more and more connected with each other. Thus, some scholars have proposed an intra-BRICS FTA. Many Chinese scholars and experts advocate the call for an intra-BRICS free trade agreement because they believe such economy cooperation is quite meaningful and will increase emerging economics' voices in the world economy and BRICS's role in the global governance. (Li 2013, Lin and Zhou 2013)⁷⁷ By looking at the trade profiles of BRICS members, it is easy to notice the high performance of the BRICS members. All BRICS members are top world traders, China only second to EU. Also, despite South Africa ranking 31th, each member is the top trader in its own region, China and India in Asia, Russia in Europe, Brazil in South America, and South Africa in Africa. Although the BRICS FTA is still not comparable to MTAs and the similar low-value-addition trade structure among the members, it may still bring benefits to the BRICS and even serve as the MTA for the BRICS. For example, Sharma, and Kallummal (2012)⁷⁸ conducted a simulation of full BRICS FTA that proves positive welfare gain to the BRICS members. (See Table 14) Therefore, it is worth noticing the potential cooperation with the BRICS members as a good policy option for China.

⁷⁵The applied rate of Russia is higher than the Bound Rate because of Russia's late accession since 2012.

⁷⁶ WTO Statistics Database (SDB), see http://www.wto.org/english/res_e/statis_e/trade_data_e.htm.

⁷⁷Li Jiabao (2013), Experts call for BRICS free trade pact, *China Daily*, March 27, 2013, see http://www.chinadaily.com.cn/cndy/2013-03/27/content_16347691.htm; Lin Yueyao, Zhou Wen (2013), *Annual Report on BRICS Development 2013*, Beijing: Social Science Academic Press, March 2013.

⁷⁸ Sachin Kumar Sharma and Murali Kallummal (2012), *A GTAP Analysis of the Proposed BRICS Free Trade Agreement*, Working Draft, 15th Annual Conference on Global Economic Analysis “New Challenges for Global Trade and Sustainable Development”, Geneva, June 2012, pp.1-26.

Table 14 Full BRICS FTA Change in Macroeconomic indicators⁷⁹ (Million USD)

Region	Consumption	Investment	Government Expenditure	Export	Import	Total
India	894	1090	204	3146	4092	1242
Brazil	3130	2786	1105	1965	3612	5374
China	3558	3962	996	7284	7724	8075
Russia	739	534	321	2772	2764	1603
South Africa	414	947	177	1705	2608	634

Data Source: Sharma and Kallummal (2012), A GTAP Analysis of the Proposed BRICS Free Trade Agreement

As mentioned above, the BRICS FTA seems to be better option than the other bilateral FTAs and RTAs, but it is still a question on the liberalization level of BRICS FTA. The first option is the full trade liberalization like TPP and TTIP, as Sharma and Kallummal (2012)⁸⁰ has suggested. However, it does not seem to be feasible at the current situation. Despite of infeasibility of such aggressive BRICS FTA, we believe it is still necessary to estimate the impact of full trade liberalization within the BRICS members. Such estimation would serve as a good reference to be compared with moderate-level BRICS FTA and as the ultimate goal for BRICS' future cooperation and development.

Other than that, we propose the current Doha negotiation result as a plausible option. With WTO membership, most BRICS members have been through the Doha negotiation process. Even though the Doha Round has been stalled due to the disagreement between the advanced economies and the developing economies, the trade liberalization in agriculture products and non-agriculture products has almost achieved accordance. According to the latest chairman report, the Swiss formula and Tiered formula have been accepted together with coefficients. In this paper, we assume that the BRICS FTA would take 25 as the coefficient for the Swiss formula for the non-agricultural commodities tariff reduction so as to avoid the impact of flexibility⁸¹ and serve as the bottom line⁸². Meanwhile, the agricultural commodities will follow the Tiered formula for the developing members⁸³.

⁷⁹ Sachin Kumar Sharma, Murali Kallummal (2012), *A GTAP Analysis of the Proposed BRICS Free Trade Agreement*, Working Draft, 15th Annual Conference on Global Economic Analysis “New Challenges for Global Trade and Sustainable Development”, Geneva, June 2012, pp.1-26.

⁸⁰ Sachin Kumar Sharma, Murali Kallummal (2012), *A GTAP Analysis of the Proposed BRICS Free Trade Agreement*, Working Draft, 15th Annual Conference on Global Economic Analysis “New Challenges for Global Trade and Sustainable Development”, Geneva, June 2012, pp.1-26.

⁸¹In the latest negotiation text of NAMA modalities issued on December 6th 2008, the tariff reduction for industrial products would be applied with “simple Swiss” formula, and the developing members would have three options for coefficients, 20, 22 and 25. See http://www.wto.org/english/tratop_e/dda_e/status_e/nama_e.htm.

We refer to the Swiss formula and Tiered formula and calculate the trade weighted applied tariffs for each BRICS members⁸⁴. As can be seen in (See Table 15), the Doha level BRICS FTA is a moderate trade liberalization that seems to be much acceptable for all BRICS members. Comparatively, China will have much higher level of tariff cut due to comparative low bond tariff, while India will have lowest tariff cut due to high bond tariff. (Russia is different due to its late accession) According to the final result, China will have the lowest tariff level for manufacture products, and India will remain highest tariff level for agriculture products. In this way, China will exhibit its great efforts to promote the cooperation of BRICS members, and the low tariff reductions will easy the other members' worry. Thus, we believe that such Doha level BRICS FTA would serve a good option for Chinese government to improve its FTA structure.

Table 15 Trade-Weighted Applied Rate Change according to Doha Agenda

BRICS members	Original AGR Applied Rate	Doha AGR Applied Rate	Original MANU Applied Rate	Doha MANU Applied Rate
Brazil	11.10	11.03	10.19	7.77
Russia	12.72	7.21	6.38	3.56
India	49.28	46.40	5.73	5.63
China	9.14	5.97	4.23	2.92
South Africa	8.54	7.36	5.05	3.54

Data Source: Author's calculation with tariff data from WTO IDB database and trade data from GTA.

Part Two: Mega FTA's Impact on Sino-American Trade Relation: from Simulation Scenarios

In order to stay focus on the relationship between US and China, this paper will estimate the impacts of different MTAs and FTAs on both countries in terms of economy growth (GDP), imports and exports. Thus, we consider TPP, TTIP as US's potential trade policy options and different level BRICS FTA as China's potential trade policy options, and thus establish the following scenarios:

⁸²In this paper, the authors assume all BRICS members follow the same tariff reduction formulas and coefficient, including Russia.

⁸³In the Revised Draft Modalities for Agricultural, developing members shall reduce their final bound tariff with the Tiered formula: (a) where the final bound tariff or ad valorem equivalent is greater than 0 and less than or equal to 30%, the reduction shall be 2/3 of 50% (33.33%); (b) where the final bound tariff or ad valorem equivalent is greater than 30% and less than or equal to 80%, the reduction shall be 2/3 of 57% (38.00%); (c) where the final bound tariff or ad valorem equivalent is greater than 80% and less than or equal to 130%, the reduction shall be 2/3 of 64% (42.67%); and (d) where the final bound tariff or ad valorem equivalent is greater than 130%, the reduction shall be 2/3 of 70% (46.67%).

⁸⁴In order to simplify the calculation, the authors focus on tariff cuts on ad-valorem taxes and thus neglect the tariff cut on ad-valorem duties and certain compound duties.

I. Simulation Scenarios

In this section the construction of different scenarios are simulated considering tariff exemption in only agriculture and non-agriculture sectors. The simulation results present the percentage change impact of tariff reduction in terms of the simulation baseline. The paper will firstly have deep and detailed simulation on the impacts of MTAs on China in the early scenarios. However, in order to simplify each party's interaction, the paper will only look at the macro indicators and assume each country regards economy growth (GDP) as the chief goal for its behavior. Therefore, the paper will only simulate indicators of economy growth (GDP), total imports and total exports in terms of percentage change for the rest scenarios.

The simulation baseline is the situation where neither TPP nor TTIP are effective and no BRICS FTA is effective either. The difference between the results of each simulation scenario thus represents the impact of policy changes in each scenario.

Simulation scenario1 estimates the impacts of TPP on China and USA. The hypothetical scenario simulates full liberalization of tariff barriers between the 12 TPP partners (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Vietnam, Singapore, USA) on both agricultural and non-agricultural sectors considered in this exercise.

Simulation scenario2 estimates the impacts of TTIP on China and USA under the hypothesis of full liberalization of tariff barriers between EU and USA on both agricultural and non-agricultural sectors.

Simulation scenario3 estimates the impacts of DTP on China and USA. The working hypothesis is a full liberalization of tariff on both sectors. This scenario will explore the situation where US establish TPP and TTIP at the same time.

Simulation scenario4 estimates the impacts of the medium level BRICS FTA and TPP on China and USA under the hypothesis 1) tariff barriers liberalization at the level of current Doha Round level between the BRICS members; and 2) full liberalization of tariff barriers between the TPP partners. For the BRICS members, the tariffs reduction of non-agricultural sectors will follow the Swiss formula with the highest coefficient of 25 (no flexibility) while the tariffs of agricultural commodities will follow the Tiered formula.

Simulation scenario5 estimates the impacts of the medium level BRICS FTA and TTIP on China and USA under the hypothesis 1) tariff barriers liberalization at the level of Doha Round level between the BRICS members; and 2) full liberalization of tariff barriers between EU and USA.

Simulation scenario6 estimates the impacts of the medium level BRICS FTA, DTP on China and USA under the hypothesis 1) tariff barriers liberalization at the level of Doha



Round level between the BRICS members; 2) full liberalization of tariff barriers between the TPP partners; and 3) full liberalization of tariff barriers between EU and USA.

Simulation scenario7 estimates the impacts of the aggressive level BRICS FTA and TPP on China and USA under the hypothesis of full liberalization of tariff barriers 1) between BRICS members; and 2) between the TPP partners. The assumption herein considered is a full liberalization of tariff barriers for agriculture and non-agricultural sectors among BRICS members.

Simulation scenario8 estimates the impacts of the aggressive level BRICS FTA, and TTIP on China and USA under the hypothesis of full liberalization of tariff barriers 1) between BRICS members; and 2) between EU and USA.

Finally, Simulation scenario9 estimates the impacts of the aggressive level BRICS FTA, DTP on China and USA under the hypothesis of full liberalization of tariff barriers between: 1) the BRICS members; 2) the TPP partners; and 3) EU and USA.

II. Modeling and Database

This paper used the Global Trade Analysis Project (“GTAP” for short) standard model to present the simulation of the impacts of different Mega FTAs on the economy growth and trade flows of both China and the United States. The standard GTAP Model is a multiregion, multisector, computable general equilibrium model, with perfect competition and constant returns to scale.⁸⁵ It is widely applied to the research and analysis on regional economic integration. In this paper, the model will regard different MTA conditions as external shocks and estimate the impacts through a comparative static modeling. The data used in the model simulation is referred to the GTAP 8 Database that boasts dual reference years of 2004 and 2007 as well as 129 regions for all 57 GTAP commodities.⁸⁶ The dataset is harmonized and completed with additional sources to provide the most accurate description of the world economy in 2007 (the last available data base for GTAP).

In order to focus on the broad picture of the simulation results and to simplify the simulation models, the paper treats each partnership groups (TPP, TTIP and BRICS) as a whole and refers to GDP as the dominant interest of China and the United States. The simulations are carried out using a standard GTAP hypothesis that assumes: 1) exogenous national aggregate supply of production factors; 2) endogenous technology; 3) perfect fact mobility for labor and capital; and 4) imperfect factor mobility for land and natural resources.

⁸⁵The standard GTAP framework is documented in Thomas W. Hertel's book *Global Trade Analysis: Modeling and Applications*, more information on standard GTAP model, see https://www.gtap.agecon.purdue.edu/about/getting_started.asp.

⁸⁶Information of GTAP 8 Data Base, see <https://www.gtap.agecon.purdue.edu/databases/v8/default.asp>.

III. Simulation Results⁸⁷

A. Simulation Results of Scenario 1.

The simulation result of scenario 1 reveals that TPP will slow down China's GDP growth, imports and export by 0.29%, 0.46% and 0.36%, while USA will gain 0.03%, 0.54% and 0.95% in GDP growth, imports and exports. China's agriculture exports may be largely affected by 2.54% while US's agriculture exports will increase by 5.75%. In short, TPP will mainly improve US economy by agriculture exports increase while China will face growth slow down by challenges in agriculture exports. (See Table 16)

Table 16 TPP and No BRICS FTA Simulation Result

	GDP%	IM%	EX%		IM%	EX %
CHN	-0.29	-0.46	-0.36	AGR	-0.54	-2.54
				MAN U	-0.46	-0.43
USA	0.03	0.54	0.95	AGR	1.64	5.75
				MAN U	0.59	1.11

Data source: GTAP simulation

By looking into China's trade details with trade partners, the dominant change is China's exports to TPP members (excluding USA) decline sharply by 10.55% in agriculture and by 3.04% in manufacture. China's agriculture exports will largely divert to USA and the rest of the world and manufacture diverted to the rest of the world, USA and the BRICS members. On the other hand, China will decrease its agriculture imports from USA by 2.33% and manufacture imports from TPP members by 2.02%. It will instead increase agriculture and manufacture imports from both BRICS and the rest of the world. (See Table 17)

Table 17 TPP Impacts on China's Exports and Imports with Other Partners (per cent change)

	USA		TPP⁸⁸		BRICS		EU		ROW⁸⁹		Total	
	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX
AGR	- 2.33%	1.11%	0.00%	-10.55%	0.08 %	-0.04%	-0.02%	0.17%	0.14%	0.32%	-0.54%	-2.54%
MANU	- 0.92%	0.21%	-2.02%	-3.04%	0.21 %	0.23%	0.16%	0.16%	0.32%	0.32%	-0.46%	-0.43%

Data source: GTAP simulation

⁸⁷For more detailed simulation results, please refer to Table 29 Simulation Results of Scenario 1 to Scenario 9 in detail (Million USD).

⁸⁸ Here TPP partners exclude USA.

⁸⁹ROW stands for rest of the world.

B. Simulation Results of Scenario 2.

The simulation result of scenario 2 reveals that TTIP will drag down China's GDP growth, imports and export by 0.15%, 0.17% and 0.12%, while USA will gain 0.24%, 1.16% and 1.48% in GDP growth, imports and exports. China's manufacture exports may be affected by 0.15% while US's manufacture exports will increase by 2.38%. In short, TTIP will improve US economy by manufacture exports increase while China will face growth slow down by challenges in manufacture exports. (See Table 18)

Table 18 TTIP and No BRICS FTA Simulation Result

	GDP %	IM%	EX %		IM%	EX %
CHN	-0.15	-0.17	-0.12	AGR	-0.22	0.07
				MAN U	-0.17	-0.15
USA	0.24	1.16	1.48	AGR	1.06	1.11
				MAN U	1.27	2.38

Data source: GTAP simulation

By looking into China's trade details with trade partners, the dominant change is China's exports to EU (excluding USA) decline sharply by 0.47% in agriculture and by 0.39% in manufacture. China's exports will be largely diverted to TPP members and the rest of the world. On the other hand, China will decrease its agriculture and manufacture imports from USA by 1.06% and 1.64%. It will instead increase agriculture imports from the BRICS members. (See Table 19)

Table 19 TTIP Impacts on China's Exports and Imports with Other Partners (per cent change)

	USA		TPP		BRICS		EU		ROW		Total	
	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX
AGR	-1.06%	0.09%	0.02%	0.35%	0.11%	-0.07%	-0.01%	-0.47%	0.07%	0.13%	-0.22%	0.07%
MANU	-1.64%	-0.51%	0.02%	0.24%	0.01%	0.06%	-0.27%	-0.39%	0.03%	0.08%	-0.17%	-0.15%

Data source: GTAP simulation

C. Simulation Results of Scenario 3.

The simulation result of scenario 3 reveals that DTP will turn down China's GDP growth, imports and export by 0.44%, 0.63% and 0.48%, while USA will gain 0.26%, 1.68% and 2.41% in GDP growth, imports and exports. China's agriculture exports may be largely affected by 2.47% while US's agriculture exports and manufacture exports will increase by 6.81% and 3.47% respectively. In short, DTP will strengthen US economy by large exports promotion while China will face great challenges for exports. (See Table 20)

Table 20 DTP and No BRICS FTA Simulation Result

	GDP%	IM%	EX%		IM%	EX%
CHN	-0.44	-0.63	-0.48	AGR	-0.76	-2.47
				MAN U	-0.62	-0.58
USA	0.26	1.68	2.41	AGR	2.69	6.81
				MAN U	1.84	3.47

Data source: GTAP simulation

By looking into China's trade details with trade partners, China's exports to TPP members will be largely affected and decline by 10.21% in agriculture and by 2.80% in manufacture, and manufacture exports to USA will decline by 0.51%. China's agriculture exports will largely be diverted to the rest of the world and USA, and manufacture exports diverted to the rest of the world and BRICS members. On the other hand, China will decrease its agriculture and manufacture imports from USA by 3.35% and 2.52%. The manufacture imports will also decrease by 2.01%, while China will compensate by importing more from both BRICS members and the rest of the world. (See Table 21)

Table 21 DTP Impacts on China's Exports and Imports with Other Partners (Trillion USD)

	USA		TPP		BRICS		EU		ROW		Total	
	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX
AGR	- 3.35%	1.19%	0.00%	-10.21%	0.18 %	-0.11%	-0.04%	-0.27%	0.21%	0.44%	-0.76%	-2.47%
MANU	- 2.52%	-0.31%	-2.01%	-2.80%	0.19 %	0.29%	-0.12%	-0.22%	0.29%	0.40%	-0.62%	-0.58%

Data source: GTAP simulation

D. Simulation Results of Scenario 4.

The simulation result of scenario 4 reveals that under a moderate BRICS FTA, TPP will slow down China's GDP growth, imports and export by 0.15%, 0.02% and 0.01%, while USA will gain 0.01%, 0.5% and 0.95% in GDP growth, imports and exports. China's agriculture exports may still be largely affected by 2.29% while US's agriculture exports will increase by 5.61%. Thus, a moderate BRICS will partially undermine TPP's negative impacts on China through manufacture exports, while USA will still improve exports performance especially in agriculture. (See Table 22)

Table 22 TPP and Doha BRICS FTA Simulation Result

	GDP%	IM%	EX%		IM%	EX %
CH N	-0.15	-0.02	-0.01	AGR	0.95	-2.29
				MANU	-0.03	-0.02
US	0.01	0.5	0.91	AGR	1.6	5.61



A				MANU	0.55	1.06
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Data source: GTAP simulation

1. Simulation Results of Scenario 5.

The simulation result of scenario 5 reveals that under a moderate BRICS FTA, TTIP will slow down China's GDP growth by 0.02%, and increase imports and export by 0.46% and 0.36%, while USA will gain 0.22%, 1.12% and 1.44% in GDP growth, imports and exports. China's agriculture imports may be largely affected by 1.27% increase while US's manufacture exports will increase by 2.34%. Thus, a moderate BRICS FTA will undermine TTIP's impacts by improve in China's agriculture exports, while USA will still have high growth in manufacture exports. (See Table 23)

Table 23 TTIP and Doha BRICS FTA Simulation Result

	GDP %	IM%	EX%		IM%	EX %
CHN	-0.02	0.27	0.22	AGR	1.27	0.31
				MANU	0.26	0.26
USA	0.22	1.12	1.44	AGR	1.02	0.97
				MANU	1.23	2.34

Data source: GTAP simulation

E. Simulation Results of Scenario 6.

The simulation result of scenario 6 reveals that under moderate BRICS FTA, DTP will still slow down China's GDP growth, imports and export by 0.31%, 0.19% and 0.13%, while USA will gain 0.24%, 1.65% and 2.37% in GDP growth, imports and exports. China's agriculture exports may be largely affected by 2.22% while US's agriculture exports and manufacture exports will increase by 6.67% and 3.42% respectively. Thus, a moderate BRICS can hardly diminish the negative impacts of DTP on China in agriculture exports, while USA will have high growth in both agriculture and manufacture exports. (See Table 24)

Table 24 DTP and Doha BRICS FTA Simulation Result

	GDP %	IM%	EX%		IM%	EX%
CHN	-0.31	-0.19	-0.13	AGR	0.73	-2.22
				MAN U	-0.2	-0.17
USA	0.24	1.65	2.37	AGR	2.65	6.67
				MAN U	1.8	3.42

Data source: GTAP simulation

F. Simulation Results of Scenario 7.

The simulation result of scenario 7 reveals that under a full BRICS FTA and TPP, China's GDP growth, imports and export will increase by 0.63%, 1.99% and 1.69%, while USA will have slowdown in GDP growth by 0.08% and increase in imports and exports by 0.32% and 0.75%. Although China's agriculture exports will decline by 1.79%, the manufacture exports will serve as a good compensation. US will still have exports increase in agriculture products, but the manufacture exports increases by only 0.82%. Therefore, a full BRICS FTA will benefit China in manufacture exports against TPP, while USA will face high growth in agriculture exports but low growth in manufactures exports. (See Table 25)

Table 25 TPP and Full BRICS FTA Simulation Result

	GDP %	IM%	EX%		IM%	EX %
CHN	0.63	1.99	1.69	AGR	5.12	-1.79
				MAN U	1.97	2.01
USA	-0.08	0.32	0.75	AGR	1.48	5.29
				MAN U	0.36	0.82

Data source: GTAP simulation

G. Simulation Results of Scenario 8.

The simulation result of scenario 8 reveals that full BRICS FTA and TTIP will strengthen China's GDP growth, imports and export by 0.77%, 2.27% and 1.91%, while USA will gain 0.13%, 0.95% and 1.28% in GDP growth, imports and exports. China's manufacture exports will largely improves by 2.28%, while US will also improve manufacture exports by 2.1%. Therefore, the full BRICS FTA and TTIP will improve economy growth and manufacture exports of both USA and China. (See Table 26)

Table 26 TTIP and Full BRICS FTA Simulation Result

	GDP%	IM%	EX %		IM%	EX %
CHN	0.77	2.27	1.91	AGR	5.44	0.78
				MAN U	2.26	2.28
USA	0.13	0.95	1.28	AGR	0.91	0.66
				MAN U	1.04	2.1

Data source: GTAP simulation

H. Simulation Results of Scenario 9.

The simulation result of scenario 9 reveals that under full BRICS FTA, DTP, China will remain growth in GDP growth, imports and export by 0.48%, 1.82% and 1.56%, while USA will improve growth by 0.15%, 1.47% and 2.21% in GDP growth, imports and exports. Despite decline in agriculture exports, China's manufacture will also increase by 1.86%, while

USA will have high growth in both agriculture and manufacture exports by 6.35% and 3.18% respectively. Therefore, a full BRICS FTA, DTP will still improves both US economy and China's economy through improvement in manufacture exports. (See Table 27)

Table 27 DTP and Full BRICS FTA Simulation Result

	GDP %	IM%	EX%		IM%	EX%
CH N	0.48	1.82	1.56	AGR	4.91	-1.73
				MANU	1.81	1.86
US A	0.15	1.47	2.21	AGR	2.53	6.35
				MANU	1.61	3.18

Data source: GTAP simulation

POLICY RECOMMENDATION

Although the simulation in the previous section is simple and results mentioned above, the BRICS FTA, no matter what degree it is, will do have compensation impacts on the negative impacts of DTP on China. Thus, besides the other FTAs and RTAs under negotiation, an intra-BRICS FTA will be a remarkable policy option for Chinese government to take as a reaction to US MTA policies.

In addition, the cross over simulation results may also serve as a simple policy matrix for Chinese government. As can be seen in Table 28, TPP has rather higher damage on China's growth, but has the least benefits to US growth. Comparatively, although TTIP has the least damage on China's economy, it is a better option for US government if US puts weigh self-growth over rival-damage. This can be regarded as a “good luck” for China, but still, DTP is the best option for US, only if the negotiation cost is lower than the small improvement between TTIP and DTP. Therefore, a moderate BRICS FTA that is just above the minimum standards of Doha negotiation result would serve as a reasonable option for China to avoid economy slow down, only if US cannot make DTP.

Besides, the comparison between different levels BRICS FTA reveals that the higher the liberalization the BRICS FTA is, the more likely that China would remain economy growth. (See Table 28)

Table 28 Impacts of BRICS FTA and MTAs on China and US

GDP%(CHN, USA)	TPP	TTIP	DTP
Status quo ⁹⁰	(-0.29,0.03)	(-0.15,0.24)	(-0.44,0.26)
Doha-level BRICS FTA	(-0.15,0.01)	(-0.02,0.22)	(-0.31,0.24)
TPP-level BRICS FTA	(0.63,-0.08)	(0.77,0.13)	(0.48,0.15)
IM%(CHN, USA)	TPP	TTIP	DTP
Status quo	(-0.46,0.54)	(-0.17,1.16)	(-0.63,1.68)

⁹⁰Status quo means no BRICS FTA.



Doha-level BRICS FTA	(-0.02,0.5)	(0.27,1.12)	(-0.19,1.65)
TPP-level BRICS FTA	(1.99,0.32)	(2.27,0.95)	(1.82,1.47)
EX%(CHN, USA)	TPP	TTIP	DTP
Status quo	(-0.36,0.95)	(-0.12,1.48)	(-0.48,2.41)
Doha-level BRICS FTA	(-0.01,0.91)	(0.22,1.44)	(-0.13,2.37)
TPP-level BRICS FTA	(1.69,0.75)	(1.91,1.28)	(1.56,2.21)

Data source: GTAP simulation

As has been shown in the previous results, there are several policy recommendations for Chinese government to deal with the impacts of mega agreements as followed:

1. As the largest trading economies, multilateral system is still the first priority for China for economy development, and thus China should spare no efforts on pushing forwards the WTO Doha negotiations;
2. If the WTO remains stagnant, it is necessary for China to push forwards intra-BRICS FTA to offset the negative impacts of MTAs, especially impacts of TTP;
3. The current Doha negotiation result can be regarded as a good benchmark, as well as a meaningful bottom line, for BRICS FTA if China intends to remain positive economy growth;
4. China may raise the liberalization level of BRICS FTA as high as possible for economy growth;
5. Even though the standards of MTAs are far beyond that of China's acceptance, China should work hard to improve domestic regulations and environments, so that China will narrow the gap between the standard level of MTAs and domestic standard; and,
6. China should also promote bilateral FTAs and RTAs with other trading partners, especially those top traders.

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Table 29 Simulation Results of Scenario 1 to Scenario 9 in detail (Million USD)

China	US		TPP		BRICS		EU		ROW		Total	
Scenario 1	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX
1 Agri	-2.33%	1.11%	0.00%	-	0.08%	-0.04%	-0.02%	0.17%	0.14%	0.32%	-0.54%	-2.54%
2 Manu	-0.92%	0.21%	-2.02%	-3.04%	0.21%	0.23%	0.16%	0.16%	0.32%	0.32%	-0.46%	-0.43%
3 SEVS	-0.66%	0.61%	-2.06%	1.59%	-0.04%	0.18%	-0.08%	0.14%	0.02%	0.17%	-0.43%	0.42%
Total	-1.02%	0.22%	-1.99%	-2.89%	0.17%	0.22%	0.11%	0.16%	0.29%	0.30%	-0.46%	-0.39%
USA	CHN		TPP		BRICS		EU		ROW		Total	
Scenario 1	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX
1 Agri	1.13%	-2.26%	2.15%	20.23%	0.95%	-2.67%	0.77%	-2.68%	0.97%	-2.29%	1.64%	5.75%
2 Manu	0.21%	-0.92%	1.41%	4.01%	0.01%	-1.12%	-0.06%	-1.20%	0.10%	-1.03%	0.59%	1.11%
3 SEVS	0.61%	-0.66%	-1.57%	0.81%	0.45%	-0.59%	0.42%	-0.63%	0.52%	-0.61%	0.11%	-0.22%
Total	0.23%	-0.99%	1.22%	3.99%	0.13%	-0.99%	0.08%	-1.03%	0.18%	-0.99%	0.54%	0.95%
Scenario 1	CHN		USA		TPP		BRICS		EU		ROW	
Welfare gain	-2601.9		1445.8		7949.41		-770.58		-2331.71		-4143.81	
China	US		TPP		BRICS		EU		ROW		Total	
Scenario 2	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX
1 Agri	-1.06%	0.09%	0.02%	0.35%	0.11%	-0.07%	-0.01%	-0.47%	0.07%	0.13%	-0.22%	0.07%
2 Manu	-1.64%	-0.51%	0.02%	0.24%	-0.01%	0.06%	-0.27%	-0.39%	-0.03%	0.08%	-0.17%	-0.15%
3 SEVS	-1.05%	0.65%	0.02%	0.12%	-0.04%	0.06%	-0.28%	0.23%	-0.05%	0.09%	-0.21%	0.19%
Total	-1.51%	-0.48%	0.02%	0.24%	0.00%	0.06%	-0.27%	-0.34%	-0.03%	0.08%	-0.17%	-0.13%
USA	CHN		TPP		BRICS		EU		ROW		Total	
Scenario 2	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX
1 Agri	0.09%	-1.02%	-0.02%	-0.76%	0.10%	-1.28%	18.56%	16.53%	0.05%	-1.05%	1.06%	1.11%
2 Manu	-0.51%	-1.63%	-0.51%	-1.41%	-0.54%	-1.61%	9.87%	15.69%	-0.57%	-1.59%	1.27%	2.38%
3 SEVS	0.65%	-1.05%	0.68%	-0.93%	0.62%	-0.98%	0.37%	-0.82%	0.61%	-0.95%	0.52%	-0.91%



Total	-0.48%	-1.50%	-0.42%	-1.30%	-0.26%	-1.42%	7.08%	9.87%	-0.37%	-1.38%	1.16%	1.51%
Scenario 2	CHN		USA		TPP		BRICS		EU		ROW	
Welfare gain	-1389.96		6333.02		-2382.15		-840.79		366.67		-2187.36	
China	US		TPP		BRICS		EU		ROW		Total	
Scenario 3	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX
1 Agri	-3.35%	1.19%	0.00%	-	0.18%	-0.11%	-0.04%	-0.27%	0.21%	0.44%	-0.76%	-2.47%
2 Manu	-2.52%	-0.31%	-2.01%	-2.80%	0.19%	0.29%	-0.12%	-0.22%	0.29%	0.40%	-0.62%	-0.58%
3 SEVS	-1.69%	1.26%	-2.04%	1.71%	-0.08%	0.25%	-0.36%	0.37%	-0.03%	0.26%	-0.64%	0.62%
Total	-2.48%	-0.27%	-1.97%	-2.66%	0.17%	0.28%	-0.17%	-0.17%	0.26%	0.39%	-0.63%	-0.52%
USA	CHN		TPP		BRICS		EU		ROW		Total	
Scenario 3	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX
1 Agri	1.21%	-3.23%	2.11%	19.39%	1.03%	-3.89%	19.44%	13.47%	1.01%	-3.29%	2.69%	6.81%
2 Manu	-0.30%	-2.51%	0.88%	2.57%	-0.54%	-2.68%	9.78%	14.35%	-0.48%	-2.57%	1.84%	3.47%
3 SEVS	1.26%	-1.69%	-0.91%	-0.11%	1.07%	-1.55%	0.78%	-1.43%	1.12%	-1.54%	0.62%	-1.10%
Total	-0.26%	-2.45%	0.79%	2.67%	-0.13%	-2.37%	7.15%	8.76%	-0.19%	-2.33%	1.68%	2.44%
Scenario 3	CHN		USA		TPP		BRICS		EU		ROW	
Welfare gain	-3976.87		7702.74		5616.68		-1600.27		-1909.14		-6306.77	
China	US		TPP		BRICS		EU		ROW		Total	
Scenario 4	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX
1 Agri	-3.48%	0.82%	-1.18%	-	8.07%	8.38%	-1.22%	-0.09%	-1.02%	0.07%	0.95%	-2.29%
2 Manu	-0.87%	-0.33%	-1.98%	-3.57%	6.20%	14.90%	0.24%	-0.44%	0.41%	-0.25%	-0.03%	-0.02%
3 SEVS	-0.39%	0.21%	-1.81%	1.19%	-0.01%	-0.06%	0.19%	-0.27%	0.30%	-0.24%	-0.18%	0.03%
Total	-1.04%	-0.32%	-1.96%	-3.41%	5.94%	13.95%	0.22%	-0.42%	0.38%	-0.25%	-0.02%	-0.03%
USA	CHN		TPP		BRICS		EU		ROW		Total	
Scenario 4	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX



1 Agri	0.83%	-3.41%	2.15%	20.24%	0.35%	-3.48%	0.76%	-2.64%	1.00%	-2.26%	1.60%	5.61%
2 Manu	-0.33%	-0.86%	1.46%	4.06%	-0.09%	-2.71%	0.02%	-1.20%	0.19%	-1.00%	0.55%	1.06%
3 SEVS	0.21%	-0.39%	-1.58%	0.81%	0.22%	-0.43%	0.42%	-0.64%	0.53%	-0.62%	0.08%	-0.21%
Total	-0.31%	-1.01%	1.27%	4.04%	-0.01%	-2.06%	0.14%	-1.03%	0.26%	-0.97%	0.50%	0.91%
Scenario 4	CHN		USA		TPP		BRICS		EU		ROW	
Welfare gain	-1116.17		1092.61		7742.79		823.36		-2878.55		-4806.43	
China	US		TPP		BRICS		EU		ROW		Total	
Scenario 5	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX
1 Agri	-2.22%	-0.20%	-1.16%	0.09%	8.10%	8.36%	-1.20%	-0.73%	-1.09%	-0.12%	1.27%	0.31%
2 Manu	-1.58%	-1.05%	0.07%	-0.30%	5.97%	14.71%	-0.20%	-0.99%	0.06%	-0.49%	0.26%	0.26%
3 SEVS	-0.79%	0.25%	0.28%	-0.28%	0.00%	-0.17%	-0.01%	-0.18%	0.23%	-0.31%	0.05%	-0.21%
Total	-1.54%	-1.01%	0.06%	-0.30%	5.76%	13.76%	-0.17%	-0.92%	0.06%	-0.46%	0.27%	0.23%
USA	CHN		TPP		BRICS		EU		ROW		Total	
Scenario 5	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX
1 Agri	-0.20%	-2.18%	-0.01%	-0.75%	-0.50%	-2.09%	18.54%	16.59%	0.08%	-1.01%	1.02%	0.97%
2 Manu	-1.05%	-1.58%	-0.47%	-1.36%	-0.65%	-3.19%	9.95%	15.69%	-0.48%	-1.56%	1.23%	2.34%
3 SEVS	0.25%	-0.79%	0.67%	-0.93%	0.39%	-0.82%	0.38%	-0.84%	0.62%	-0.97%	0.49%	-0.90%
Total	-1.01%	-1.52%	-0.38%	-1.26%	-0.40%	-2.49%	7.14%	9.87%	-0.29%	-1.36%	1.12%	1.47%
Scenario 5	CHN		USA		TPP		BRICS		EU		ROW	
Welfare gain	93.7		5983.42		-2594.65		751.08		-174.08		-2845.12	
China	US		TPP		BRICS		EU		ROW		Total	
Scenario 6	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX
1 Agri	-4.49%	0.90%	-1.18%	-10.45%	8.18%	8.31%	-1.24%	-0.54%	-0.96%	0.18%	0.73%	-2.22%
2 Manu	-2.46%	-0.85%	-1.96%	-3.34%	6.19%	14.97%	-0.04%	-0.82%	0.38%	-0.17%	-0.20%	-0.17%
3 SEVS	-1.43%	0.86%	-1.78%	1.31%	-0.05%	0.01%	-0.09%	-0.04%	0.25%	-0.15%	-0.38%	0.22%
Total	-2.51%	-0.80%	-1.94%	-3.18%	5.94%	14.01%	-0.06%	-0.75%	0.35%	-0.16%	-0.19%	-0.16%



USA	CHN		TPP		BRICS		EU		ROW		Total	
Scenario 6	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX
1 Agri	0.91%	-4.38%	2.11%	19.40%	0.43%	-4.68%	19.43%	13.53%	1.03%	-3.26%	2.65%	6.67%
2 Manu	-0.85%	-2.45%	0.93%	2.62%	-0.65%	-4.25%	9.87%	14.35%	-0.39%	-2.55%	1.80%	3.42%
3 SEVS	0.86%	-1.43%	-0.92%	-0.11%	0.83%	-1.39%	0.79%	-1.44%	1.14%	-1.55%	0.59%	-1.09%
Total	-0.80%	-2.47%	0.83%	2.71%	-0.28%	-3.43%	7.21%	8.76%	-0.11%	-2.31%	1.65%	2.40%
Scenario 6	CHN		USA		TPP		BRICS		EU		ROW	
Welfare gain	-2489.53		7348.94		5407.21		-4.24		-2454.15		-6972.75	
China	US		TPP		BRICS		EU		ROW		Total	
Scenario 7	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX
1 Agri	-4.84%	-1.29%	-2.52%	-12.47%	25.67%	48.49%	-2.53%	-2.24%	-2.22%	-1.90%	5.12%	-1.79%
2 Manu	0.12%	-3.44%	-1.11%	-6.60%	22.92%	94.36%	1.39%	-3.94%	1.61%	-3.58%	1.97%	2.01%
3 SEVS	1.01%	-1.93%	-0.47%	-0.92%	0.68%	-1.71%	1.67%	-2.46%	1.81%	-2.39%	1.24%	-2.10%
Total	-0.22%	-3.39%	-1.09%	-6.38%	21.46%	88.21%	1.43%	-3.80%	1.56%	-3.43%	1.99%	1.70%
USA	CHN		TPP		BRICS		EU		ROW		Total	
Scenario 7	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX
1 Agri	-1.32%	-4.77%	2.18%	20.26%	-1.59%	-11.79%	0.83%	-2.65%	1.21%	-2.23%	1.48%	5.29%
2 Manu	-3.46%	0.12%	1.69%	4.37%	0.47%	-11.30%	0.51%	-1.28%	0.72%	-0.91%	0.36%	0.82%
3 SEVS	-1.93%	1.01%	-1.67%	0.82%	-0.53%	0.02%	0.44%	-0.75%	0.58%	-0.68%	-0.02%	-0.19%
Total	-3.42%	-0.16%	1.48%	4.28%	0.19%	-8.04%	0.49%	-1.11%	0.71%	-0.93%	0.32%	0.74%
Scenario 7	CHN		USA		TPP		BRICS		EU		ROW	
Welfare gain	7404.7		-731.31		6800.09		2909.53		-5497.27		-7757.83	
China	US		TPP		BRICS		EU		ROW		Total	
Scenario 8	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX



1 Agri	-86.68%	-2.28%	-	21.64%	9.41%	-86.05%	48.65%	146.45%	-2.59%	-	32.70%	-2.50%	-	54.98%	3.32%
2 Manu	361.71%	-4.13%	-2.66%	-0.63%	188.94%	93.53%	145.24%	-4.24%	-	29.66%	-4.18%	42.75%	2.87%		
3 SEVS	-28.50%	-1.89%	-	25.54%	-4.01%	-14.02%	-2.06%	-9.90%	-2.73%	-	23.01%	-2.71%	-	19.89%	-2.92%
Total	268.99%	-4.06%	-4.47%	-0.70%	136.33%	87.42%	114.66%	-4.10%	-	29.11%	-4.00%	33.47%	2.49%		
USA	CHN		TPP		BRICS		EU		ROW		Total				
Scenario 8	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX			
1 Agri	-2.33%	-3.56%	-2.05%	-	-3.41%	-6.90%	-0.69%	2.74%	-0.72%	2.39%	-1.74%	-5.76%			
2 Manu	-4.16%	-0.60%	-1.11%	-3.54%	0.44%	-9.28%	0.63%	1.10%	0.52%	1.13%	-0.79%	-1.32%			
3 SEVS	-1.89%	0.61%	1.51%	-0.82%	-1.42%	1.20%	-0.38%	0.50%	-0.45%	0.53%	-0.23%	0.23%			
Total	-4.09%	-0.68%	-0.95%	-3.60%	-0.08%	-6.20%	0.34%	0.94%	0.34%	1.04%	-0.73%	-1.12%			
Scenario 8	CHN		USA		TPP		BRICS		EU		ROW				
Welfare gain	8605.93		4166.86		-3566.06		2835.63		-2755.18		-5774.45				
China	US		TPP		BRICS		EU		ROW		Total				
Scenario 9	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX			
1 Agri	-5.84%	-1.22%	-2.53%	-	25.78%	48.37%	-2.57%	-2.68%	-2.17%	-1.78%	4.91%	-1.73%			
2 Manu	-1.49%	-3.95%	-1.09%	-6.38%	22.91%	94.42%	1.11%	-4.30%	1.58%	-3.50%	1.81%	1.86%			
3 SEVS	-0.03%	-1.30%	-0.45%	-0.81%	0.65%	-1.65%	1.38%	-2.24%	1.76%	-2.30%	1.03%	-1.92%			
Total	-1.70%	-3.87%	-1.07%	-6.16%	21.47%	88.27%	1.14%	-4.12%	1.53%	-3.35%	1.82%	1.57%			
USA	CHN		TPP		BRICS		EU		ROW		Total				
Scenario 9	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM	EX			
1 Agri	-1.25%	-5.73%	2.14%	19.42%	-1.51%	-	19.51%	13.51%	1.25%	-3.23%	2.53%	6.35%			



2 Manu	-3.97%	-1.48%	1.16%	2.92%	-0.09%	-	10.40%	14.27%	0.13%	-2.46%	1.61%	3.18%
3 SEVS	-1.30%	-0.03%	-1.01%	-0.11%	0.08%	-0.95%	0.81%	-1.54%	1.18%	-1.61%	0.49%	-1.07%
Total	-3.90%	-1.63%	1.03%	2.95%	-0.08%	-9.32%	7.58%	8.67%	0.32%	-2.26%	1.47%	2.23%
Scenario 9	CHN		USA		TPP		BRICS		EU		ROW	
Welfare gain	6037.21		5514.11		4450.23		2085.93		-5055.32		-9938.81	

Data Sources: Author calculation with GTAP database.



VI. Plurilaterals and the Multilateral Trading System

An Issues Brief for the ICTSD Expert Group on Preferential Trade Agreements⁹¹

Peter Draper and Memory Dube⁹²

⁹¹ This paper was first presented as an article for E15 Initiative of ICTSD. The author authorized its reproduction on this e-book. The article is available at: <
<http://www.ictsd.org/sites/default/files/research/E15-RTA-Draper.pdf>>

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Acronyms

BRICS	Brazil, Russia, India, China and South Africa
DSB	Dispute Settlement Body
DSM	Dispute Settlement Mechanism
DSU	Dispute Settlement Understanding
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GPA	Government Procurement Agreement
GVCs	Global Value Chains
ISA	International Services Agreement
ITA	Information Technology Agreement
LDCs	Least Developed Countries
MFN	Most Favoured Nation
NAMA	Non-agricultural Market Access
PTAs	Preferential Trade Agreements
TPP	Trans-Pacific Partnership Agreement
TTIPA	Transatlantic Trade and Investment Partnership Agreement
WTO	World Trade Organization



INTRODUCTION: WHY PLURILATERALS?

The evolution of the multilateral trading system is synonymous with plurilateral agreements. Historically, a number of plurilateral codes evolved in parallel with the tariff agreements negotiated under the General Agreement on Tariffs and Trade, (GATT) with nine being concluded in the Tokyo round (Kennedy, 2012). These were folded into the Uruguay round under the single undertaking, whereby nothing is agreed until everything is agreed. That process took place under unique historical conditions, notably the end of the Cold War and consequent apex of US power and influence in the multilateral trading system, thus enabling a unique deal. Consequently the Uruguay round can be considered *sui generis*, rather than the current potential reversion to plurilateral codes.

Given the size of the World Trade Organization's (WTO) membership and the diversity of interests in play, it is possible the single undertaking has run its course. The ongoing impasse in the Doha round means that key WTO rules are not being updated, while trade liberalization has moved on to other forums, principally regional. While preferential trade agreements (PTAs) are compatible with the WTO (WTO, 2011a), increasing recourse to them in the context of stagnation in the multilateral rule-making mechanism constitutes a growing existential crisis for the WTO. Therefore, proponents of plurilaterals argue that those countries with core interests in updating the rules and in pursuing liberalization under the aegis of the WTO should be allowed to proceed provided the correct conditions pertain. Opponents, principally developing countries, worry that their interests will be neglected as the major trading powers steam ahead without them, in the worst case potentially "imposing" plurilateral outcomes on them at some future date, but at the least forging new standards that developing countries will find difficult to implement and with attendant implications for loss of market access. This fear stems primarily from the multilateralisation of some of the Tokyo Round codes under the single undertaking approach adopted for the Uruguay Round.

Nonetheless, WTO members have agreed to explore new approaches to advancing negotiations under the aegis of the multilateral trading system (WTO, 2011b). In this light, plurilaterals, in principle, offer one means. This could introduce complexities and risks, but retaining the centrality of the multilateral trading system even if its integrity may be called into question could outweigh such potential costs. This brief constitutes a high level consideration of the 'cost-benefit' equation involved in pursuing plurilateral approaches, with brief application to key subjects on the Doha round agenda.

CHALLENGE AND OPPORTUNITY: CAN PLURILATERALS REVIVE THE MULTILATERAL TRADING SYSTEM?

The short answer to this question is 'yes, but...'. The 'yes' part of the answer pertains to the fact that plurilaterals could, in principle, be used to pioneer new rules or market openings in an otherwise clogged system, thus keeping the WTO at the centre. Since the WTO is a global public good, the benefits of which are widely acknowledged and evidenced in particular through member state recourse to its dispute settlement

mechanism, it is clear that progress beyond the Doha impasse would be substantially beneficial. For this reason many countries, mostly developed, support the adoption of new approaches to concluding the Doha Round, and plurilateral negotiations in particular. There is precedent for this, since plurilateral agreements were resorted to in order to break the impasse in the Tokyo Round negotiations, resulting in the aforementioned ‘codes’ system (Saner, 2012). However, beyond the level of principle much depends on the nature of the particular plurilateral proposed and its legality under existing WTO rules. This is discussed in some detail below.

If plurilaterals were to ‘break out’ into the open, the single undertaking would undoubtedly be affected, and potentially fatally undermined. This could have substantial implications for the political economy of multilateral trade negotiations. Yet the single undertaking does not legally prevent the addition or adoption of new agreements to the WTO, be they multilateral or plurilateral, especially if a multilateral trade negotiation round has failed. It is a principle that is adopted by choice with regard to the organization of trade negotiations but is not cast in stone and can be done away with (Kennedy M, op.cit.). For instance, even though the single undertaking was adopted for the Doha Round, paragraph 47 of the Doha Ministerial Declaration provides that: “... the conduct, conclusion and entry into force of the outcome of the negotiations shall be treated as parts of a single undertaking. **However, agreements reached at an early stage may be implemented on a provisional or definitive basis.** (Authors’ own emphasis)”

An important question is whether paragraph 47 obviates the need to obtain consensus thereby allowing members to proceed with negotiation of plurilaterals, or if the paragraph allows it but consensus is still required for the provision to be actioned? The challenge with regard to carving out a package for the least developed countries (LDCs) from the Doha Round would suggest that such unbundling still requires consent from all members. Similarly, the Hong Kong Ministerial Declaration, with specific reference to the services negotiations in Annex C, provides for a request-offer approach to be pursued on a plurilateral basis with a view to facilitating the participation of all members, focusing particularly on developing countries whose negotiation capacity is limited. However, progress has been painfully slow not least because it is linked to progress in other negotiating areas, principally agriculture and non-agricultural market access (NAMA). Consequently, it is clear that the single undertaking can serve as a blocking factor in the negotiations, and that plurilaterals could work to unblock the impasse.

Yet the absence of the single undertaking could fundamentally alter the balance of issues and interests under negotiation. Plurilaterals could conceivably revolve around the export interests of the major trading powers. Once those interests are satisfied, they would effectively be removed from the equation of broader, cross-issue trade-offs. This could make it difficult, if not impossible, to launch major trade rounds in the future. In addition, it could leave untouched the major industries that still enjoy substantial protection, notably agriculture and labour-intensive manufacturing such as clothing. Therefore developing countries especially could find that their export interests are substantially negatively affected, and without recourse beyond asymmetrical PTAs. In such a scenario, whilst the multilateral trading system could have advanced, potentially

innovating new rules too, it could end up being more skewed towards the interests of the major trading powers. And those countries that do not have much influence in the multilateral trading system, especially LDCs, could find that new standards and market access conditions are forged without taking their interests into account (IDEAS Centre, 2013). It has always been easier for developed countries to reach agreement on issues of interest to them than it has been for developing countries and this means that issues of interest to developing countries, e.g. development concerns in the Doha Round, will most likely be overlooked. There is also apprehension around the negotiation of non-Doha issues and the impact of this on the multilateral trading system. It also raises the question of whether these plurilaterals should be limited to negotiating the issues currently under deadlock in the Doha Round or if the negotiation of plurilaterals should be the default position for progress in rulemaking in the WTO going forward. The latter approach would make developing countries more nervous as they would see it as the erosion of the multilateral system. For these reasons and more many developing countries, including some large trading powers such as the BRICS⁹³, are in principle opposed to plurilaterals.

In the end developing countries may not have much choice. The emergence of “mega-regionals”⁹⁴ raises the possibility that developing countries will be excluded from market share in the signatory regions. Also, since these mega-regionals are being negotiated outside the scope of the multilateral trading system, developing countries are prevented from negotiating the rules that will set standards for the trading system as a whole. In this light plurilaterals have more scope to strengthen the multilateral trading system than PTAs, especially mega-regionals. Plurilaterals also offer ‘insurance’ to countries seeking to advance their trade interests through PTAs, particularly through “mega-regionals”. Since those processes are large, complex, and politically sensitive, member states negotiating them are likely to want to keep open their options for advancing trade rules through the WTO. As the Doha round has failed, plurilaterals could constitute that insurance.

There is an implicit understanding regarding the uniquely vulnerable position of LDCs in the global trading system and the consequent need to shield them from reciprocal commitments. It can therefore be reasonably expected that any plurilateral concluded would have special provisions for LDCs that confer rights and exempt them from any commitments. This is discussed further below within the context of creating a code of conduct for the negotiation of plurilaterals.

So while the window for exploring new approaches – particularly plurilaterals – to concluding the Doha round has opened a crack, many obstacles remain in the road. At the heart of this impasse is distrust and mismatched ambitions. Therefore it is important to shed light on what exactly plurilaterals could entail legally, their limitations, and how the trust deficit could be sensitively and constructively handled.

⁹³ Brazil, Russia, India, China, and South Africa.

⁹⁴ The ongoing Trans-Pacific Partnership Agreement (TPP), and the proposed Transatlantic Trade and Investment Partnership Agreement (TTIPA). At the centre of both is the US, incorporating the third largest economy in the world in the form of Japan in the case of the TPP; and the entire European Union in the case of the TTIPA.

RESPONSES

First it is critical to understand what exactly plurilaterals are and how they relate to existing WTO rules. This frames the political economy possibilities and constraints, and provides context to a concrete proposal to negotiate, upfront, a code of conduct to govern subsequent negotiation of plurilaterals. Such a code could allay the worst fears and build sufficient consensus to proceed. The next issue then is which plurilaterals should be attempted, in what combinations and sequence. This is a really challenging set of speculations since it encompasses many member states with widely diverging interests.

Towards a taxonomy of plurilaterals

Broadly speaking plurilaterals can be characterised as either ‘inclusive’ or ‘exclusive’.

Inclusive plurilaterals essentially entail conditional unilateral sectoral liberalization. As such these are market access instruments, and almost certainly would not apply to rules. The key point is that liberalization arising under their rubric is conducted on a most-favoured nation (MFN) basis, and is conditioned on other key trading powers also conducting such MFN liberalization. The only way around this would be to ensure that both countries that have an interest and those that should ideally have an interest (interesting countries) are part of the “critical mass” necessary for the initiation of the plurilateral negotiation. In that sense, inclusive plurilaterals are challenging to achieve but once agreed upon they obviate the need for consent by all WTO members via the Ministerial Conference; this consent would be required for exclusive plurilaterals. The foremost example of this approach is the Information Technology Agreement (ITA)⁹⁵; whereas sectorals under the NAMA negotiations could be considered potential candidates for this approach.

Since the ensuing liberalization is unilateral, it does not depend on WTO rules or broader negotiations per se. It could also be locked in through revisions to member state tariff or services schedules as submitted to the WTO. This approach has the advantage of achieving liberalization breakthroughs where broader negotiations are stalled, such as under the Doha round. However, it carries the longer-term danger that major exporting interests could be removed from the equation of subsequent, broader liberalization efforts.

As with inclusive plurilaterals, exclusive plurilaterals involve liberalization only for those members participating and signing up to the subsequent agreement. The key

⁹⁵ The Information Technology Agreement (Ministerial Declaration on Trade in Information Technology Products) was signed at the Singapore Ministerial Conference in December 1996 by 29 countries but, because of the 90 percent trade coverage criteria, only came into effect in April 1997 when other countries signed up to it. The ITA is basically about tariff reduction in all products listed in the Declaration and such tariff reduction is on an MFN basis. There is a provision in the agreement for the periodic review of product coverage but despite the participants having been consulting on this since 1997, agreement has yet to be reached on additional product coverage and consultation continues. (WTO, http://www.wto.org/english/tratop_e/inftec_e/itaintro_e.htm)



difference is that the benefits of such liberalization are only available to parties to the agreement. Exclusive plurilaterals take several forms: goods PTAs, covered by GATT article XXIV; services PTAs, covered by GATS article V; and those residing under the Marrakech Treaty, Annex 4. PTAs have their own sets of rules, and consequently are not considered here since member states are free to pursue them. Our concern therefore is with agreements that fall under Annex 4, such as the Government Procurement Agreement (GPA).

The GPA essentially opens up government procurement markets only to firms from signatory countries. This agreement, and two others covering bovine meat and dairy (both terminated in September 1997), do not apply on an MFN basis. The biggest legal hurdle to the adoption of any new Annex 4 plurilateral agreement is the consensus requirement. Article X:9 of the WTO agreement provides that, “The Ministerial Conference, ..., may decide exclusively by consensus to add that agreement to Annex 4”. For such consent to be granted, the interests of non-participating countries become an important consideration and could possibly influence the content of the agreements. The meaning of ‘consent’ in this context is most probably that no member objects. Any new agreements of this kind, therefore, would require the ‘consent’ of all WTO members through the Ministerial Conference or General Council – a tall order indeed.

With some developing countries such as Brazil, China, India and South Africa having openly expressed their rejection of the idea of a plurilateral alternative to the Doha impasse, preferring instead a multilateral approach, it is guaranteed that these countries would veto any attempt to adopt a new plurilateral agreement under annex 4. This raises the probability of an impasse. The issue of plurilaterals should then possibly be considered alongside questions of whether the consensus rule needs a review, otherwise the system could be held hostage through the exercise of effective veto power. Against this, the consensus rule works as a safeguard against a possible repeat of the Uruguay Round precedent regarding the incorporation of Tokyo round plurilateral agreements into the single undertaking. The multilateralisation of any Annex 4 agreements would also need to be adopted through consensus by the Ministerial Council as it would entail an amendment to the provisions of the WTO agreement.⁹⁶

Some analysts point to the possible use of waivers from existing rules, as covered under the Marrakech Treaty article IX, as allowing for plurilateral outcomes. However, a waiver applies only to existing rules, and cannot be used to negotiate new rules. It could conceivably be granted for new market access arrangements, such as for generalized system of preferences market access for poor countries. But such arrangements would probably not constitute plurilateral arrangements per se. At best, a

⁹⁶ Article X:1 of the WTO Agreement provides, in short, that a proposal to amend the provisions of the WTO agreement must be submitted to the Ministerial Council whose decision to submit such proposal to the WTO members for acceptance shall be taken by consensus. For the proposal to be adopted, two-thirds of the members must agree to it and the amendment is effective for all members, but only if it does not modify members’ substantive rights and obligations. All members whose rights such amendment infringes and who have not accepted the amendment may be asked, by a three-quarter majority of the Ministerial Conference, to withdraw from the WTO or, they may be allowed to remain members upon consent by the Ministerial Conference. Hence the Article X:1 process is a very onerous one and, with the political activation of developing countries within the WTO, it is highly unlikely that any proposal to multilateralise Annex 4 agreements would ever see the light of day.

waiver could potentially be sought with regard to an inclusive plurilateral that does not fall within Annex 4, but only with the intention of exempting the application of the MFN obligation to non-participants to the negotiation. An example would be the ITA where the participants could theoretically seek a waiver from the MFN obligation and thus only apply the benefits among themselves, even though the agreement is not an Annex 4 one. Furthermore, waivers are granted for limited periods only and can be withdrawn. Therefore this avenue would be cumbersome at best, and most likely very partial relative to what proponents of plurilaterals are looking for.

Each plurilateral arrangement would specify its own dispute settlement arrangements with recourse to the WTO's dispute settlement mechanism (DSM) being an attractive option and a major motivation for negotiating plurilaterals. WTO dispute settlement can be built in in two ways: for exclusive arrangements residing under Marrakech annex 4 the rules of the agreement could specify this; and for inclusive arrangements if the liberalization schedules are lodged with the WTO then dispute settlement would apply. Appendix 1 of the Dispute Settlement Understanding (DSU) provides that application of the DSM to plurilateral trade agreements, "... shall be subject to the adoption of a decision by the parties to each agreement setting out the terms for the application of the Understanding to the individual agreement, including any special or additional rules or procedures ...". In order to be able to apply the DSU procedures, the members of the plurilateral agreement would have to include, in the agreement, a provision for the application of the DSU as well as adopt a decision that sets out the dispute settlement provisions of the agreement and notify it to the Dispute Settlement Body (DSB). However, the decision to amend the list of covered agreements under Appendix 1 of the DSU has to be adopted through a consensus decision by the Ministerial Conference.⁹⁷ Any special or additional rules and procedures regarding the adjudication of any matters related to the plurilateral agreements can vary on a case by case basis depending on the particular agreement.

Acceptance of Plurilaterals: Political economy considerations

Inclusive plurilaterals are clearly not so problematic as exclusive ones, since the full consent of the entire membership of the WTO is not required. However, launching inclusive plurilaterals is where the real political economy lies, since they are subject to the free-rider problem. Therefore the real challenge is in securing "critical mass", i.e. a sufficient body of major current or potential exporters such that those outside the arrangement do not constitute an export threat whilst keeping their own markets closed. Critical mass is therefore a flexible concept, and will be defined according to the industry subject to the plurilateral, and who the main actors in that industry are.

Exclusive plurilaterals of the GPA – Annex 4 - type are much more challenging to initiate and conclude. As WTO law currently stands, members wishing to initiate such negotiations need to be assured that no WTO member would object to the arrangement. Since trust in the WTO is extremely low, that currently seems to be a very

⁹⁷ Article X:8 of the WTO Agreement.



challenging proposition. By contrast, if trust in the negotiating process grows, so the “critical mass” requirement would diminish, and vice-versa.

Therefore, the central question is how to rebuild trust in favour of plurilateral negotiations in the wake of the Doha round’s failure?

The case for a ‘code of conduct’ to govern plurilateral negotiations

There is a case for taking a step back and initiating a formal process of negotiating a “code of conduct” to govern plurilaterals in advance of formally initiating any, as proposed a few years ago by the World Economic Forum’s global agenda council on the global trade system (World Economic Forum, 2010). Such a code could reassure the many developing countries that are nervous of having plurilateral agreements foisted on them and could include, among other things, the underlying principles that:

1. Membership is voluntary;
2. The subject of the plurilateral is a core trade-related issue;
3. Those participating in plurilateral negotiations should have the means, or be provided with the means as part of the agreement, to implement the outcomes⁹⁸;
4. The issue under negotiation should enjoy substantial support from the WTO’s membership; and
5. The ‘subsidiarity’ principle should apply in order to minimise the intrusion of ‘club rules’ on national autonomy.

Flowing from these principles, plurilateral codes should also be governed by a set of rules. These could include, among others, the following:

- Only parties to the agreement could participate in WTO dispute settlement and, consequently, cross-agreement retaliation should not be allowed, since it would reduce the incentives to join the agreement;
- Any WTO member could participate in the negotiations on a voluntary basis, subject to demonstrating sufficient capacity to implement the outcomes; and
- The provision of benefits to non-members should not be required, since that would reduce the incentives to negotiate the plurilateral, but could be allowed.

Furthermore, at the meeting of the ICTSD Expert Group on PTAs it was agreed that transparency mechanisms should be built into plurilateral negotiations so that exclusiveness could be minimised in order to build trust and interest in it.

Nonetheless, negotiating such a code is likely to be a fraught undertaking given the ongoing impasse in the Doha round, and would require, at a minimum, upfront good faith gestures on the part of major trading powers such as committing to a real “LDC outcome” from the rump of the Doha round. Even then success is certainly not guaranteed since there are quite a few developing countries that remain implacably

⁹⁸ At the inaugural ICTSD Expert Group meeting on the multilateral trading system and PTAs participants agreed that these should include technical assistance and special and differential treatment. The revised GPA agreement provisions may be of some guidance in this regard.



opposed to the notion of plurilaterals. Consequently it would take time and patience to build the case.

Which plurilaterals?

The first question requiring an answer is whether to focus on “carve-outs” from the current Doha Round, or rather select new subjects not contained in the Doha mandate. In its favour the “Doha carve-out” option means the potential plurilateral agreements would be drawn from the negotiation subjects as agreed in the negotiation mandate. This would ensure that the plurilateral agreements remain within the ambit of the membership’s expectation, since they would be based on subjects agreed to by the broad membership of the WTO.

Providing a focus to the selection of subjects is the real challenge. Two coherent attempts are worthy of closer analysis, which unfortunately is beyond the scope of this paper: the idea of negotiating a “Green” or “Sustainable” plurilateral as advocated by the ICTSD and other organizations; and the idea of negotiating a “global value chains” (GVCs) friendly plurilateral as advocated by the World Bank and World Economic Forum. The “Sustainable” plurilateral is driven by the imperative of addressing climate change and would tackle the underlying competitiveness problem in the climate talks head on, potentially dealing with a major blocking dynamic. The latter would cluster several negotiating areas critical to the operation of GVCs, notably trade facilitation and network services, both of which are critical to LDCs and developing countries more generally. However, support amongst the membership for these worthy initiatives will depend on a sufficient number of member states buying into their respective policy logics. Currently that seems like a tall order, to judge by the ill-fated LDC package within which trade facilitation features centrally.

In addition there is the putative international services agreement (ISA), and the various NAMA sectorals proposed to date. The ISA seems almost certain to end up being a PTA, which would not require the broader membership’s consensus to implement. The NAMA sectorals, if conceived as inclusive plurilaterals, would “merely” require critical mass to negotiate and implement. However, the political economy dynamics around the free-rider problem are such that inclusive NAMA sectorals are unlikely to get off the ground unless the BRICS and other significant emerging markets come on board. As things currently stand, in the post financial crisis world of creeping protectionism, that seems like a distant prospect.

Furthermore, the underlying dynamic of the “Doha carve-out” option is fraught with difficulties. This essentially come down to the simple fact that the progress of the single undertaking up to this point would have to be unpicked, which could yield a cascade of objections. In principle a balance could be struck between the multiplicity of interests in play, but the logic of constructing it could lead inexorably back to the single undertaking. In short, if all interests are to be catered for then we would end up where we started – with a comprehensive negotiating round.

If the “Doha carve-out” is so challenging, what about starting new negotiations on issues not covered under the Doha mandate? The main, probably fatal, obstacle is the fact that the major developing country trading powers that would be needed to secure



both critical mass and the broader membership's consensus, notably the BRICS, insist on maintaining the integrity of the Doha architecture. So while a subject like investment is interesting and necessary to consider in its own right, the prospects of actually launching plurilateral negotiations on it and other non-Doha subjects, seem vanishingly small for as long as the Doha impasse endures.

CONCLUDING REMARKS

Getting beyond the Doha impasse is challenging indeed. Plurilaterals could ultimately be the right way to proceed, but the main challenge is to kick-start the process. From the preceding analysis, we propose a two-pronged strategy, recognizing that the timeframe for success is medium-term, and that success is by no means guaranteed. First, the notion of negotiating a code of conduct to govern subsequent negotiation of plurilaterals should be introduced into formal WTO processes. If successfully pursued this could substantially enhance levels of trust amongst the membership and thereby contribute to building sufficient consensus to launch a series attempt to negotiate plurilaterals. Second, and in parallel, efforts to launch the "Sustainable" and "GVC" plurilaterals should be accelerated, and accompanied by including as many member states and relevant stakeholders in transparent discussions about the putative merits of these two potential plurilaterals. In the process consideration should be explicitly given to whether launching negotiations in these two areas might establish a sufficient "critical mass" of interest amongst the whole WTO membership, and if not what other subjects could be added, bearing in mind the need not to overwhelm the negotiating agenda.

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