

THE RISE AND FALL OF THE MEGA-REGIONAL TRADE AGREEMENTS

TIM JOSLING, FREEMAN SPOGLI INSTITUTE FOR INTERNATIONAL STUDIES,
STANFORD UNIVERSITY

2 CONTEXT

- Little more than one year ago it appeared that a handful of “mega-regional” trade agreements (TPP, TTIP, RCEP) would transform the landscape of the international trade system
- WTO would act as a safety net and judicial body but negotiations over contentious issues would be done in subsets of WTO members (mega-regionals, CMAs and plurilaterals)
- UK Brexit vote (June 2016) had already added multiple complications to EU trade policy and signaled problems ahead for TTIP
- Nov 8 election of Trump upended the US position on trade and changed the prospects for the mega-regionals, TPP but also TTIP
- So what is the future of the mega-regionals? And how does Eurasia fit in? Is a mega-regional trade agreement still a viable model for economic integration?

3 ROAD MAP

- Describe in brief the status of the Mega-regional Agreements (MRAs) and other extra-regional negotiations
- Suggest reasons for stalled MRA negotiations
- Discuss options and prospects for US and EU trade policy
- Relate to issues facing Eurasia

4 TPP

- TPP is (was) the most significant trade agreement since the UR
- 12 countries reached agreement that would have eliminated tariffs and promoted trade – building on existing bilateral and regional trade pacts
- TPP also tackled some non-WTO issues (including labor and environment) and extended others
- TPP would (probably) have received Congressional approval by now under normal circumstances
- Trump seized upon notion of backing out of TPP as a way of shoring up support from auto industry concerned about Japanese trucks (and parts suppliers still sore over NAFTA deal)

5 TPP

- Renouncing TPP was among Trump's first actions as President (January 23)
- “Low-hanging fruit” in the trade area to show commitment to election promises
- Major issue is whether TPP will go ahead without US
- Recent TPP meeting (Hanoi) called for specific plans for enacting TPP-11 by November
- Vietnam and Malaysia doubt the value of an agreement that does not give them access to US market: Japan may not open up agricultural market access without US participation
- Volume of trade among TPP-11 would be only one-quarter as much as under TPP-12: becomes much less of a new set of rules to spread to multilateral level

6 TTIP

- TTIP was progressing slowly, but would have been given a boost by a successful TPP
- Brexit vote changed the trade agenda for the EU – the trade relations between UK and EU will absorb much of the next two years (and beyond?)
- UK-US deal has support on both sides but talks can hardly go ahead until UK has actually left the EU (two years)
- EU sees Comprehensive Economic and Trade Agreement (CETA) with Canada as model for an eventual TTIP
- But EU is having difficulty getting final approval on agreements that fall partly within the competence of the governments
- Consequently TTIP in cold storage for time being

7 RCEP

- Regional Comprehensive Economic Partnership includes ASEAN (10 members) and ASEAN FTA partners (6 countries)
- Scheduled to be finalized by end 2017
- Big boost after US TPP exit: China keen to consolidate commercial linkages among East Asian and South Asian economies
- RCEP less comprehensive than TPP
- Focus is on consolidating market access agreed in bilaterals rather than setting out new rules that could be multilateralized

8 SILK ROAD

- RCEP has implications for another China-based proposal: Belt and Road Initiative (aka new Silk Road)
- Proposed in 2013 by President Xi, \$900 billion investment in infrastructure aimed at developing trade links between Asia and Europe (by land and by sea)
- Political problem with India over Pakistan-administered Kashmir being used for a major infrastructure project (China-Pakistan Economic Corridor)
- Russia will be wary about ceding too much control and leadership to China
- Progress depends more on political than economic priorities and constraints

9 NAFTA

- Trump called NAFTA the “worst trade deal in history”
- Backed off from comments about “leaving” NAFTA after Canada and Mexico phone calls
- No surprise that he wants to change parts of the agreement: political credibility at stake
- Canada under pressure on dairy policies and softwood lumber: could make some concessions to placate US and give Trump a “victory”
- Mexico under pressure to agree to tighter “rules of origin” (62.5% to 75% content) and to remove “subsidies” to sugar production
- US wants to change or eliminate Chapter 19 (AD and CVD)
- US unlikely to concede much at bargaining table: not much political flexibility

10 CETA, ETC.

- Comprehensive Economic and Trade Agreement (CETA) completed but still awaiting final ratification by all EU states
- Small “Extra-regional” agreement, but one that is important to EU and Canada
- Contains “sensible” solutions to long-standing issues (including GIs, ISDS/ICS)
- EU “updating” FTA with Mexico: will have free access into both non-US NAFTA markets
- Puts pressure on US to complete a TTIP so as not to lose preference in EU market to Canada and Mexico
- Lingering doubts about UK position after Brexit: can UK keep access to all EU FTA partner markets?

II US TRADE POLICY

- Policy is emerging in piecemeal fashion: trade policy team not notably “internationalist”
- Emphasis on “deals” that can be sold as success: not much room for broad across-sector tradeoffs
- Preference for bilaterals, often targeting bilateral trade balances, using US political and economic strength to ensure asymmetry
- Problem: which countries are likely to step forward (besides the UK, which would be happy to gain preference in US market relative to EU)?
- Difficult to see a US-Japan FTA when fear of Japanese competition was cause of antipathy to TPP
- China-US trade pacts likely to remain as a series of specific deals (such as poultry trade) linked to broader China issues

12 EU POLICY

- EU very active in trade arena: trade policy an important part of foreign policy (soft power)
- External trade 35 percent of EU GDP: biggest trade partner for 59 countries
- Deepen EPAs particularly with Africa: support for Africa Economic Union
- Restart EU-MERCOSUR talks; “Modernize” Turkey Customs Union; update Chile Agreement
- Currently negotiating trade agreements with some 28 countries
- EU keen to advance WTO agenda – no longer held back by agricultural sensitivities
- Active in pushing for reform of global investment policy
- May in part fill vacuum left by US abdication

13 EU POLICY

- Attempt to strengthen trade ties to Asia:
 - Japan FTA talks launched in 2013
 - Likely Korea FTA called “new generation” of FTAs
 - Indonesia FTA talks launched in 2016: Philippines talks to begin soon
 - EU-ASEAN talks refocused through these negotiations
 - EU interested in talks with Australia and New Zealand
 - EU-China talks based on investment rather than goods and services trade
 - EU-India talks could take on new urgency
- EU could soon be way ahead of a “TPP-less US” in Asian trade agreements

14 EU POLICY AND THE NEIGHBORHOOD

- Variety of initiatives under European Neighborhood Policy: ENP (2004, revised in 2015)
- Aim to promote a “ring of stable, well-governed states” on eastern and southern borders of EU
- Recent introduction of more flexibility, realism and pragmatism: playing down emphasis on democratic values and focusing on stability
- Not much of a boost for economic integration and no promises of membership
- Financing through ENI (\$15 billion), along with some useful assistance for agricultural and rural development (ENPARD funds)

15 EU POLICY AND EURASIA

- Partnership and Cooperation Agreements designed to involve Russia and other countries in trade and investment discussions
 - 10 PCAs agreed from 1997-2009
 - Subsequent PCAs for Iraq, Kazakhstan
- European Union Central Asia Strategy (June 2007) for “new partnership” with 5 countries that had existing PCAs: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan
- Eastern Partnership (EaP) with 6 countries: “Deep and Comprehensive Free Trade Areas” (DCFTA) for Georgia, Moldova, Ukraine; similar Association Agreements may follow for Armenia, Azerbaijan, Belarus
- Possibility of significant boost to economic integration if private sector follows lead

16 CHALLENGES FOR EURASIA

- Eurasian Economic Union (EAEU, 2015) (Belarus, Kazakhstan, Russia, Armenia, Kyrgyzstan)
- Set up on EU model: full complement of intergovernmental institutions
- Ambitious set of bilaterals foreseen: Vietnam, Turkey, Israel, India, Egypt, Korea, Iran
- EAEU considering links with Silk Road project
- Is it an option for other Eurasian countries? Ukraine rejected for signing DCFTA
- Suspicion lingers that Russian strategic interests are driving force: little recognition of significance of EAEU in West
- Appears to provide limited basis for further integration

17 CONCLUSIONS

- TPP may continue but as a minor agreement without US
- TTIP talks likely will be on hold for two years
- RCEP will go ahead but avoid most sensitive subjects
- NAFTA will survive with minor adjustments to “update” bilaterals
- EU FTA policy will continue to evolve, with emphasis on Asia
- Tension between EAEU and EU will remain and possibly increase
- Eurasia will be inundated with trade agreements but economic integration likely to be slow

18 THANKS FOR ATTENTION

Contact me at josling@stanford.edu