

RTA Economics

Presentation to Kosovo Trade Officials

May 2010

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FORECAST



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Overview

- Types of trade agreements
- Flexibility
 - In trade agreements
 - In the WTO
- Growth of bilateralism
- Economic dichotomies

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Types of Trade Agreements

- **Multilateral**
 - World Trade Organisation (WTO)
- **Plurilateral**
 - Some sectoral agreements, e.g. WTO's Government Procurement Agreement (GPA)
 - Some are 'Critical mass' agreements
- **Regional**
 - Often defined to include both
 - Regional such as CEFTA
 - Bilateral FTAs

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Regional Economic Integration	FTA	Customs Union	Common Market	Economic Union	Political Union
Abolishment of tariffs and quotas for intra-regional trade	✓	✓	✓	✓	✓
Common tariff for imports from outside the region		✓	✓	✓	✓
Liberalisation of endowment factor movement (i.e. movement of labour)			✓	✓	✓
Economic policy harmonisation				✓	✓
Unification of all policies by common organisation					✓

Modified from Balassa, Bella (1961)

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Flexibility for Trade Agreements

- Introduction: Theoretical framework - flexibility
- Application to the EU external relations with other regions
 - Case studies addressing “where in the negotiations”, “what flexibility” & “why”
- Comparative conclusion

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Introduction: Theoretical framework

- What does “flexibility” mean? Differentiated treatment among members of the same region
- Flexibility as a tool for the European integration (Schengen area, WEU, EMU, harmonization directives in the internal market, EU sectors of electricity and gas)
- Flexibility introduced in primary legislation (Treaty provisions) and in secondary legislation (directives of the Council).

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Introduction: The concept of flexibility

- A specialized literature developed over time for specific types of flexibility.
- These sub-categories involve differentiation in terms of:
 - time
 - members
 - policy areas
- For the ultimate application to the EU external relations with other regions, the flexibilities could be regrouped as:
 - multi-speed
 - variable geometry
 - *à la carte*

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Diplomacy Dialogue

Introduction: The concept of flexibility

(Cont.)

TABLE1: Differentiations among member states

Multi-speed	Variable geometry	À la carte
<p><i>Differentiation according to time</i></p> <p>Members share same <i>goals</i> but temporary differences due to lack of capacity (others will follow)</p> <p>Also: <i>avantgarde</i>, transition periods, opt-in</p> <p>Example: European Monetary Union; electricity and gas sectors</p>	<p><i>Differentiation according to members</i></p> <p>Members do not share same goals due to lack of capacity and/or political will (enduring differences)</p> <p>Also: core group, concentric circles</p> <p>Example: Schengen area</p>	<p><i>Differentiation according to policy areas</i></p> <p>Members pick and choose due to lack of political will</p> <p>Also: opt-out, opt-in</p> <p>Example: Denmark's opt-out in defence</p>

Source: own elaboration on the basis of Stubb (2002); Warleigh (2002) and Dehousse, Coussens and Grevi (2004).

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EU Relations with Other Regions

(“where in the negotiations”, “what flexibility” & “why”)

	Where	What	Why
EU Mercosur	No differentiation	Separate exception lists	Mercosur’s agriculture
EU-Andean (CAN)	“Multiparties Agreement”	A la carte/ bilateral trade	Development objectives
EU-EFTA	EEA	Swiss & some sectors not included	Differentiation not critical given similar developmt
EU-ENP	Three baskets of issues	Variable geometry	Political stabilisation of the region
EU-Western Balkans	Candidate EU(?)	Multi-speed	Political goal for EU membership
EU-ACP	Six EPAs to replace Cotonou	Variable geometry multi-speed	Development goal

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EU- Western Balkans

(“where in the negotiations”, “what flexibility” & “why”)

- **Where:** Candidate countries and Potential candidate countries.
- **What:** multi-speed. The members of the CEFTA region share the final the goal of becoming EU member states, but in different length of time.
- **Why:** Political goal: similar objective with the ENP, but with the possibility of EU membership.

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Comparative conclusion

TABLE 2: Differentiation in the EU external relations with other regions

Multi-speed	Variable geometry	<i>À la carte</i>	No differentiation
<p>EU-Western Balkans SAP (but no direct negotiations with CEFTA): candidates - potential candidates; SAAs</p>	<p>ENP (bilateral negotiations but multilateral EMP, new Union for Mediterranean and Eastern Partnership): principles of differentiation and conditionality</p> <p>EU-ACP EPAs (principles of regionalization and differentiation)</p>	<p>Opt-out of Switzerland in EU-EFTA EEA Agreement</p> <p>EU-CAN ("Multiparties Agreement", instead of region-to-region association agreement)</p>	<p>EU-MERCOSUR (No country-specific transition periods/derogations for the moment)</p>

Source: Own elaboration on the basis of A. Stubb (2002) and Dehousse, Coussens and Grevi (2004).

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Comparative conclusion

- Flexibility used to deal with heterogeneous regions.
- If a development or a political goal, EU regional approach focuses on country specifics within the region.
- Variable geometry and *à la carte* used in ENP, ACP, CAN, EFTA; multi-speed only emphasized in Western Balkans.
- The level of integration of the partner region hinders flexibility.
- Differentiation was a deliberate EU strategy but also occurs because of the “flux of history”.
- Flexibility imposed by legal basis on both the EU and its counterparty. Multilateral rules also can impose flexibilities.
- EU should be careful in allowing for flexibility, too much or too little could harm region to region negotiations: Balance is required.

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General SDT (=WTO Flexibility) Concepts

Dimensions:

- Time (transitional periods)
- Terms
- Cost compensation
- Ex-ante (at signature) vs ex-post (e.g. TRIMs)

Approaches:

- Groupings based upon self-selection
- Groupings based upon criteria
- Single undertaking vs Tokyo Codes
- Graduation/Calibration
 - General economy indices
 - Product “competitiveness”

Further reading: Cottier, “From Progressive Liberalization to Progressive Regulation in WTO Law”, JIEL Online 3Nov2006

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RAMs: Recently Acceded Members

Submission 26 Feb 2007 TN/MA/W/83

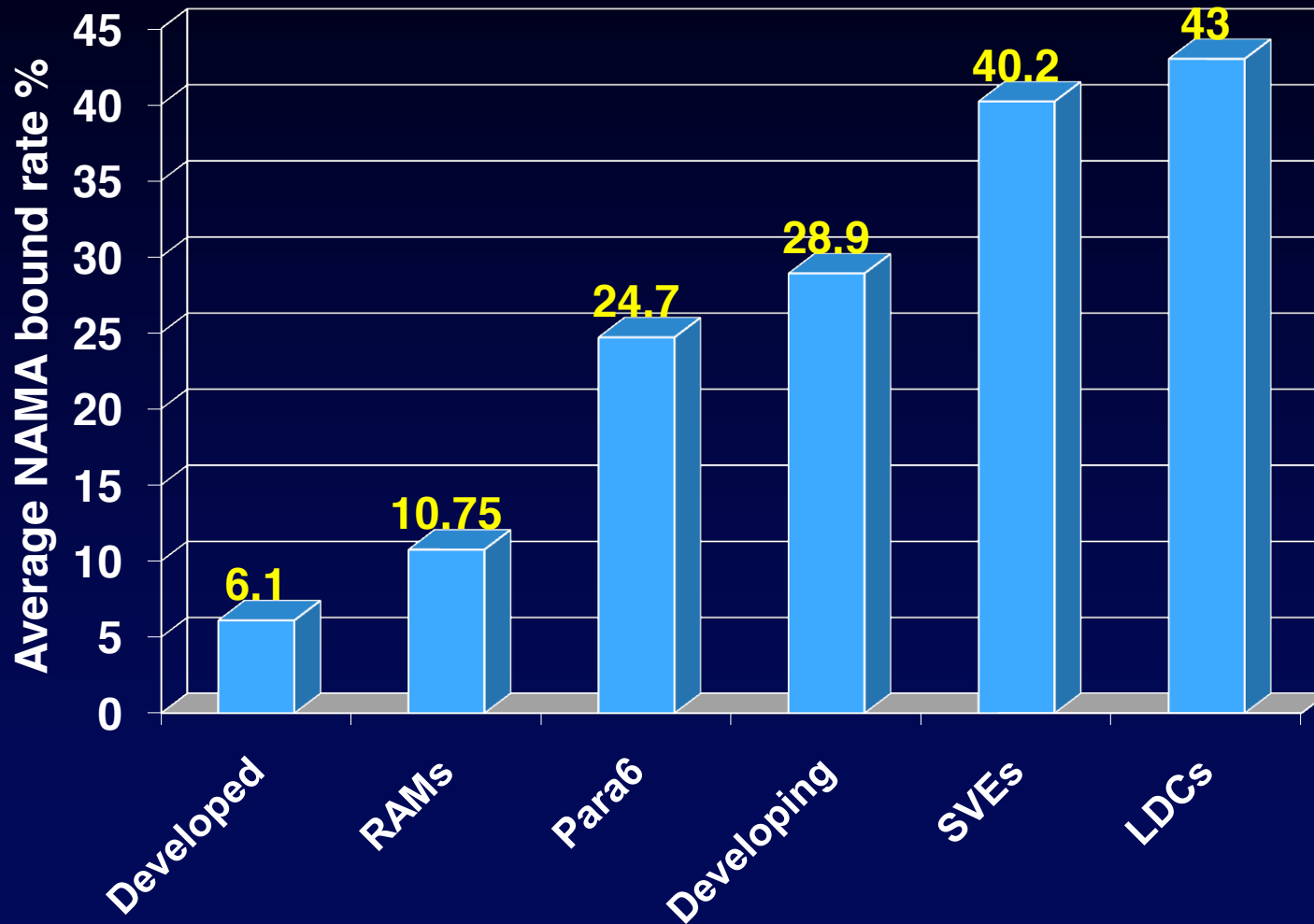
- Chair acknowledged special exemption for:
 - Armenia, Moldova, Kyrgyz Rep
- Request for similar treatment by most recent:
 - Saudi Arabia, Macedonia, Vietnam
- Other RAMs seeking “developing plus” parameters
 - Albania, China, Croatia, Ecuador, Jordan, Mongolia, Oman, Panama, [Chinese Taipei]

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RAMs: Recently Acceded Members

Submission 26 Feb 2007 TN/MA/W/83



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In NAMA, Who is eligible for what...

	WTO	SDT NAMA Instruments
LDCs	32	Best efforts
- Para6ers	12	No Swiss, target bound & average rate
- SVEs		Para6-style: No Swiss, target average rate & cut; <i>or</i>
Declared	22	
Eligible*	36	Para8-style: More generous flexibility
- RAMs	15	More generous implementation term; special treatment for [3] members. New submission.
Developing	82	Higher Swiss, implementation term, flexibilities on 5-10% of lines
Developed	34	None

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* Using Norwegian 0.1% NAMA trade criteria, less LDCs & P6s

RAMs: Recently Acceded Members

New submission 26 Feb 2007 TN/MA/W/83

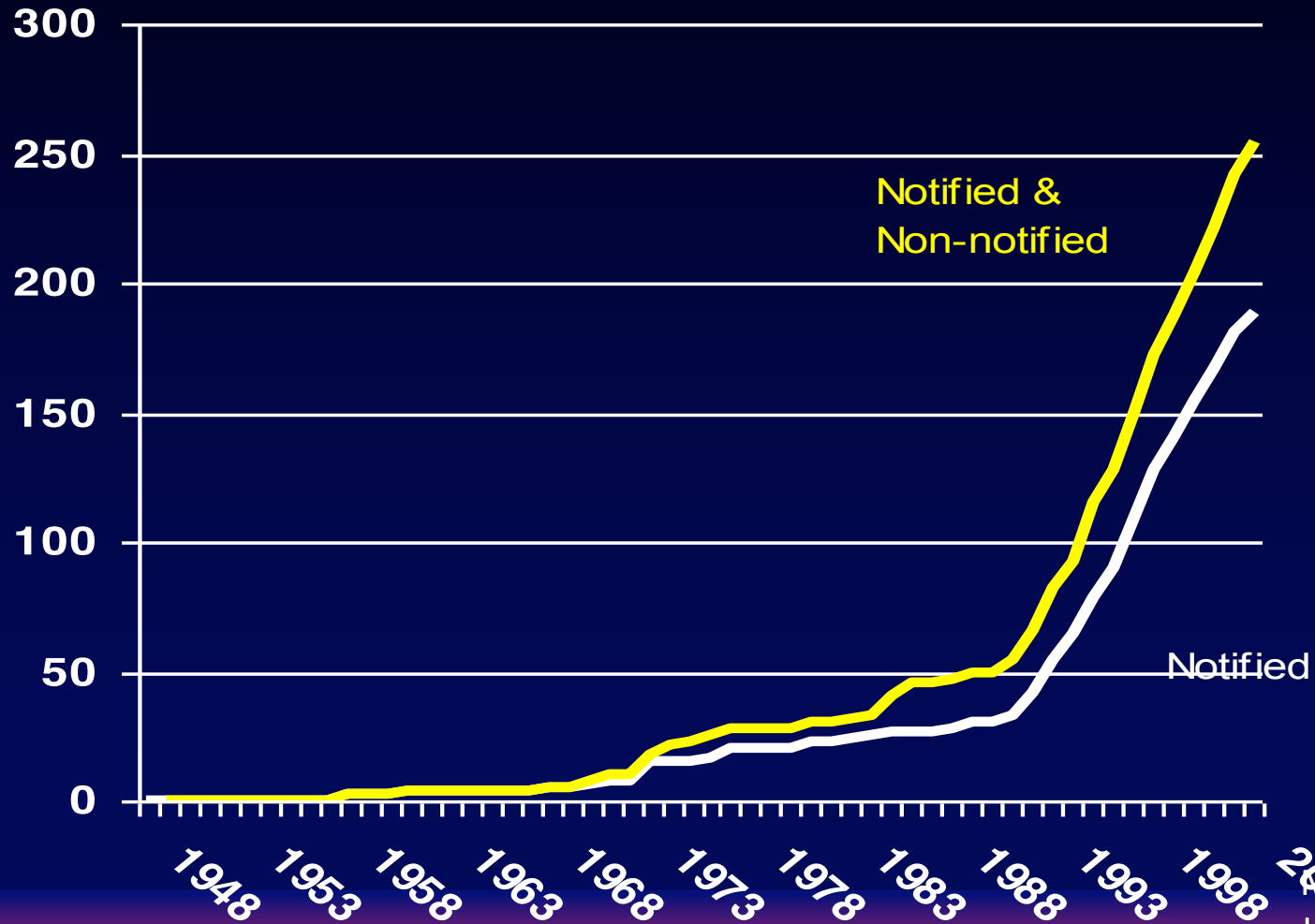
- “Development plus”
 - Implementation period 5 years > other developing
 - Grace period of 5 years
 - Swiss coefficient 1.5x that applicable to developing
 - Additional Para 8 flexibilities:
 - 15% of tariff lines rather than 10% of others
 - Remain eligible for SVE treatment

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Number of RTAs*

* Includes Customs Unions (CUs), Free Trade Areas (FTAs) & Enabling Clause



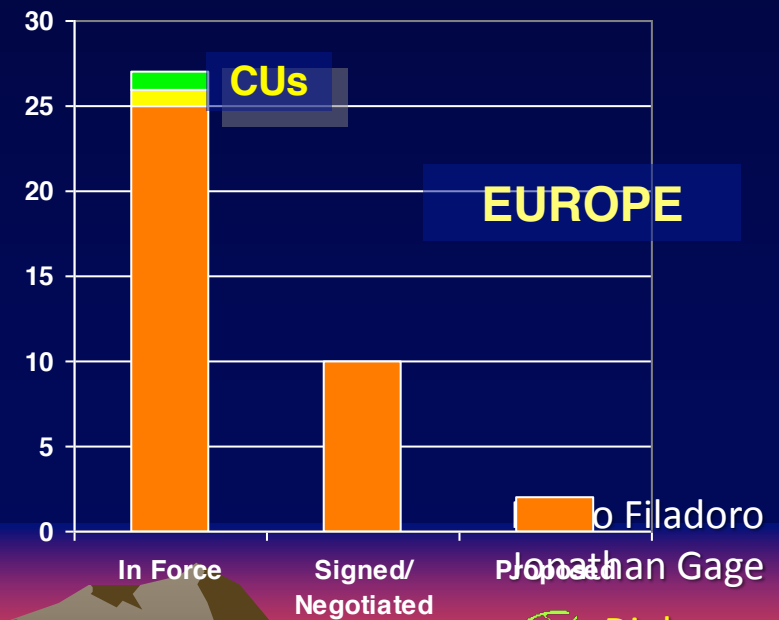
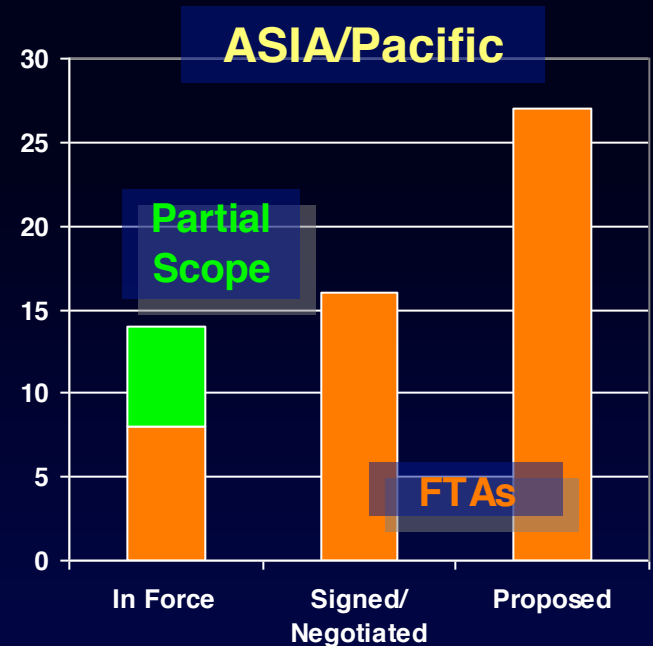
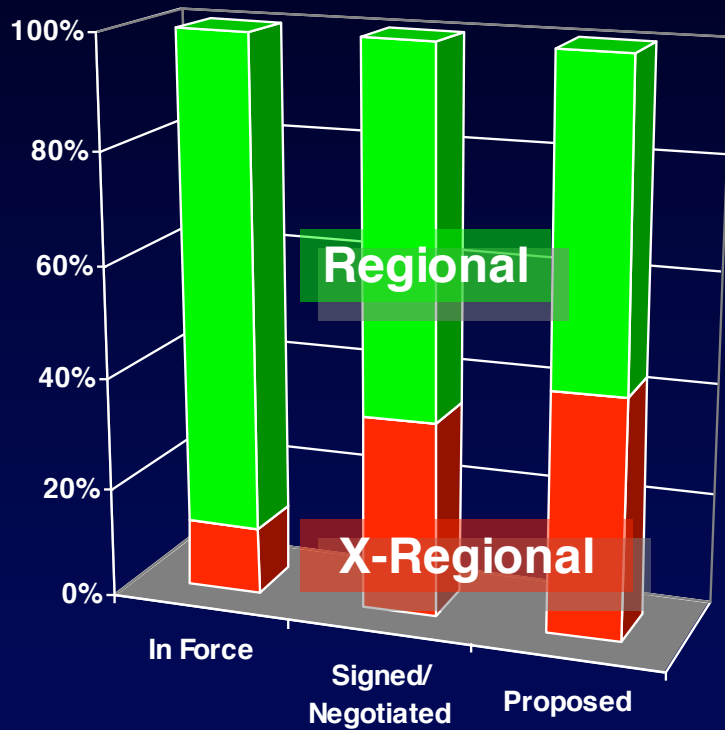
Source: WTO 2003

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Composition of RTAs

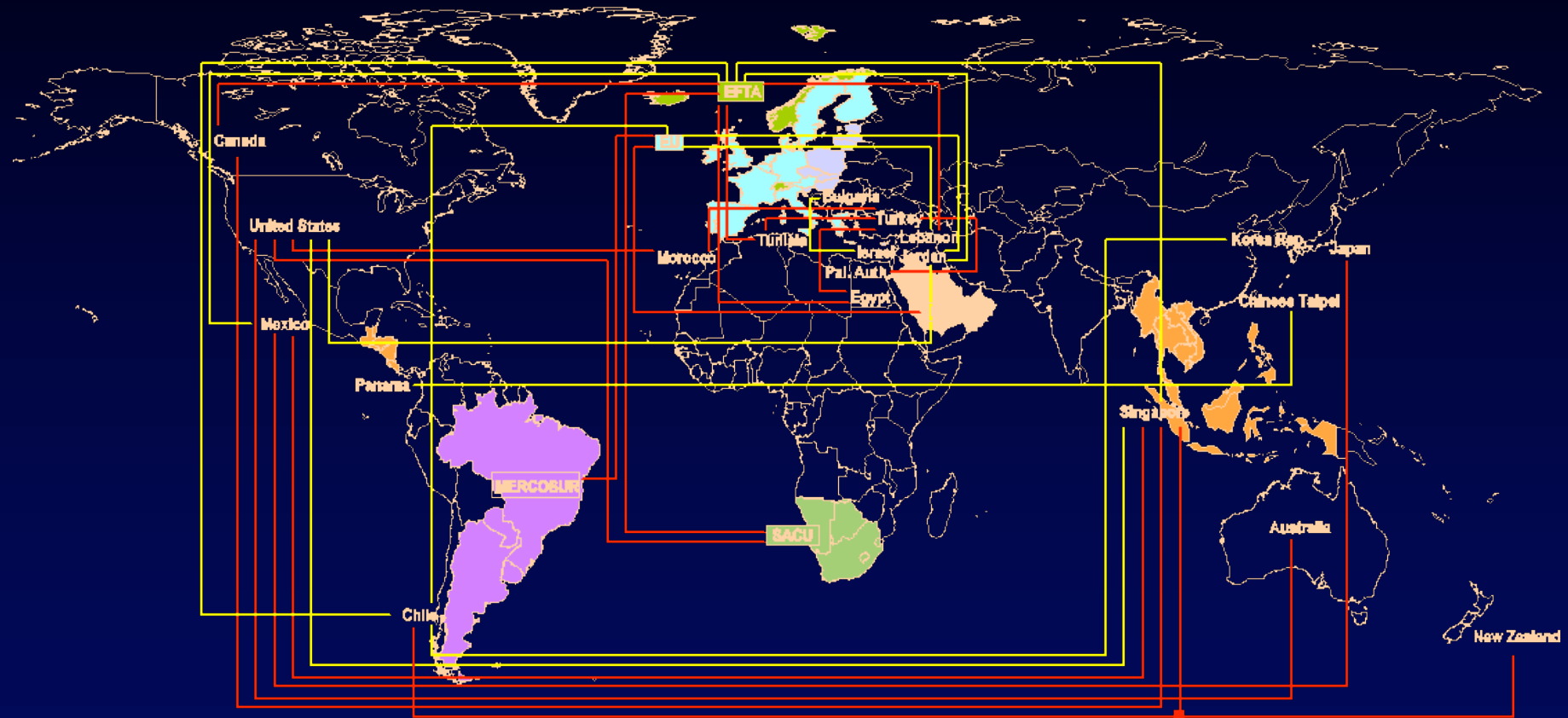
(Status as at Oct 2003)



Source: WTO 2003

The Simple Wiring Diagram...

Cross Regional RTAs recently concluded or under negotiation (2003)



— RTAs concluded after 2001

— RTAs under negotiation

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Factors Driving Regionalism

	RTAs Beneficial	RTAs Detrimental
Smaller countries	Value of access / avoid domino exclusion	Negotiating power
Multilateral ineffectiveness	153 WTO members ⇔ no agreement (?)	
Political Will / Sidestepping the WTO	Avoids “inherent dilemma”	Does not capture benefits of liberalizing
Content	Address trade-related concerns: investment,...	
Costs	Practical to negotiate	Complex Rules of Origin may defeat benefits
Diplomacy	Geopolitical security	Outsiders resentful (?)

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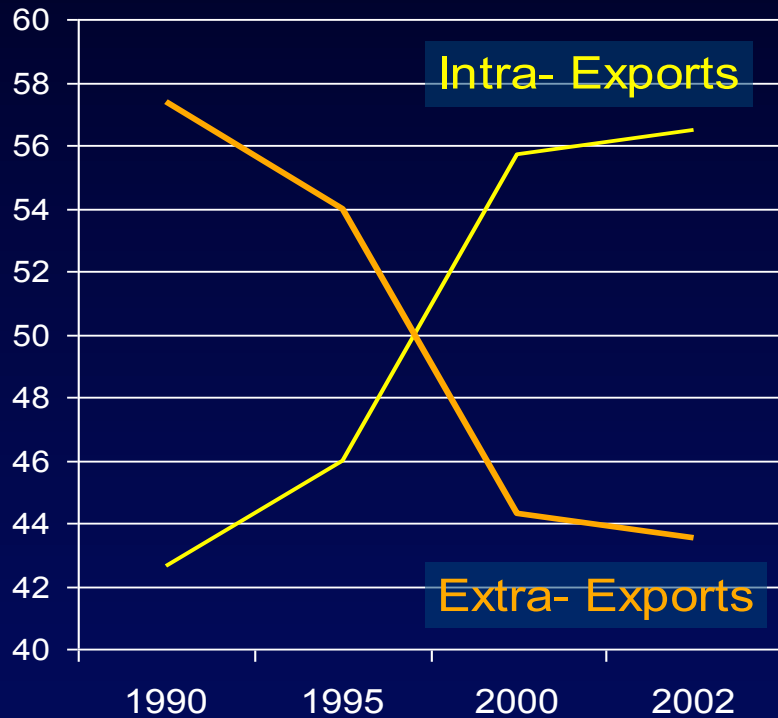
Economic Dichotomies

	RTAs Beneficial Larry Summers	RTAs Detrimental Anne Kruger/ Bagwatti
Economic value of trade	<p>Trade creation (?)</p> <p>High-cost domestic production replaced by low-cost imports from RTA members.</p>	<p>Trade diversion (?)</p> <p>High-cost RTA imports replace low-cost imports from non members.</p>
Implications for multilateral	<p>Stepping stones (?)</p> <p>Bilateral before multilateral politically more acceptable. Bicycle theory. Prototype provisions.</p>	<p>Stumbling blocs (?)</p> <p>Patchwork agreements cause prisoner's dilemma. Rules of Origin! Disengagement of those outside RTA.</p>

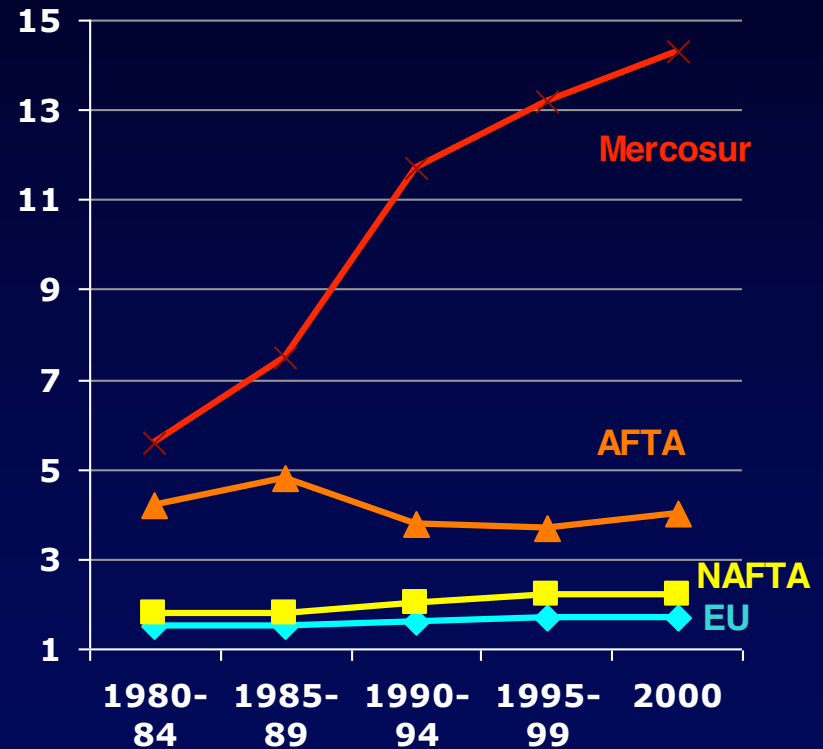
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Evidence of Trade Diversion (?)

NAFTA % of Exports



Trade Intensity Ratios



Source: ADB Outlook 2002

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Thank you!

Boat leaves the dock at 17.30.

Be in the lobby by 17.00

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