

MEGA TRADE AGREEMENTS: AN EMERGING TREND

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WHAT'S IN IT FOR INDIA? Mega trade agreements are expected to have a deep impact on India as they will create greater opportunities for integration of global markets while at the same time harmonize standards across countries. India is at present only a member negotiating RCEP but the other mega regionals under negotiation—TPP and TTIP—will also have a significant impact for India as several large trade partners for New Delhi are members of those mega agreements.

Ever since the World Trade Organization (WTO) was established in January 1995, countries across the globe have understood and appreciated the large-scale benefits of trade agreements. However, the Geneva-based multilateral trade organization has a clause that ostensibly creates a down side for countries that look to liberalize at a fast pace- all agreements within the WTO can be adopted only on the basis of a consensus. This clause, which seeks a complete consensus, is because in WTO every member has one vote. This, at times, holds back the ambitions of several countries that profess and seek quicker trade liberalization to pursue higher market access for their products and services. Therefore, many countries realize that greater liberalization of trade is more easily pursued outside the multilateral framework.

Proliferation of FTAs: When the world witnessed good growth between 2000-2006, countries started looking for faster options to open markets across the world. The easiest way was to find partners who shared the view for opening markets through the elimination of tariffs and non-tariff barriers. While the trend of bilateral and regional trade agreements started since the mid-1990s, the real spike in the number of agreements has been since 2000. Interestingly the recent agreements have been comprehensive and cover goods, services, and investment and in some cases even intellectual property.

In 2004 the total number of FTAs that were registered with the WTO was close to 100, an all time high. This spurt may be attributed to the fact that the Doha Round of negotiations of the WTO was floundering and many countries were looking at other options to gain market access. Even India, normally a cautious trade liberalizer, also got into the act and commenced and completed negotiations with several trade partners since 2005, thereby, receiving and providing tariff preferences to significant trade partners.

The China Factor: The last few decades have been the era of Chinese dominance in global markets. The Chinese have not only captured export markets they have also made strategic investments in countries where raw materials

could be procured for manufacturing value added products in China. Over the years, the Chinese have also moved up the value chain in the export markets. The Chinese presence in world markets has meant that other countries have looked at various options available for improving their position in these markets. This has ranged from moving into niche high technology sector exports to finding new markets across the globe.

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The Emergence of Mega FTAs: The rise in mega trade agreements seem to be primarily due to the failure of the WTO to complete the Doha Round of negotiations and the shrinking market for many developed and emerging countries due to highly competitive Chinese and other emerging country exporters. Countries like the US may also view these mega trade agreements as being strategic to their geopolitical interests as well.

The three large FTAs that are under negotiations are the Trans Pacific Partnership agreement (TPP), Trans Atlantic Trade & Investment Partnership (TTIP) and the Regional Comprehensive Partnership Agreement (RCEP). The TPP covers 12 countries- USA, Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. The TTIP is being negotiated between the US and EU and the RCEP is being negotiated by 16 countries – the 10 ASEAN members and Australia, New Zealand, South Korea, China, Japan and India.

Impact of the Mega Agreements: The mega trade agreements are important for countries across the world, as they will be setting the rules of global trade in the days to come. Therefore, it becomes important for all countries to pay close attention to the developments in these negotiations and ensure that industry in their countries are well prepared to remain competitive in global markets.

One important impact of these mega agreements will be that tariffs as a means of protection by countries may completely lose significance since all countries are looking at ambitious cuts in customs duties across sectors through these agreements. From an Indian perspective this will be important as the current FTAs for India are not very ambitious and a number of products have been excluded from severe tariff cuts.

Another essential aspect of the mega agreements will be the harmonization of standards across the participating countries. The TPP, for instance, which is primarily led by the US is likely to build “gold standards” that other countries will also have to adopt. Indian and other developing country industry will need to take this into consideration when they export to markets covered by the TPP in the future.

Global & Regional Value Chains: A significant fall out of the mega trade agreements is expected to be the proliferation of regional and global value chains due to harmonization of markets. However, it would be important to note that not all countries involved in these mega agreements are at the same level of development. There is, therefore a need for these countries including India to develop infrastructure in such fashion that industry in their countries end up gaining due to these FTAs.

Moving Forward: It is without doubt that mega trade agreements will dictate the trade liberalization process in the coming years. However, what is important is to understand the impact these agreements will have on the WTO. One area of concern for some members of the multilateral trade body could be that the ambition that the mega FTAs represent may creep into the negotiating process at WTO. This could put undue pressure on some countries, which look for policy space to protect vulnerable industries in the domestic market.

However, notwithstanding the impact on multilateral trade negotiations, these trade agreements can help in

easier movement of goods and services, which will be important to build growth. Given the fact the countries involved in these agreements represent the majority of current global trade it will be important to keep a close watch on developments. What they could lead to is greater flow of investments and trade and importantly the creation of more developing country transnational corporations. These agreements could help in a big way the small and medium sector organizations that look around for opportunities to access large markets. The big companies too can benefit as they can procure raw materials or intermediates from the most competitive supplier. ☒