



[Home](#)

[About Us](#)

[Our Work](#)

[News & Publications](#)

[Vacancies](#)

[Contact](#)

# GED Mini-Series: Inclusiveness in the Global Trading System | PART TWO

Written by [IDEAS Centre](#) on 22 March 2017. Posted in [Publications](#)

*Collaboration between the Bertelsmann Foundation and IDEAS Centre*

## Global Economic Dynamics (GED) Mini-Series: Inclusiveness in the Global Trading System

### PART TWO: The Effects of PTA's - How do mega-regional trade agreements affect developed and developing countries?

*In 1995, a large portion of the international community set the tone for a more inclusive and open trading system. The establishment of the World Trade Organisation (WTO) that year marked a new era in global trade governance, where discriminatory trade measures and isolationist trade policies would be prone to challenge and scrutiny thanks to a rules-based system allowing Members to conduct*



## Latest news

[Workshop in Talloires : Informal Brainstorming Workshop “Quo vadis for the LIDCs at the WTO”](#)

[Newsletter 2017 : MC-11 The way forward for Lower income Developing Countries](#)

[Record of the Session @TSDS “How to defend development interests in the new economic and political trade environment?”](#)

[Session @TSDS : “How to defend development interests in the new economic and political trade environment?”](#)

[E-Publication of a collection of articles about the Future of the WTO and the WTO of the Future](#)

*trade in a more transparent and equitable manner.*

*Still, since the launch of the 2001 Doha round of trade talks very little progress has been made in multilateral talks and the world is now facing a vastly different kind of global trading landscape. One dominated by bilateral talks, preferential trade agreements (PTA's) and most recently mega-regional free trade agreements. The inclusiveness of the global trading system seems at stake. In our new GED-Project mini-series[1] we want to take a closer look at this on-going change. Over the course of the next four blog posts, we will delve deeply into the history of global trade and trade agreements, the various effects the current trading system is having on developed and developing countries, current trends in the system and a potential way out of the impasse and towards a more inclusive system.*

Part two of our four-part series will look at the effects PTA's can have both on those countries directly involved in the deals, as well as, the countries not part of the agreements. To go back to part one of the series or two skip directly to part three or four you can click [here \(part one\)](#), [here \(part three\)](#) and [here \(part four\)](#).

### **Potential economic benefits...**

Multilateralism and regionalism can be perceived as complementary and mutually supportive. PTAs can be strong building blocks towards universal trade liberalization. The danger arises when PTAs set back economic activity for non-members. This is usually not the case between smaller economies, but it might become a reality with mega-regionals such as CETA and RCEP or TTIP or TPP should they still be passed in one form or another. On the one hand, the lowering of trade barriers and costs as well as regulatory convergence[2] might be beneficial as follows:[3]

- Positive income effects for participants to the mega-regionals can increase demand for final and intermediate inputs from other countries. Some studies have shown that some outsiders from developing countries might enjoy positive spillover effects stemming from increased growth throughout TPP, TTIP or RCEP parties. For instance, economies based on commodity exports might potentially benefit from increased aggregate demand, provided of course that income rises in countries implementing the mega-deals. The same scenario is however not necessarily true for emerging economies, which have a large industrial base and might lose competitiveness gains in certain sectors such as electronics or textiles. This could be the case for countries such as Brazil, China, Korea or the Philippines.
- Mega-regionals can engender the creation of value chains to which many providers of raw and intermediate commodities can contribute. Traditional trade partners to the insiders of the mega-deals could see considerable increase in relevant exports as long as they would be able to integrate into those new value chains.
- Regulatory convergence can have a clear negative impact on outsiders. Nevertheless, a positive side to it exists too, to the extent that standards between insiders (which represent big markets for low-income developing countries) can be streamlined and harmonised. This in turn allows developing country outsiders to face one set of standards. For instance, a proper alignment of US and EU regulatory requirements could be positive, as long as they are not stringent enough to divert trade to insiders of the deals. Regulatory convergence can thus potentially create opportunities.

### ...and drawbacks of the mega-regional trade agreements

On the other hand, comprehensive trading deals between major economic powerhouses might leave non-parties in a difficult situation:

- Trade displacement or trade diversion may occur when competitiveness gains in the new trading blocs divert trade flows away from non-members. Outsiders would now have to potentially face relatively higher tariffs and more stringent non-tariff barriers vis-à-vis the parties that benefit from new preferences.
- Many countries already enjoy preferential market access through bilateral PTAs or unilateral preference schemes. A mega-regional trade deal such as the TPP or the TTIP could erode the value of those preferences as parties to those deals profit from greater advantages, hence the preference erosion issue. This is particularly relevant for least-developed countries (LDCs) which currently benefit from duty-free, quota-free schemes provided by the EU, US or Japan. It also represents a serious risk for countries integrated into value chains that may lose their competitive edge vis-à-vis parties to the mega-deals. For instance, countries such as Cambodia or El Salvador fear legitimately that Vietnam might take part of their share in textiles exports to the US and Canada if the TPP is ratified.
- Should they be passed, implications of regulatory convergence between members of the mega-regional agreements could prove difficult to cope with non-members of deals like the TTIP or TiSA. This would be an even more salient issue for developing countries lacking the capacity to adapt to the new standards. On the one hand, exports of developed countries with like-minded capacity could increase, whilst exports of similar products from developing countries might decline. Such asymmetrical effects may very well hurt firms in developing countries experiencing difficulties to comply with the stringency of elevated standards. In the case of rules of origin, mutual recognition of restrictive rules might also hamper further the imports of non-members.

As we can see, the effects PTA's and mega-regionals in particular can be quite diverse. But what about the effects of this new trading paradigm on the international trading community as a whole? Follow us to [part three](#) of our four-part series on inclusiveness in the global trading system to find out!

[1] Note: The text for this mini-series in large parts derives from an earlier draft by Xiankun Lu and Darius Rao, which resulted from a collaboration between GED-Project and IDEAS Centre in November 2016.

[2] By regulatory convergence, we mean harmonisation of product standards, mutual recognition of standards and conformity assessment, harmonisation of rules of origin, alignment on non-tariff measures such as import licensing, customs valuation rules, etc.

[3] For more info on positive and negative effects, check amongst others the recent *GED Study Series – Effects of Mega-Regional Trade Agreements* from Bertelsmann Stiftung (2016), Draper (2014), Ecorys (2016), Aichele and Felbermayr (2015), Baldwin (2014), WEF (2014), etc.

## About IDEAS

- ▼ Who we are
- ▼ Our team
- ▼ Our network
- ▼ Our donors
- ▼ External experts

## Contact us

📍 IDEAS Centre  
Rue de l'Arquebuse 10  
CH - 1204 Geneva  
Switzerland

✉ info@ideascentre.ch

☎ +41 22 807 17 40

📠 +41 22 807 17 41

