Pragmatism in trade policy: regional trade agreements

No. 311, 11 January 2021

Authors: Viktoria Leuschner, research@kfw.de
Dr Katrin Ullrich, phone +49 69 7431-9791, katrin.ullrich@kfw.de

The last 30 years have witnessed a strong increase in the number of regional trade agreements. Stagnating multilateral negotiations within the World Trade Organisation (WTO) promoted this trend. In addition to lowering tariff trade barriers, trade agreements have increasingly been used since the year 2000 to advance the deeper integration of markets in 21st century trade-related areas such as services, investment and capital flows. Deep trade agreements do not just generate more trade between signatory countries; they can also have positive effects on non-signatories. At the same time, a trend is emerging towards more protectionist policy measures, even outside the geopolitical power struggle between the US and China, the leading export nations. In order to push forward a trade system based on rules instead of relative power relations, a reform of the WTO remains imperative.

Uncertain global trade environment

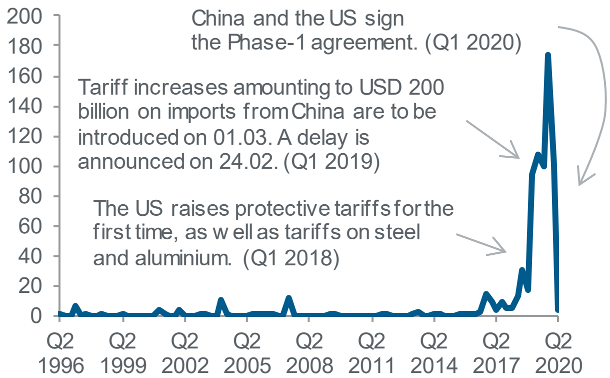
In the first half of 2020, the COVID-19 pandemic triggered a sharp decline in global economic output and trade. Border closures, travel restrictions and bans on non-essential business activities and other public health and containment measures led to disruptions of (international) supply chains and restrictions on production and trade. A large number of newly introduced protectionist measures dragged down global trade momentum additionally.[1] Export restrictions on goods needed to contain the pandemic were imposed in 98 countries, while 102 countries introduced import-facilitating measures. By the end of October, however, 30% of export restrictions and import-facilitating measures were lifted again.[2]

Protectionist trends in global trade already emerged before the COVID-19 pandemic. For the years 2018 and 2019, the Global Trade Alert database showed the highest number of restrictions imposed on the trade of goods around the world since 2009. The trade conflict between the US and China also escalated towards the end of this period. China retaliated against the introduction of additional tariffs by the US, to which the US responded with further tariffs.

At the end of 2019, additional tariffs already applied to two thirds of all trade between the two countries.[3] But the trade conflict indirectly affects major trading partners of the US and China as well, such as the EU. This is theoretically possible through three impact channels, which have both positive and negative effects on the European market. First, European exporters gain a comparative advantage in the Chinese as well as the US markets when tariffs make Chinese and US exports more expensive in the respective target market. Second, tariffs on imported intermediate products along European value chains lead to increased production costs within the EU. Third, European exports to China may decline if they are replaced by imports from the US as China seeks to meet its import commitments under the Phase-1 agreement with the US.[4] But the US did not just introduce protectionist measures against China; similar measures also affected other major US trading partners such as the EU, Mexico and Canada.

The US-centred trade conflicts, particularly the trade dispute between the US and China, have crucially contributed to a sharp rise in uncertainty in global trade. The Economist Intelligence Unit's World Uncertainty Index illustrates this (Figure 1). Important key events during the trade dispute, such as the tariff increases on Chinese imports announced by the US for the first quarter of 2019, which affected goods worth USD 200 billion, can be seen to coincide with a rise of the index – and therefore higher global trade uncertainty. Uncertainty is problematic because it is generally associated with decreasing economic activity and negative consequences for trade and investment. To be sure, the US and China signed the Phase-1 agreement in early 2020, which significantly reduced global trade uncertainty. Nevertheless, the underlying conflicts between the US and China remain unresolved so that further protectionist measures are potentially possible and could support a renewed rise in uncertainty.

Figure 1: World Uncertainty Index



Source: Ahir, H.; Bloom, N. and Furceri, D. (2018), 'World Uncertainty Index', Stanford mimeo, https://worlduncertaintyindex.com/ (GDIP-weighted average values from Q1 1996 to Q2 2020); illustration: KfW Research.

WTO's function is to promote a rules-based and therefore secure global trade

By promoting rules-based trade policies, the WTO aims to reduce protectionist measures and uncertainty in global trade. Since it was established in 1995, its goal has been to ensure that global trade flows freely by reducing and eliminating tariff and non-tariff trade barriers.[5] However, the WTO is in an effectiveness and legitimacy crisis. The Doha negotiations as the most recent multilateral effort to liberalise trade have dragged on without a deal since 2001. Only few WTO members are willing to commit to further multilateral agreements, for many different reasons:

– The number of WTO members who are convinced of a liberal, growth promoting free-trade system is declining.

– The interests of the 164 WTO members are very mixed, posing a challenge to decision-making based on the consensus principle.

– Another barrier is that the rules of the WTO are in urgent need of reform and would have to be updated in multilateral negotiations with a view to investment, competition, public procurement and digital trade.

– The WTO's dispute resolution mechanism has also been paralysed since December 2019, after the US blocked nominations to the Appellate Court.[6]

Instead of turning to the multilateral negotiation forum within the WTO, many countries prefer regional trade agreements. The WTO allows this type of trade agreement as an exception to the fundamental principle of non-discrimination. The use of regional trade agreements was originally intended to supplement multilateral agreements but they are increasingly being used as substitutes. Owing to the large and confusing number of agreements, some of which overlap, in 1995 Jagdish Bhagwati coined the term 'spaghetti bowl' of regional trade agreements.[7]

Box 1: Terms and definitions

Regionalism and regionalisation (according to Borrmann 1994):[8] Regionalism refers to formal regional integration on the basis of preferential and free trade agreements or the formation of customs and economic unions. Regionalisation, in turn, is an empirically observable act of regional concentration of economic activities. Regionalism can but does not have to lead to regionalisation.

Regional trade agreements (according to Lejárraga 2014 and WTO):[9] In the present analysis, these agreements comprise all free trade agreements, customs unions or economic integration in, and partnership agreements between, two or more sovereign states or trade blocs, both within and between regions. Preferential treatments, by contrast, refer to trade preferences which a country offers to another country or trade bloc unilaterally.

Trade bloc (according to Mansfield 2010):[10] All possible variants of preferential or regional trade agreements – where a preferential agreement constitutes a less distinct trade bloc, whereas an economic union constitutes a very distinct trade bloc.

Most favoured nation principle / tariff:[11] According to WTO agreements, countries are normally not allowed to discriminate between their trading partners. If a country is granted a special concession, e.g. a lower tariff for a product, that tariff must also be applied to all other WTO members. The most favoured nation tariff is thus the normal, non-discriminatory tariff charged on imports.

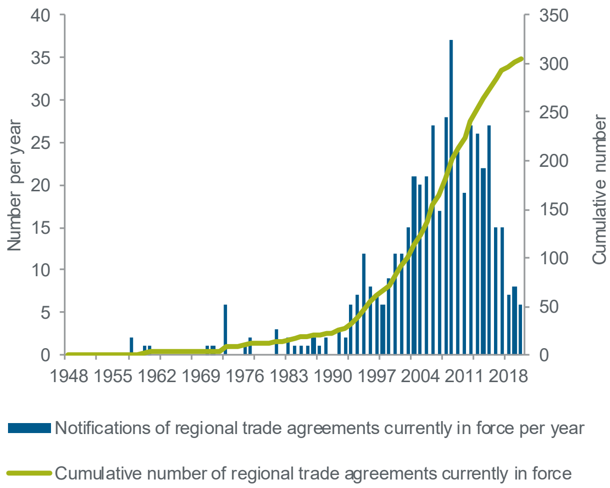
Preferential trade arrangements / preferential tariffs:[12] These are trade preferences such as lower or zero tariffs, which a member may offer to a trade partner unilaterally. These include the Generalized System of Preferences schemes, under which developed countries grant preferential tariffs to imports from developing countries. They also include non-reciprocal preferential schemes granted through a waiver by the General Council, meaning the member has been exempted from applying the most favoured nation principle.

Rules of origin:[13] Rules of origin are the criteria that are necessary to determine a product's country of origin. This is because tariffs and quotas may depend on the origin of imports.

Regional trade agreements have increased

Since 1990 the number of regional trade agreements has grown from 22 to 305 (see Figure 2). Of the 305 agreements currently in force, 82% were concluded at bilateral and 18% at plurilateral level.[14]

Figure 2: Regional trade agreements currently in force (by year of entry into force) 1948–2020



Members of the WTO are required to notify concluded regional trade agreements. Extensions of agreements to services or accessions of further countries must also be notified. The total number of notifications therefore exceeds the cumulative number of regional trade agreements currently in force.

Sources: WTO Regional Trade Agreements Database (notifications of goods, services and new country accessions are counted individually); KfW Research.

Bilateral trade agreements provide the advantage that they are easier to negotiate and implement than plurilateral trade agreements. By contrast, the often painstaking and multi-year negotiations of plurilateral trade agreements create economic advantages by applying identical rules and standards to a larger number of contractual partners.

Regional trade agreements are becoming richer in substance

Trade agreements have evolved in substance over time. Before the year 1990, trade agreements were mainly concluded with the aim of lowering tariffs. The trade agreements entered into in the past years go deeper and, beyond tariffs, also cover non-tariff policy areas (see Figure 3). While reducing tariffs simplifies market access, deep trade agreements aim to regulate cross-border movement in markets for goods, services or factors. In this way they increasingly regulate national policy issues and create important framework conditions for the integration, functioning and growth of economies.

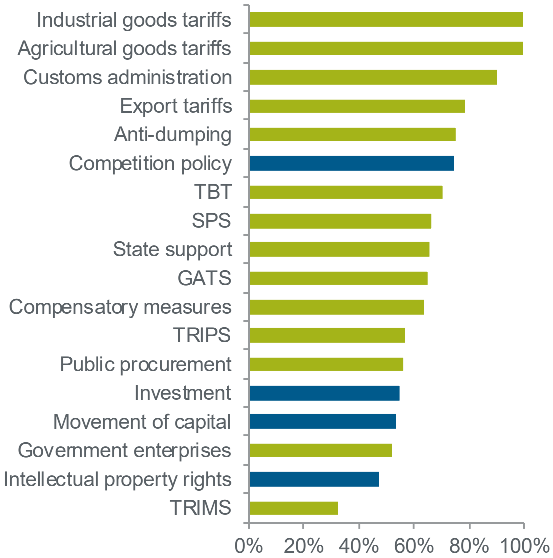
One reason for the increasing number of deep trade agreements is that tariff barriers have already dropped to a low level. Thus, a most-favoured-nation tariff of 0% applies in a non-discriminatory manner to more than half of global trade for all WTO members. The past 10 years, however, have seen a slowdown in the growth momentum of global trade. At the same time, the importance of trade in services and data is growing. The WTO rules framework, however, only insufficiently covers the latter, as well as other current trade topics. Regional trade agreements provide an alternative for regulating trade in these areas. This explains both the general increase in regional trade agreements and their deep content. [15]

Since the year 2000, regional trade agreements have mainly addressed issues such as trade facilitation, services, investment and capital flows. The 18 policy areas in Figure 3 are not only the most frequently applied measures but are also identified as the core provisions. They define a basic rules framework for market access and are intended to ensure the smooth functioning of global value chains. It is true that most of these policy areas are covered by the WTO rules framework.[16] But in some cases the obligations of regional trade agreements go further. This is the case in the areas of competition policy, investment, capital flows and intellectual property rights. That is why they cannot be legally enforced under the WTO rules framework. Trade agreements therefore also need to provide details on the enforcement of rules and dispute resolution. The regulatory requirements they have to meet have increased accordingly.[17]

Digital trade is growing in importance. This is also evident from the provisions contained in deep trade agreements that regulate this area. To be sure, the provisions contained in the agreements on immaterial cross-border trade are generally very diverse. Major differences exist in the treatment of cross-border data flows, data localisation and the protection of personal data. The latter is in the interest of consumer protection, which has gained in importance with increased demands for safety, protection, health and ecological sustainability.[18] But some areas are also showing regulatory convergence. Examples include measures aimed at facilitating electronic business transactions, eliminating unnecessary barriers and accounting for the needs of SMEs.

In the past 20 years, advanced economies such as the EU, the US and Japan in particular have made use of deep trade agreements, both amongst themselves and with developing countries. By contrast, trade agreements between developing countries, including China, are not as deep.[19] This observation is consistent with the finding of Yalcin et al. (2017) that a strong correlation exists between implemented non-tariff trade barriers and an economy's income level. Accordingly, industrialised countries in particular aim to reduce non-tariff trade barriers by entering into deep agreements.[20]

Figure 3: Share of main policy areas covered



TBT=Technical Barriers to Trade; SPS=Sanitary and Phytosanitary measures; GATS=General Agreement on Trade in Services; TRIPS=Agreement on Trade-Related Aspects of Intellectual Property Rights; TRIMS=Agreement on Trade-Related Investment Measures

Green=policy areas under the mandate of the WTO; blue=policy areas outside the mandate of the WTO

Sources: Hofmann, C.; Osnago, A. and Ruta, M. (2017), Horizontal depth: a new database on the content of preferential trade agreements, The World Bank, Policy Research Working Paper, 7981; Illustration: KfW Research.

Box 2: Economic impacts of regional trade agreements

The primary goal of trade agreements is the reduction of trade barriers and the resulting growth of trade and economic activity. The concept of trade creation and diversion effects describes the underlying economic mechanism.

– Trade creation effects lead to higher prosperity in the member countries by increasing trade between them as a result of the preferential treatment.

– Trade diversion effects lead to lower prosperity among non-member countries by making market access more difficult. But the member countries, too, can incur disadvantages through loss of tariff revenues if imports from non-member states are substituted by imports from member states.

To what extent these effects arise as a consequence of the trade agreement and which of the two effects ultimately prevail depends on the structure and implementation of the respective agreement.

What is essential here is to distinguish between trade agreements that mainly involve tariff reductions and deep trade agreements. Trade agreements that merely aim to reduce tariffs discriminate by nature against countries outside the agreement.[21] In free trade agreements in which each member country sets its own external tariff, rules of origin also play a role (see box 3 for definition). They ensure that non-members cannot benefit from preferential rules.[22] Complying with these rules is costly, which means that applying preferential tariffs (see box 3 for definition) does not pay off for some enterprises, so they apply the most favoured nation tariffs (see box 3 for definition).[23] Empirical findings even demonstrate that there is generally little need for rules of origin because the signatories to free trade agreements generally apply similar external tariffs.[24]

In addition to tariffs, deep trade agreements such as the ones that have increasingly been used in the past three decades also cover policy areas that do not necessarily discriminate against non-members:

– Policy areas that go beyond the WTO's rules framework often refer to all foreign markets as well as the domestic market. While provisions on corruption prevention, enforcement of copyrights and environmental protection, for example, discriminate de jure against non-members, they apply de facto to trading partners outside the agreement as well.

– Policy areas that go beyond tariff reduction are often introduced directly based on the most favoured nation principle, so that this does not result in discrimination. Applying the most favoured nation principle here is all the more remarkable as this non-discrimination is often not covered by the WTO rules framework.

– In addition, it is more difficult to define the origin of services, capital and property rights. Rules of origin for fundamental policy areas are therefore often more permissive than for goods and hence less discriminating.[25]

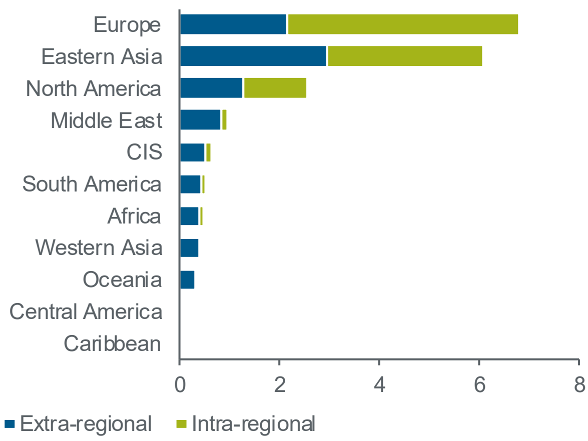
Indeed, empirical research has revealed more trade creation and fewer trade diversion effects in deep agreements than in less deep agreements. As long as the agreements are of a non-discriminatory nature, trade creation effects can even arise in countries outside the trade area.[26]

Focus of international trade can differ from the focus of trade agreements

A handful of regions account for most of the world's trade in goods, with 82% of global trade taking place in Europe, East Asia and North America (Figure 4). With its economic union (EU) and currency union (euro area), Europe is the most deeply integrated economic region in the world. This deep economic integration – together with a large number of intra-regional bilateral trade agreements – contributes to intensive trade within Europe. East Asia and North America do not have a single currency nor deep political integration but in each of these two regions half of all exports is within the respective region. Here, too, large intra-regional trade agreements – ASEAN in East Asia and the USMCA as a successor to NAFTA in North America – and a number of bilateral intra-regional trade agreements bolster trade within the region.

Figure 4: Goods exports by region

in USD trillion, 2019



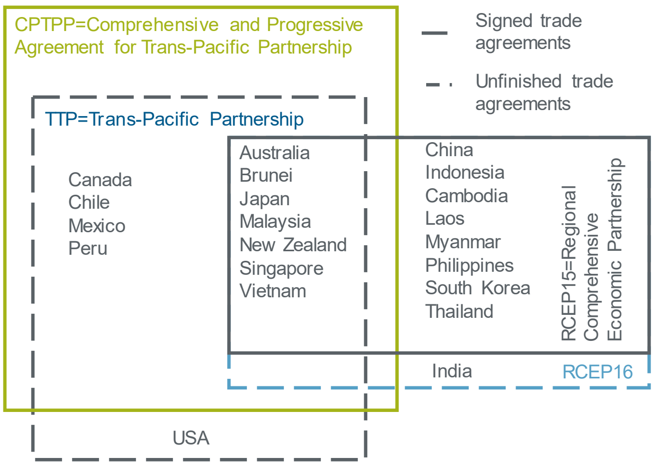
Sources: UNCTAD Statistics (regional breakdown based on the definition of the WTO Regional Trade Agreements Database; CIS = Commonwealth of Independent States); KfW Research.

The focus of regional trade agreements in Europe, America and Asia has shifted over time. Since 1960, Europe and America have focused on intra-regional economic integration through the establishment of free trade agreements and customs unions. In Asia, by contrast, the regions differentiated themselves from one another based on their cultural, religious and political diversity and concluded only few trade agreements amongst themselves with limited economic impact. When Europe and America began to look beyond their regions after the end of the East-West conflict from the year 2000, a stronger trend towards the conclusion of trade agreements began in Asia as well. East Asia in particular moved its focus very much beyond the region from the start. The rise of trade agreements was motivated by a market-driven economic integration which saw enterprises connect directly with global value chains that extended beyond national boundaries.[27]

Mega-regional trade agreements are on trend

International value chains are one reason that countries or trade blocs decide to negotiate mega-regional trade agreements. These agreements between countries or trade blocs cover a substantial share of global trade and foreign direct investment. However, there is no definition of what exactly constitutes a mega-regional agreement. The literature uses a threshold value of 25% of global trade in goods and services and 25% of global foreign direct investment, for example, as a defining feature.[28] However, the recently concluded mega-regional CPTPP trade agreement has a much lower but still notable share of 14% of all goods and services imported worldwide, as well as a share of 14% of global direct investment portfolios.[29] As mega-regional trade agreements cover a large portion of global trade, they are of particular interest to multinational firms. At the same time, the current plurilateral mega-regional trade agreements (Figure 5) cover content that goes beyond tariff reductions and set out rules and standards for a large number of markets. They can therefore be assigned to the category of deep regional trade agreements. [30]

Figure 5: Current plurilateral mega-regional trade agreements



Note: While the CPTPP was ratified by seven countries and went into effect for them,[31] ratification is still pending for RCEP15.

Sources: Petri, P. A. und M. G. Plummer (2020), East Asia Decouples from the United States: Trade War, COVID-19, and East Asia's New Trade Blocs, Peterson Institute for International Economics, Working Paper, KfW Research.

The largest, plurilateral forums outside the WTO in which countries and trade blocs have come together with the aim of promoting free trade are the mega-regional trade agreements presented in Figure 5. The first globally negotiated mega-regional trade agreement is the TPP. The US withdrew from the negotiations in 2017. The remaining partners of the TPP finalised the negotiations under the CPTPP in 2018. The RCEP has been under negotiation since 2012. India withdrew from the negotiations at the end of 2019, concerned that Chinese competition in manufacturing would destroy jobs, among other reasons. But there is a possibility that it may rejoin.[32] The remaining contractual partners signed the agreement on 15 November 2020, creating the world's largest free-trade zone.[33] The agreement has yet to be ratified in order to enter into effect.[34]

Geopolitical interests encourage conclusion of regional trade agreements

Apart from economic reasons, political interests also play a role for countries to enter into regional trade agreements. In that case, policymakers aim to achieve greater certainty in trade, more negotiating power or future cooperation based on the trade agreement, or they use trade agreements as a mechanism for creating obligations between trading partners.[35] The interests are of a geopolitical nature when they arise from competition for power and influence.[36] The geopolitical component is currently highlighted by the rivalry between the two largest economies of the world, the US and China.

China's economic rise (see box 3) triggered geopolitical and national security concerns in the US.[37] Thus, China's share in global goods exports has surpassed that of the US since 2007 (Figure 6). It is particularly the non-market economy character of China's economy that holds potential for conflict. China's state-owned enterprises and the heavy subsidisation of production are a key point of criticism levelled at the country within the WTO as well. The US is therefore considering decoupling from China economically.[38] For one thing, this intention is evident in the trade conflict and for another, the current mega-regional trade agreements provide clues that the US may potentially distance itself from the East Asian region, including China. Thus, the conclusion of the RCEP strengthens China's position and East Asia's regional integration.[39]

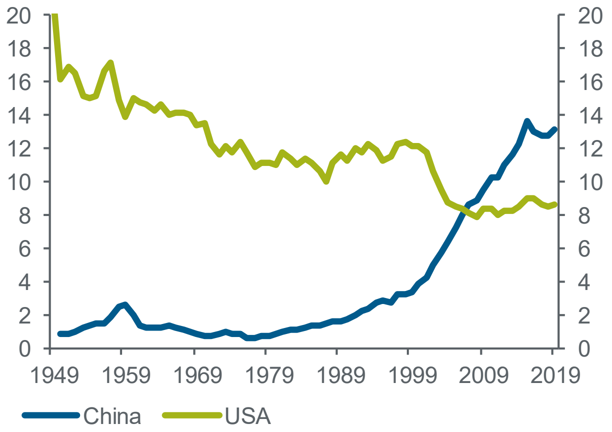
Geopolitical power interests are also visible in the CPTPP. While China has already voiced an interest in joining, the US might consider it as well. That will be decided by the current signatories to the CPTPP as they must agree to these countries joining. If the US joins before China, there is a possibility that it may prevent China's accession by making use of its veto right. At the same time, China's accession would require it to make substantial national reforms in areas such as state-owned enterprises, data flows and subsidies. But since China does not appear willing to undertake reforms at this time, its accession to the CPTPP appears to be rather unlikely in the short to medium term.[40] An accession by the US would also be subject to substantial conditions, however, including significant amendments to the agreement, as well as approval by the US Congress, which is still lacking.[41]

Box 3: China's economic rise

Since the 1990s, China's growth strategy has been based on the final assembly of imported intermediate products and their subsequent export, which exploited the advantages of the international division of labour and was associated with growing trade. China joined the WTO in 2001[42], which created even more favourable conditions for its export-oriented growth model. That enabled China to achieve an average annual rate of real GDP growth of 11% between 2001 and 2009. Measured by global goods exports, China has been the world's leading export nation since 2009.[43] As exports have been steadily approaching their limits as a growth engine in the past years, the Chinese government is now increasingly focusing on strengthening domestic demand. The transition of the growth model already became evident after the global economic and financial crisis of 2008/2009, with the expansion of national supply chains and, thus, reduced dependence on imported inputs.[44] Although this goes hand-in-hand with declining trend growth, China is classified as the world's second-largest economy after the US, on the basis of real GDP, and it is listed in the group of higher-middle-income countries by the World Bank.

Figure 6: The importance of the US and China for global exports

In percent



Sources: UNCTAD; KfW Research.

The possible fragmentation of global trade in two large trading blocs that discriminate against each other is an unfavourable scenario for free, rules-based global trade. After all, it would mean that global trade would no longer be based on generally accepted WTO rules but on the terms of the large trading blocs, which would be dictated by the prevailing power relations. Given the conflicts and distancing of the US from China, it appears plausible that two trading blocs could establish themselves that would centre on these two economies as key actors. It is conceivable that South America, Saudi Arabia, Israel and South Korea would align themselves with the US, while Africa and Russia would align themselves with China.

If countries choose to remain outside either of the two trading blocs, that could become a problem for them. If the trading blocs discriminate against outsiders and trade takes place primarily between the member states, countries outside the trade agreements are at a disadvantage. Entering into trade agreements, preferably with large countries within the trading blocs, is then imperative for them to continue benefiting from international trade.[45] The EU, however, is a large enough player in global trade to be able to choose between one of the two trading blocs or to position itself as an independent trading bloc in its own right. The latter option would presumably make it easier for it to support comprehensive trade agreements and push for a reform of the WTO.[46]

Outlook: The future role of the WTO in a world of regional trade agreements

Irrespective of what role the EU plays in the conflict between the US and China, strengthening and reforming the WTO is an essential option for the EU that can also involve mediating between the US and China. A whole range of approaches is available to further develop the WTO rules framework. These include, for example, addressing state subsidies, also with a view to making competition with China fairer. Here, the EU, the US and Japan have submitted proposals for further development in the context of their Trilateral Initiative. The initiative will also focus on the topic of state-owned enterprises. This has become more topical against the background of comprehensive government support during the coronavirus crisis, which increases government influence on economic activity.

Moreover, plurilateral negotiations are underway between WTO members on the topics of digital trade, services and investment. In order for such agreements to be able to enter into force, the consenting countries must together account for at least 80% of global trade in the respective area.[47] Thus, the EU, US, China and Japan together are responsible for some 60% of global services exports. Accordingly, the trade heavyweights usually cannot dictate the rules on their own, even if they were in agreement amongst themselves. Indeed, some large emerging countries, such as India, are critical of the plurilateral initiatives. They believe that these initiatives allow developing and emerging economies too little room for manoeuvre. They also fear that the strong pressure of the markets would force them to ultimately accept the arrangements without having had a say in setting the rules.[48]

The potential for negotiations between WTO members succeeding is illustrated by the formation of an interim dispute resolution mechanism which is to be in place for as long as the reappointment of the WTO Appellate Court is blocked.[49] But even if further reform efforts do not fall on fertile ground, the WTO will retain its monitoring function and continue in its efforts to make global trade as transparent as possible.[50]

[1] Deloitte (2020), COVID-19 Briefing: Peak Globalisation? Trends im Welthandel und die Konsequenzen der Corona-Krise (*COVID-19 Briefing: Peak Globalisation? Trends in global trade and the consequences of the coronavirus crisis* – our title translation, in German only), https://www2.deloitte.com/de/de/blog/covid-19-briefings/2020/covid-19-briefing-auswirkungen-auf-den-welthandel.html, last retrieved on 27 October 2020.

[2] International Trade Center (2020), ITC Market Access Map, Tracking of COVID-19 Temporary Trade Measures, https://www.macmap.org/covid19, figures current as at 29 Oct. 2020.

[3] Deutsche Bundesbank (2020), Consequences of increasing protectionism, Monthly Report 2020, 49–71.

[4] Herrero, A. G. (2019), Europe in the midst of China-US strategic economic competition: What are our options?, CESifo Forum, ifo Institut – Leibniz Institute for Economic Research, University of Munich, 20(1), 11–20.

[5] Agreements are concluded in rounds of multilateral free trade negotiations – negotiations in which all WTO members participate. They are guided by the basic principle of non-discrimination – also referred to as most-favoured nation principle. It means that a WTO member that grants another WTO member trade concessions is obligated to grant them to all other WTO members as well. In addition to its function as a forum for multilateral negotiations, the WTO supervises the conclusion and fulfilment of multilateral agreements, monitors and verifies national trade policies, and helps resolve disputes between WTO member states.

WTO (2015), Understanding the WTO, WTO.

[6] Mildner, S.-A.; Tepper, K. and von Unger, E. (2020), WTO – die Hüterin des Welthandels in der Krise (*WTO – the custodian of global trade in crisis* – our title translation, in German only), Wirtschaftsdienst, 100(5), 332–337.

[7] Panezi, M. (2016), The WTO and the Spaghetti Bowl of Free Trade Agreements, Four Proposals for Moving Forward, Centre for International Governance Innovation, Policy Brief, 87.

[8] Borrmann, A. and Koopmann, G. (1994), Regionalisierung und Regionalismus im Welthandel (*Regionalisation and regionalism in global trade* – our title translation, in German only), Wirtschaftsdienst, 74(7), 365–372.

[9] Lejárraga, I. (2014), Deep Provisions in Regional Trade Agreements: How Multilateral-friendly?: An Overview of OECD Findings, OECD Trade Policy Papers, 168, Paris, OECD Publishing; Definition of preferential agreements taken from the WTO Glossary, https://www.wto.org/english/thewto_e/glossary_e/glossary_e.htm, last retrieved on 29 October 2020.

[10] Mansfield, E. D. and Solingen, E. (2010), Regionalism, Annual Review of Political Science, 13(1), 145–63.

[11] https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm, https://www.wto.org/english/thewto_e/glossary_e/glossary_e.htm

[12] https://www.wto.org/english/thewto_e/glossary_e/preferential_trade_arrangements_ptas_e.htm

[13] https://www.wto.org/english/tratop_e/roi_e/roi_info_e.htm

[14] Trade agreements signed between two countries or trade blocs are referred to as bilateral. Plurilateral trade agreements involve more than two countries or trade blocs.

[15] Mattoo, A.; Rocha, N. and Ruta, M. (eds.) (2020), Handbook of Deep Trade Agreements, Washington DC, World Bank.

[16] Together with the GATT (General Agreement on Tariffs and Trade), the GATS and TRIPS constitute the three principal agreements and, hence, the pillars of the WTO which are binding for all WTO members. These multilateral agreements regulate trade in goods and services as well as intellectual property rights. They also cover issues such as anti-dumping, state-owned enterprises and compensation measures. Further related multilateral agreements such as TBT, SPS and TRIMS also apply.

[17] Hofmann, C.; Osnago, A. and Ruta, M. (2017), Horizontal depth : a new database on the content of preferential trade agreements, The World Bank, Policy Research Working Paper, 7981; Bown, C. P. (2016), Mega-Regional Trade Agreements and the Future of the WTO, Discussion Paper Series on Global and Regional Governance, Council on Foreign Relations; Mattoo, A.; Rocha, N. and Ruta, M. (eds.) (2020), Handbook of Deep Trade Agreements, Washington DC, World Bank.

[18] Burri, M. and Polanco, R. (2020), Digital Trade Provisions in Preferential Trade Agreements: Introducing a New Dataset, Journal of International Economic Law, 23(1).

[19] Mattoo, A.; Rocha, N. and Ruta, M. (eds.) (2020), Handbook of Deep Trade Agreements, Washington DC, World Bank.

[20] Yalcin, E.; Kinzius, L. and Felbermayr, G. (2017), Hidden Protectionism: Non-Tariff Barriers and Implications for International Trade, study by the Ifo Institute for the Bertelsmann Foundation.

[21] Mattoo, A.; Mulabdic, A. and Ruta, M. (2019), Trade Creation and Trade Diversion in Deep Agreements, World Bank; Baldwin, R. (2014), Multilateralising 21st Century Regionalism, Paper prepared for the OECD conference 'Global Forum on Trade Reconciling Regionalism and Multilateralism in a Post-Bali World'.

[22] Lejárraga, I. (2014), Deep Provisions in Regional Trade Agreements: How Multilateral-friendly?: An Overview of OECD Findings, OECD Trade Policy Papers, 168, Paris, OECD Publishing.

[23] Hayakawa, K.; Jinji, N., Matsuura, T., Yoshimi, T. (2019), Costs of utilizing regional trade agreements, Research Institute of Economy, Trade and Industry (RIETI), Discussion paper, 19-E-054.

[24] Felbermayr, G.; Teti, F. and Yalcin, E. (2018), On the Profitability of Trade Deflection and the Need for Rules of Origin, CESifo Working Paper, 6929.

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