

Strengthening the multilateral trading system

RTA Exchange: Organizing the World's Information
on Regional Trade Agreements

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1. Introduction

Regional trade agreements (RTAs) have proliferated around the world in the past two decades alongside and independent from the GATT/WTO system. By now two parallel systems, multilateral and regional, are in place. The rise of RTAs has created a sense of urgency among WTO members to examine whether RTAs are discriminatory toward outsiders - as well as how exactly the various GATT regulations on preferential treatment should be interpreted, and whether the scope of these regulations should be broadened. Such concerns have grown as each WTO member has found itself outsider to an ever-growing number of RTAs. In the Doha Round, WTO members elevated RTAs to a “systemic issue”, or one that affects the entire world trading system and requires to be addressed as such.

In practice, multilateral efforts to regulate RTAs have been and will be toothless. After all, all WTO members are jealous of their respective RTAs, and are unlikely to call for rules that could force them to modify their own agreements. Besides, RTAs are not the problem they have been worried to be. Research compelling shows that most RTAs adhere to open regionalism - create not divert trade with outsiders - and also help aggregate pro-trade forces to lobby for further liberalization. RTAs have in many ways been the savior of the global trading system, opening WTO members a path to trade liberalization even as the Doha Round talks have stagnated. RTAs have numerous further benefits: they are found to serve as focal points of inter-state cooperation, incubators of new global trade rules, and as testing grounds for mechanisms to adjust to an open trading environment.

It is not possible, practical, or desirable to seek to regulate or standardize RTA. Rather than worrying about a potential discriminatory effect of RTAs, WTO members need a new approach, one that aims to mitigate the real challenge posed by RTAs, and that harnesses the many opportunities created by RTAs to deepen and broaden global economic integration for expanded trade and development. Such an approach consists of such high-impact measures as:

- **Creating efficiency gains across RTAs:** The “spaghetti bowl” of RTAs has been shown to raise transactions costs for companies that operate global supply chains, as well as smaller exporters seeking to export to many different markets, each with its own RTA. Erasing some of the transactions costs through converging RTAs

together into larger integration zones can yield major economic gains, particularly for smaller economies.

- **Multilateralization of RTAs’ best practices.** Especially recent RTAs have addressed behind-the-border issues from intellectual property to competition policy and product norms in a very robust fashion. This is where the innovation in RTAs is occurring, and also where the multilateral trading system lags well behind. RTAs offer a vast body of tested and tried rules that can help advance multilateral rulemaking in critical areas.
- **Deepening trade integration created by RTAs.** RTAs help generate goodwill and greater economic interaction among their members that can be conducive to deeper integration in other policy areas, such as standards harmonization or infrastructure development. There have been several efforts around the world that offer lessons-learned for countries and regions that have yet to fully exploit such opportunities opened by RTAs.

There are several such possible ways to reduce the spaghetti bowl problems and take full advantage of RTAs for global trade and development. But how to best realize them?

One key answer revolves around improved information and exchange of ideas and experiences on RTAs. Existing data, information, and discussion on RTAs is voluminous, but also ad hoc, uncoordinated, and dispersed across variety of forums around the world. There is no one instance that would encourage broad-based global “mindshare” on RTAs, with a view to sharing experiences and building synergies among RTAs and between RTAs and the WTO system. This is a lost opportunity.

This is also an opportunity for a consortium of likeminded institutions committed to advancing global trade integration to step up to the plate. Such as consortium - composed of development banks and other international organizations as well as leading academic institutions - could establish and run an “RTA Exchange”, a first-in-class global clearing house of information on RTAs, and a virtual international discussion forum on ways to leverage RTAs for broader and deeper global trade integration. With a bottom-up approach that engages multiple different stakeholders engaged in world trade, the RTA Exchange would enhance

RTAs' transparency, facilitate the transfer of lessons-learned and best practices across RTAs, lay the groundwork for multilateralizing RTAs' best practices, and generate fresh thinking on ways to complement RTAs for trade and development. It would doubtless also unearth policy innovations that have yet to see the light of day.

Is there a role for the WTO in the RTA Exchange? The WTO should have a self-interest in forming the exchange, for two reasons. First, becoming a hub of information and ideas on RTAs, today's center of gravity of global trade integration and rule-making, the WTO would regain relevance rather than being sidelined by RTAs. Second, geared to facilitating and encouraging information-sharing and open dialogue on ways in which RTAs can best be leveraged for global trade and development, the WTO will inherently serve its mission to "open trade for the benefit of all," and likely get far more done than is possible through the clogged multilateral trade negotiations. However, politicization of RTAs within the WTO system precludes the institution from running the RTA Exchange alone. The WTO can offer as well as use some of the elements of the Exchange: it can be an observer to the founding consortium.

2. Problem

The rich debate over the past several years about the implications of RTAs to the world trading system has mostly centered on the discriminatory effects toward the outsiders. The conventional analysis has reflected concerns that RTAs could be trade-diverting and antithetical to the multilateral trading system. The 1948 General Agreement on Tariffs and Trade (GATT) allows member countries to grant each other preferential treatment under free trade areas or customs unions, as long as certain conditions are met. These conditions are defined mainly in GATT Article XXIV, which stipulates that members notify their RTAs to what is now the WTO, and that the RTAs liberalize "substantially all trade" among the members "in reasonable length of time.", and do not introduce new "restrictive rules on commerce." The article also demands open regionalism - that RTA members do not raise barriers to third parties.

Since the early 1980s, there have been a number of efforts at the GATT/WTO system to somehow regulate RTAs in order to shed light on RTAs and to counteract the odds of trade diversion. The

quest for transparency has intensified in the wake of the Uruguay Round. In 1996, the WTO General Council established the Committee on Regional Trade Agreements (CRTA) as a means to examine individual RTAs and to consider their systemic, cross-cutting implications for the multilateral trading system. Parties to a new RTA are required to submit certain data to the WTO, such as on the RTA's tariff concessions and rules of origin, and the members' MFN duties and import statistics. The CRTA is subsequently to prepare a detailed survey of the contents of the RTAs, and to perform legal analyses of WTO provisions pertinent to RTAs, draw comparisons across RTAs, and examine the economic aspects of RTAs.

In the Doha Round, WTO members elevated RTAs to a "systemic issue", or one that affects the entire world trading system and requires to be addressed as such. In December 2006, the members issued a "Transparency Mechanism for Regional Trade Agreements" that requires the members provide an "early announcement" of their involvement in RTA negotiations and promptly notify a newly concluded RTA, and that puts forth a schedule for the RTA's examination by the WTO Secretariat.

These approaches have in part been premised on the notion that RTAs may have discriminatory effects, or even that there could be trade-offs between the multilateral and regional system of trade governance, so that it is incumbent on the WTO to monitor and somehow regulate RTAs. These approaches have also been rather narrowly focused, like Article XXIV mostly is, on market access provisions in RTAs. While useful for shedding light on RTAs, these approaches also promise limited benefits, for three reasons.

- **Lack of political will:** Efforts to monitor and regulate RTAs have proven ineffective. WTO members have practically never debated hard or agreed whether any one RTA breaches multilateral trade rules, let alone revised Article XXIV: multilateral, top-down efforts to address RTAs have gone practically nowhere. The reason is simple: WTO members are jealous of their respective RTAs and their prerogatives to form new ones, and unlikely to agree to any multilateral rules that would curb their ability to negotiate RTAs or force them to modify their existing agreements. Illustrative, the dispute settlement body has dealt with RTAs in only a handful of occasions.

- **Secretariat’s resource constraints:** The resources for the WTO Secretariat to perform in-depth analyses on RTAs are limited; in addition, political sensitivities have curbed the ambition of these studies.
- **Addressing the wrong “problem”:** The long-standing concerns that RTAs balkanize the global trading system are becoming moot - research indicates that most RTAs are more trade-creating than trade-diverting. Moreover, while RTAs have been blamed for sapping energy from multilateral trading system, it is also the case that RTAs have helped save the global trading system in its time of crisis. They have fuelled the liberalizing momentum as multilateral talks have frozen and some protectionist practices emerged during the 2008-09 global financial crisis. In addition, RTAs have created a positive internal dynamic: the very proliferation of RTAs has reduced the preferential edge that any one RTA confers.

Besides advancing global trade liberalization, RTAs have emerged as incubators of new trade and trade-related rules in such areas as services trade, investment regulations, customs procedures and trade facilitation, environment, intellectual property rights, and e-commerce. In some of these areas, RTAs are unquestionably more advanced and sophisticated than the multilateral trading system. RTAs have also been found to impart benefits that go well beyond traditional analyses on gains from trade, such as propelling export-oriented, efficiency-seeking investment flows among the members, encouraging cooperation among the members on customs and infrastructure integration, and helping relax the political economy constraints to multilateral trade talks in the RTA member nations.

In short, the WTO has scant power over RTAs, and WTO members are unlikely to demand that existing RTAs be modified. Top-down efforts to monitor and constrain RTAs have proven futile. They are also misguided: research shows that RTAs have in the main had positive effects on the world trading system, and also adhered to the common interpretations of Article XXIV. It is thus neither practical nor desirable to standardize RTAs or devise new, elaborate rules to regulate RTAs. Why seek to fix what works?

Today’s policy question should not be whether RTAs undermine the global trading system, but how RTAs and their many WTO+ features can be leveraged so as to deepen and broaden global trade integration. Positively, international debate is shifting in the right direction, away from a narrow focus on RTAs’ coverage and trade effects and onto measures to forge efficiencies and synergies across the many RTAs. There are efforts to converge multiple regional trade agreements into broader integration zones (e.g., Pacific Alliance in Latin America), form mega-regional agreements encompassing several large trading nations (e.g, Trans-Pacific Partnership), and start negotiating plurilateral agreements on key trade disciplines among members of several different RTAs (e.g., the International Services Agreement negotiations).

These types of approaches will now need to be deepened. A key step in this direction is a n enhanced understanding of the contents, dynamics, and lessons-learned from the various RTAs. Indeed, although RTA spree of the past two decades has created vast reservoir of agreements, rules, and practical experiences, it is also the case that data, information, and discussion on RTAs remains ad hoc, uncoordinated, and dispersed across variety of forums around the world, whether university centers, multilateral development banks, and regional organizations.

Granted, policy entrepreneurs and intrepid analysts may bring some of this dispersed data and collective wisdom together, but such efforts, unless large-scale and sustained, are of limited impact. There is no one instance that would systematically and on a consistent basis bring together all relevant information on RTAs around the world, let alone encourage dialogue and sharing of experiences among the various stakeholders in global trade on RTAs. There decidedly is no one instance that would encourage global “mindshare” on RTAs with a view to building synergies among RTAs and between RTAs and the WTO system, and in general helping unearth fresh ideas and lessons-learned on best ways to broaden and deepen trade integration on the back of existing RTAs.

A failure to tap the wealth of information and experience on negotiating, implementing, and complementing RTAs is a giant lost opportunity. This is also a gap that needs to be bridged. A new institution is needed: an RTA Exchange.

3. Launching the RTA Exchange

The RTA Exchange is to be a cutting-edge forum where all matters related to regional trade agreements and their rules and practices could be shared and discussed in an open environment. Its founders have an opportunity to make the RTA Exchange the leading venue of actionable data, insight, idea-generation, and information-sharing on RTAs.

A clearing house of information and a genuinely global discussion forum, the RTA Exchange would promote debate and idea-generation bottom-up, among trade and economic policymakers, private sector representatives, multilateral development bank officials, and analysts around the world. Bringing diverse stakeholders together into a free-ranging, apolitical forum, the consortium would leverage the substantial global “wisdom of crowds” on RTAs, thereby curating actionable intelligence from those closest to the problems and opportunities in the global trading system. Hosting a broad-based forum, the consortium would also reach a large set of players, maximizing the informational benefits of the RTA Exchange.

Modes of Engagement: The RTA Exchange would be “lean and mean” - be run by 1-2 professionals and 2-3 support staff. It would have five distinct ways to engage the various stakeholders:

- **Clearing house of information:** A highly interactive website with a comprehensive, existing, ever-growing body of information, data, and analysis on RTAs, curated from sources around the world.
- **Forum for engagement among stakeholders:** Regularly updated site with videos, blogs, and announcements, as well as other easy-to-digest, real-time ideas and analyses on RTAs. The RTA Exchange staff would also actively create and curate such pieces, engaging experts and holding an “open door policy” for potential contributors. Among other things, one can imagine a Wikipedia on RTAs developing as a result.
- **Discussion space:** A Facebook-like, user-driven application linking the various stakeholders, with discussions lightly moderated by the Exchange management team.
- **Webinars for education:** Frequent e-learning, such as online seminars engaging diverse speakers and experts on various aspects

related to RTAs. Registered members can suggest topics for such seminars.

- **Annual conference.** An annual international meeting on RTAs.

Contents: The contents of these various windows for engagement could be organized into five main areas, each with its specific purpose:

- **Gaining fresh information, data, and analytics on RTAs:** A cornerstone of the RTA Exchange should be an interactive and easily searchable repository of RTA agreements, descriptive comparisons across RTAs and RTA disciplines, and the countless web-based technical studies, forums, news articles, and videos on RTAs that have been published over the past several years. Updated on a daily basis, this repository would also bring together the websites and resources of the great many organizations that house data and information on RTAs, such as universities, the World Bank, and the regional development banks, and various regional organizations. It would also include the WTO’s Database on Preferential Trade Arrangements, and could build on the WTO’s new interactive market access database, incorporating data on preferential tariff liberalization schedules and preferential margins.
- **Negotiating and implementing RTAs:** The RTA Exchange should include information, blogs, and interviews with public and private sector actors and analysts on lessons learned and practical experiences in negotiating and implementing RTAs. Such issues as the design of rules of origin regimes, best practices in including the private sector in RTA negotiations/implementation, and trade enforcement are a perennial concern for trade negotiators and implementers of RTAs. Among other things, the RTA Exchange can include web-based seminars and interviews with seasoned negotiators and analysts on best practices in designing and implementing RTAs.
- **Deepening regional integration:** Many RTA partners have leveraged the goodwill and greater economic interaction resulting from the trade liberalization to deepen bilateral or regional integration in other policy areas. Such experiences need to be shared. For example, many countries in Africa and Asia could learn from the efforts made in the NAFTA context to harmonize standards among the parties after the tariff liberalization was complete.

Similarly, Asians and Latin Americans should have much to learn from the experiences and challenges of the European Union nations in deepening their regional integration.

- **Converging and multilateralizing RTAs:** Converging RTAs and multilateralizing RTAs could have significant efficiency gains, facilitate trade, and promote the creation of scale economies among across different RTAs - and overcome the potential problems of hub-and-spoke formations that tend to disadvantage smaller countries and balkanization of the global trading system. It would also bring the world ever-closer to full-fledged trade integration that multilateral negotiators have aspired to deliver. Indeed, perhaps the main objective of the RTA Exchange would be to actively inform and promote dialogue on experiences and strategic ideas on ways in which the WTO members can build synergies across RTAs and between RTAs and the WTO system.

For example, African and Asian nations could have much to learn from the Pacific Alliance convergence effort in Latin America and from the 1999 creation of the Paneuro system of cumulation in Europe. Similarly, outsiders to TPP and TTIP could gain analytics and knowledge via the Exchange on the benefits of joining these mega-regionals. The RTA Exchange team can take lead in curating ideas and inputs from around the world on these major strategic issues, as well as provide for a user-driven discussion on best practice elements in RTAs.

- **Developing complementary policies.** Efforts to enhance efficiencies in the global trading system, such as converging RTAs, risks “RTA myopia” - excessive focus on RTA rules, when there are several other ways in which the RTA members could expand their trade and trade with outside parties. For example, trade facilitation, customs modernization and improvements in infrastructures are likely to produce gains that are at least as significant as rule convergence could be. Such complementary policies should be prioritized. They are consistent with the Doha Round’s development agenda and the Aid for Trade agenda, and politically easier to accomplish than renegotiating existing agreements or negotiating new ones. The RTA Exchange

should bring together the various stakeholders to define complementary policies that provide the greatest “bang for the buck” in terms of expanding trade and investment. Upon demand, the consortium and outside analysts could also prepare technical analyses on the costs and benefits of various plausible complementary policies.

Benefits of the RTA Exchange

The RTA Exchange would be the world’s leading venue on issues related to RTAs. It would raise the level of debate on RTAs, systematize it, and help make it more actionable than is possible through academic exercises. It would automatically enhance RTAs’ transparency, and help harness the global wisdom of crowds on best ways to leverage RTAs for global trade integration and development. Especially for emerging and developing nations with limited capacities to gather and analyze information on RTAs and their related best practices, the RTA Exchange would offer a shortcut and immediate visibility into relevant information and analysis on RTAs, and provide ready access to peers and experts in other regions as well as in the leading global institutions and academic centers.

Granted, for the RTA Exchange to impact WTO negotiations and rule-making, its work would ideally be woven into the fabric of the WTO’s work. For example, existing WTO Committees and Councils should have responsibility for taking up and reviewing RTA elements within the purview of their committee (i.e., the TBT committee would look at TBT-related matters), and the consortium members of the RTA Exchange should provide all technical input and latest ideas related to RTAs into the work of these instances.

4. Conclusion

The WTO is at a defining moment. It faces questions about its legitimacy and effectiveness, is struggling to adjust to an increasingly complex global economy and constituency, and is surrounded by increasingly vibrant system of regional trade agreements. RTAs have long been worried to undermine the world trading system. There have been several proposal and attempts to ensure that RTAs are non-discriminatory, including strengthening the WTO’s legal framework applicable to RTAs, and shed light to RTAs disciplines and depth of liberalization.

This paper has argued that the traditional approaches to monitor, constrain, and regulate RTAs are antiquated, both because WTO members are not invested in such approaches, and because RTAs are on balance a positive force in the global trading system. Rather than being viewed as antithetical to the multilateral trading system, RTAs must be seen as an opportunity to accelerate and deepen global trade liberalization and integration. What is lacking is a transmission mechanism between this aim and all the information, analysis, and collective international knowledge on RTAs.

This paper has called for the formation of just such a mechanism: the RTA Exchange. The RTA Exchange as construed here is a first-in-class global venue for information-sharing and idea-generation on diverse practical and strategic aspects related to RTAs among a broad set of diverse stakeholders. By mounting the Exchange, the WTO would regain relevance and authority in world trade. However, absent the WTO's leadership, for now blocked by politics within the WTO, the RTA Exchange is best run by a consortium of partners with a common interest - to promote "open trade for the benefit of all."

