International Chamber of Commerce
Policy and Business Practices

MEGA-REGIONAL TRADE AGREEMENTS AND THE MULTILATERAL TRADING SYSTEM

POLICY STATEMENT

Prepared by the ICC Commission on Trade and Investment Policy

ICC recommends:

- Adopting an open architecture for additional member accession when negotiating preferential trade agreements, especially mega-regional agreements.
- Strengthening the WTO's oversight function of RTAs/PTAs – exercised by the Committee on Regional Trade Agreement and the Transparency Mechanism – to secure that such agreements are transparent and consistent with the requirements of the General Agreement on Tariffs and Trade (GATT) Article XXIV and General Agreement on Trade in Services (GATS) Article V.
- Tasking the WTO Secretariat with studying how to best "multilateralize" RTAs/PTAs with a view of extending the benefits of all such agreements on an MFN basis.
- Engaging the private sector to prioritize the most commercially-meaningful issues and opportunities to drive multilateral engagement.

INTERNATIONAL CHAMBER OF COMMERCE
The world business organization

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Executive Summary

Multilateralism is the optimal approach to promote trade and investment liberalization around the world. With the rise of global value chains, barriers among third countries upstream or downstream to trade have begun to matter just as much as barriers between direct trading partners. Instead of creating a multitude of country specific solutions, barriers to trade between countries are ideally addressed in a single, global set of rules.

Regional trade liberalization can support longer-term multilateral liberalization if regional agreements are truly market-opening and contain harmonized, global components wherever possible. others. If negotiated in accordance with principles and rules contained in WTO agreements, these regional initiatives can support longer-term multilateral liberalization.

This policy statement outlines ICC's position on the relation between multilateral and regional trade liberalization and urges governments around the world to consider how to "multilateralize" - elements of regional and preferential trade agreements.

Introduction

The prospect of "mega-regional" trade agreements such as the TransPacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP), the Regional Comprehensive Economic Partnership (RCEP or ASEAN 10 + 6), the Pacific Alliance and the Continental Free Trade Area, have put cross-border trade and investment back at the top of the international economic policy agenda after a notably long absence.

The International Chamber of Commerce (ICC), the world business organization, strongly welcomes the renewed interest in trade and investment on the part of governments around the world as effective "debt-free" means of creating sorely-needed economic growth and jobs. ICC supports regional and mega-regional efforts to promote trade and investment liberalization but believes such agreements should be conducted within a framework that advances the multilateral trading system.

Incentives for regional approaches

Trading partners advance trade and investment liberalization in different ways, including through regional trade agreements, especially in the absence of progress in multilateral negotiations in the World Trade Organization (WTO). Regional agreements may enable parties to conclude levels of liberalization beyond the multilateral consensus, and may be able to address specific issues that do not yet register on the multilateral menu. The resulting achievements in trade liberalization may be substantial, and if constructed properly and in a manner consistent with WTO rules, are a useful complement to multilateral rules. In turn, these achievements contribute to greater progress on a multilateral basis within the WTO. For example, such achievements can include ambitious tariff reduction objectives (such as zero-for-zero) and the reduction of non-tariff barriers, including through regulatory cooperation.

Support for multilateral outcomes

Regional agreements can create momentum towards broader – even multilateral – liberalization. At the same time, because of their inherently exclusive nature, such regional approaches to trade expansion can lead to trade friction and distortion, undermining the multilateral trading system. There are now hundreds of preferential agreements in place, each with different terms, conditions, and compliance arrangements through which business must navigate. For these reasons, ICC prefers multilateral agreements within the WTO; or if that is not feasible, plurilateral agreements built into the WTO system and based on the of Most-Favored Nation (MFN) principle and open architecture, as instruments for further liberalizing international trade in a consistent, efficient manner.

Multilateral agreements ensure a non-discriminatory approach with potential mutual benefits for all WTO members, including locking in the benefits of unilateral and preferential trade liberalization even among large trading blocks. Multilateral agreements reduce trade distortions and simplify administration on a global scale, which is what is needed in an increasingly integrated world economy facilitated through global value chains. For world business, the advantages inherent to multilateral trade liberalization make it essential for the WTO to continue to be able to deliver effective trade and investment liberalization and improve global trade rules for the benefit of all members.

In the absence of liberalizing multilateral trade and strengthening of the rules-based multilateral trading system, world business is concerned that trade diversion, trade distortion and regulatory fragmentation may increase, particularly with the proliferation of “mega-regional” deals within or between regions, thus having the potential to increase the cost of doing business, especially in a world where trade and investment increasingly takes place through global value chains.

Ensuring regional approaches support multilateral outcomes

ICC believes that the numerous “mega-regional” negotiations could provide the basis for moving the trade agenda forward and a renewed momentum for multilateral trade liberalization overall. If negotiated with that possibility in mind, regional trade agreements will not block progress on multilateral trade liberalization, but rather stimulate progress under the WTO. Ensuring greater coordination between regional agreements and the multilateral system will reduce the transaction costs for business and maximize the global welfare benefits.

The overall global trade architecture will be affected by the regulatory standards and rules established by mega-regional agreements. While one objective for these negotiations is to establish “high-standard” disciplines through deep integration, certain disciplines may be more easily integrated into the multilateral system than others. While not exhaustive, the OECD has identified five factors that lend certain disciplines more likely to be multliateralized:

1) sufficient widespread use of the measures across regional agreements
2) homogeneity of the measures across regional agreements
3) the level of and impact of discrimination of the measures against non-parties and foreign operators
4) the level of transparency and enforceability of the measures, and
5) the level of economic impact and political will to multilateralize the measure.

Given these factors, the following disciplines appear the best options for being multilateralized:

- e-commerce
- anti-corruption/anti-bribery
- investment
- rules of origin
- regulatory cooperation
- environment, and
- competition.[1]

[1] Lejarraga, I. (2014), “Deep Provisions in Regional Trade Agreements: How Multilateral-friendly? An Overview of OECD Findings”, *OECD Trade Policy Papers*, No. 168, OECD Publishing.

Therefore, ICC recommends:

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- Strengthening the WTO's oversight function of RTAs/PTAs – exercised by the Committee on Regional Trade Agreement and the Transparency Mechanism – to secure that such agreements are transparent and consistent with the requirements of the General Agreement on Tariffs and Trade (GATT) Article XXIV and General Agreement on Trade in Services (GATS) Article V.
- Tasking the WTO Secretariat with studying how to best "multilateralize" RTAs/PTAs with a view of extending the benefits of all such agreements on an MFN basis.
- Engaging the private sector to prioritize the most commercially-meaningful issues and opportunities to drive multilateral engagement.

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The International Chamber of Commerce (ICC)

ICC is the world business organization, whose mission is to promote open trade and investment and help business meet the challenges and opportunities of an increasingly integrated world economy.

With interests spanning every sector of private enterprise, ICC's global network comprises over 6 million companies, chambers of commerce and business associations in more than 130 countries. ICC members work through national committees in their countries to address business concerns and convey ICC views to their respective governments.

ICC conveys international business views and priorities through active engagement with the United Nations, the World Trade Organization, the G20 and other intergovernmental forums.

Close to 3,000 experts drawn from ICC member companies feed their knowledge and experience into crafting the ICC stance on specific business issues.

www.iccwbo.org

INTERNATIONAL CHAMBER OF COMMERCE
33-43 avenue du Président Wilson, 75116 Paris, France
T +33 (0)1 49 53 28 28 **F** +33 (0)1 49 53 28 59
E icc@iccwbo.org www.iccwbo.org