



TRADE AND
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Perspectives on the Multilateral Trading System

A Collection of Short Essays

**Africa's Tripartite Preferential Trade
Agreement and the PTA-WTO
Coherence Debate: Yin and Yang**

By Peter Draper



International Centre for Trade
and Sustainable Development



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Introduction

Only a healthy multilateral trade regime can solve some key future trade issues, notably the reduction and elimination of subsidies particularly harmful in agriculture, fisheries and energy, in an era of increased water scarcity, depleted fish species and climate change. On the other hand, the success of the multilateral trade regime raises new challenges that require adapted rules, and some of these new rules may initially be provided by preferential trade agreements (PTAs). This dilemma underscores the “coherence debate” concerning how PTAs relate to the World Trade Organization (WTO), and particularly how the former can be made more compatible with the latter.

The proposed PTA amongst three African regional economic communities (RECs), namely SADC, COMESA, and the EAC¹, provides one angle on the coherence debate. The problems with African PTAs or are well known.² Perhaps less well-known is the widely shared desire to create an African Economic Community by 2025. A substantial³ obstacle in that path is the continent’s fragmentation into fourteen RECs. One of the T-PTAs primary stated objectives is to ameliorate the problem of overlapping memberships amongst the three constituent RECs. Much preparatory work has been done, and negotiations are set to commence in 2012. If successful, the T-PTA would result in a PTA covering 26 countries, or nearly half the continent in terms of nation states. That would be a significant achievement for the continent. It could also be a significant contribution to the global challenge of building greater coherence between PTAs and the WTO.

Opportunity statement and state of play

The relationships between PTAs and the WTO have been the subject of much discussion. Recently the debate has received renewed attention, most notably in the WTO’s Annual Trade Report.⁴ The report notes that the ground has shifted in many ways since the original debates began after the

inception of the GATT. Notable amongst these shifts is the declining relevance of import tariffs as barriers to international commerce, and the rise of regulatory “behind the border” measures. Underlying these shifts is the growth of global value chains or “production unbundling”, which requires minimization of transactions costs across borders. Consequently PTAs have increasingly shifted into regulatory issues, spanning market access and harmonization, constituting “deep integration”. This means the impact of PTAs on non-signatories, and by extension their relationships with WTO disciplines, are more difficult to measure than the standard trade creation/trade diversion toolkit allow for.

Therefore, as the WTO report notes improving coherence between PTAs and the WTO is challenging. They identify four arenas in which this agenda could be explored:

1. Lowering MFN tariffs;
2. Filling gaps in the WTO’s legal framework;
3. Adopting a “soft law” approach with a view to establishing “hard law” disciplines;
4. Multilateralizing regionalism.

The report notes that the impasse in the Doha round has effectively stymied (1) and (2). Logically MFN tariff liberalization is now the preserve of unilateral trade policies. With respect to (3) members agreed to the establishment of a transparency review mechanism, which could lead over time to the development of a code of good practices, and then negotiations aimed at improving hard law mechanisms. However, the members’ inability to clarify existing rules under the current Doha mandate does not lead to much optimism regarding this path. Regarding (4) the report notes that the WTO could play a role as a forum for coordination, standardization, and harmonization of preferential rules of origin; or identifying “best practices” in PTAs. They also note the possibility of members agreeing to “critical mass” decision-making or plurilateral approaches to negotiations.

1 Respectively the Southern African Development Community, Common Market for Eastern and Southern Africa, and East African Community.

2 Draper, P (2010) ‘Rethinking the (European) Foundations of African Economic Integration: A Political Economy Essay’, *OECD Development Centre Working Paper*, 293.

3 The primary obstacle in this author’s view is that the ambition is too grand to be realistic. The continent is hugely diverse and underdeveloped, conditions not propitious to grand integrative schemes. See Draper (2010) cited in endnote 2.

4 World Trade Organization (2011) Annual Report - The WTO and preferential trade agreements: From co-existence to coherence. Geneva

The T-PTA potentially fits into the “multilateralizing regionalism” component of the coherence agenda developed by the WTO. Its core philosophy, as outlined by the Secretariats of the three RECs, is to remove barriers to trade within the combined geographic space of its constituent states; beginning with tariffs then proceeding to regulatory barriers, including harmonization. This vision fits with the broad thrust of PTA evolution in terms of the substance of PTA negotiations, but goes where relatively few have gone in terms of the “widening” ambition relating to parties to the agreement.

Unfortunately other attempts along these lines elsewhere in the world have not registered great success, notably the Free Trade Area of the Americas and the trade liberalization component of APEC. The latter may now be changing as the Trans-Pacific PTA gathers momentum, but its ultimate success remains to be seen. Involving many disparate states and groupings in a grand negotiation process clearly generates formidable political economy obstacles.

Clearly the political economy of the T-PTA will determine whether the vision is likely to be achieved or not, and therefore what significance it holds for the coherence debate. Currently political economy forces within the T-PTA partners seem to be converging on a more limited interpretation of the PTA mandate. Whereas the three REC Secretariats evinced a bold vision of tariff and regulatory liberalization, and regulatory harmonization, the member states have postponed negotiations over regulatory liberalization and harmonization to a second, indeterminate phase to be commenced once the tariff negotiations are concluded. One area of consensus is the need to coordinate infrastructure investment plans; an agenda that will take many years to unfold. Since the tariff negotiations are likely to take considerable time to conclude - if indeed they do reach a successful conclusion - the prospects for deeper integration currently appear quite slim. Obviously this would sharply limit the relevance of the T-PTA to the coherence debate and processes.

Responses

If the T-PTA is to serve as some kind of model in the coherence debate, then the benefits of pursuing the “multilateralizing regionalism” approach need

to become self-evident to the member states. Since those benefits are intrinsically linked to global value chains and production networks, a phenomenon that until now has almost entirely bypassed sub-Saharan Africa, this is a tough sell.

Nonetheless, there may just be opportunities opening up in the world economy that could support this approach.⁵ In the medium term (say 5-10 years) the underlying cost structures driving value chain location could change dramatically, specifically:

- i. Energy and associated transportation costs are likely to continue rising as the cost of fossil fuels increases and policy measures targeted at carbon emissions intensify.
- ii. Similarly, as new players from emerging markets secure access to various resources for input into production processes, so competition will increase and prices of those resources are likely to rise. Export restrictions, if not properly regulated, are also likely to intensify placing further upward pressure on prices.
- iii. China is at the centre of global value chains in manufacturing, particularly in labour-intensive sectors. As China continues to shift its growth model away from reliance on exports towards domestic consumption, so wage costs are likely to rise sharply and the currency should continue its appreciation. Hence the ‘China cost’ is likely to continue rising, assuming the 12th Five Year Plan is diligently implemented. Chinese productivity growth continues to amaze, and the western provinces have hundreds of millions of workers eager to join the ‘new China’, so bold predictions of massive relocations should be tempered.
- iv. Information technology costs are likely to be driven lower through intense technological competition. This probably has positive implications for those countries specializing in emerging ‘services value chains’ but also opens up opportunities for other countries wishing to grab a slice of the action.

Consequently the geography of value chain location is likely to shift, potentially fundamentally. Hence the rules governing value chain operation need to be revisited with a view to updating them so that the new emerging context can evolve optimally.

⁵ The following is adapted from a report prepared by the author in his capacity as chairman of the World Economic Forum’s Global Agenda Council on trade.

Sub Saharan Africa, or more accurately certain countries or sub-regions, could be one of the main beneficiaries of such global value chain shifts provided that policy reforms aimed at creating appropriate investment environments are rapidly undertaken. In this light T-PTA member states have a relatively narrow window of opportunity to position their broad region in this emerging opportunity context.

This means focusing negotiations on issues where transactions costs are highest, since these are of major concern to the multinational companies that drive global value chains. Elsewhere I have argued⁶ that the ensuing schemes should eschew institution-intensive forms of integration as far as possible, and rather focus on trade facilitation in its broadest sense. Linking this to the “multilateralising regionalism” agenda suggests that T-PTA members should prioritise the following issues:⁷

- Reducing the most blatant costs imposed by constituent PTAs, in particular inconsistent and discriminatory PTA rules of origin, by harmonizing such rules within liberal parameters. This will undoubtedly prove challenging;
- Prioritise the design and implementation of ‘mutual recognition’, for instance when handling one of the thorniest issues in international trade—namely, technical barriers to trade (mandatory norms);
- experiment with ‘mutual evaluation’ of their respective regulations, a key issue in services;

- improve the overall design of the T-PTA by defining WTO-compatible best-practices;
- Include accession provisions for candidate countries with the same commitments as those adhered to by the founding PTA members.

This seemingly limited agenda will prove very challenging to implement, but if pursued in tandem with successful infrastructure and tariff liberalization thrusts could position the region and its member states favourably in the unfolding race to attract global value chain investments.

Conclusion

The agenda outlined above, even if implemented, is likely to have only marginal implications for the coherence debate. That is because African states are rule-takers in the global trading system, not rule-shapers.⁸ Hence the primary objective behind the strategy should be to position the T-PTA region in the global value chain space. Fortunately the two objectives are congruent, in other words pursuing a “multilateralizing regionalism” agenda would serve the region’s interests at the same time as contributing, albeit marginally, to the coherence agenda. It is to be hoped it will be pursued.

Peter Draper, Senior Research Fellow Economic Diplomacy Programme South African Institute of International Affairs, SAIIA

⁶ Draper, op.cit.

⁷ These are taken from the World Economic Forum’s Global Agenda Council 2010 report.

⁸ Draper, P and Qobo, M (2009) ‘Multilateralizing regionalism: case study of African regionalism’, in Baldwin, R and Low, P (eds) *Multilateralizing Regionalism: Challenges for the Global Trading System*. Cambridge: Cambridge University Press.