

**Opening statement on behalf of
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to the Ad-Hoc Expert Group Meeting on the Development Interface between the
Multilateral Trading System and Regional Trade Agreements**

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Your Excellencies, distinguished colleagues, ladies and gentlemen:

I wish to welcome you all to this Ad-hoc Expert Group Meeting on the development interface between the multilateral trading system and regional trade agreements. You are government officials, trade negotiators, representatives of regional secretariats, researchers, and civil society representatives. By bringing you all together here this week, we are hoping to benefit from your experience, views and insights as we seek to generate new debate on rapidly growing regionalism and its relationship to multilateralism as seen from the development perspective.

I believe the most useful thing for us to discuss at this meeting is not so much whether regional trade agreements in themselves are good or bad, but rather what to do about them – in the sense of maximizing their beneficial impacts while minimizing their negative impacts on the relevant economies, non-partners countries and the world as a whole, as well as on the multilateral trading system. For developing countries in particular, the question is not whether integration is desirable, but rather how to go about building integrated markets from markets fragmented by national boundaries. It seems to me important to undertake a critical but realistic assessment of approaches to regional trade agreements, particularly in the light of the development imperative of developing countries, and taking into account current national and international policy contexts.

Proliferation of new-generation RTAs – broader scope and deep integration

As you are aware, this meeting is motivated by the considerable advancement made recently in regional integration worldwide. Since the early 1990s, there has been an extraordinary increase in the number of bilateral and regional integration agreements, and more recently, this trend has been accelerating. As of October 2006, 366 regional trade agreements (or RTAs) had been notified to the GATT/WTO, and of these 214 remain in force today. There is a prospect that the number of operational RTAs could grow up to 400 by 2010. It is estimated that over half of all trade in goods and a significant proportion of trade in services now occurs under RTAs. Furthermore, the geographical reach of these agreements has gone beyond the traditional confines of the “regional” dimension, as the term “regional trade agreements” may imply. An increasing number of RTAs today are negotiated and concluded between two or more distant countries, or even between countries on different continents. This proliferation has led to a veritable “spaghetti bowl” of regional trade agreements and resulted in a complex international trading environment for traders. It thus raises a number of policy issues.

Not only have RTAs proliferated, but the scope of these agreements, and the depth of their integration measures, have expanded and deepened significantly in such a way as to address behind-the-border measures, which had traditionally been seen as falling within domestic policy spheres, ranging from regulatory policies affecting goods trade to services regulations,

investment policies, competition policies and intellectual property protection regimes. This includes NTBs and various standards and regulatory-related issues. Such “new-generation” RTAs, as they are often called, have substantially increased their “bite” to encompass national policy spheres, and increasingly affect a number of policy measures with implications for development, as countries seek to use those measures for purposes of economic growth, development and poverty alleviation. Some aspects of trade liberalization are more effectively dealt with multilaterally, such as agricultural subsidies.

Driving force of regionalism – Costs and benefit of RTAs

What explains countries' interest in the rigorous pursuit of regional approaches to economic and trade integration? Geopolitical and non-trade considerations have always played a role in consolidating long-standing cultural and political ties between two or more countries united by an economic and trade pact. It is well known that the founders of the European Union sought to promote peace in war-torn European societies after the Second World War by establishing an ever-closer union of nations that would make any future intra-European armed conflict unthinkable.

In economic welfare terms, RTAs generate gains through trade creation and dynamic effects that could be, for the countries concerned, more significant than MFN tariff reduction. This is because RTAs entail tariff eliminations as opposed to tariff reduction, which is likely to be the case with multilateral negotiations. More generally, the regional approach allows for faster and deeper integration, as negotiations are easier among a small number of (neighbouring) countries. This is more likely to be the case if countries are at a similar level of development and have similar policy preferences. The fact that regional agreements can be concluded more easily increases the likelihood of gains from trade creation. It also enables a more rapid materialization of the dynamic effects of liberalization than would be possible at the multilateral level. In this vein, it has recently been argued that the slow pace of the Doha negotiations has prompted many countries seeking to increase their access to foreign markets to go faster and deeper through regional avenues with their major trading partners. It has also been suggested that the march towards regionalism is driven by a reactive “domino effect” in which countries pursue regional initiatives in order to keep up with others.

For developing countries, RTAs have been considered an essential instrument for improving their prospects for economic growth and development through global integration. RTAs are seen as a crucial transitory mechanism in preparing the economy gradually for global competition. The potential of regional integration for development is well attested by the spectacular success of the regional integration experiment in Europe. A recent study indicates that the EU's GDP per capita would be approximately one fifth lower today had there been no integration since 1950.

By unifying fragmented economic spaces, economic integration creates larger markets for goods and services, allows firms to benefit from economies of scale in production, increases competition and attracts significantly increased levels of foreign and domestic investment. Integrated markets can thus increase economic efficiency and lower the prices and transaction costs involved in the exchange of goods and services, thereby generating new employment opportunities and enhanced consumer welfare. Regional integration is also critical for overcoming physical and capacity constraints arising from fragmented markets, enabling these markets to serve as a stepping-stone to further liberalization at the global level. Regional integration can provide a favourable environment for building the capacity,

efficiency and growth potential of the private sector, as well as developing the institutional and infrastructural capacities needed for regional firms to compete effectively in increasingly open multilateral trade.

Interface between MTS and RTAs

When we look at the interface between the MTS and RTAs, traditionally there has been much debate as to whether regional approaches to liberalization can act as a building block or a stumbling block to multilateral trade liberalization. On the one hand, there is a view that accelerated regional integration, by increasing the critical mass of trade engaged in free trade at the regional level, as well as the mass of trade at the national level, will be instrumental in developing global free trade. It is argued that this process would be further facilitated by an approach that simultaneously pursued non-preferential liberalization. This is the so-called “open regionalism”. Another thesis – the so-called “competitive liberalization” thesis – submits that such a process towards global free trade would be triggered by an intrinsic incentive created for the excluded third countries to go for deeper multilateral liberalization so as to mitigate the adverse discriminatory effects of (large) RTAs. It is believed that such an incentive was at play during the launch of the Uruguay Round of negotiations in the 1980s, when significant progress was made in the European integration process through the Single Market programme. Such an incentive may also have been at play during the concluding phase of the Round, when NAFTA and APEC were launched. The regional approach may also serve as a testing ground for liberalization and rule-making in new areas; such an approach could eventually be transposed to the multilateral level.

On the other hand, a more cautious view of regionalism would suggest that by increasing discrimination and preferential treatment among trading partners, RTAs will create an efficiency loss for the economy and harm non-partner countries through trade diversion. The increased complexity created by the recent rise in bilateral agreements in particular would entail costs to business operators in complying with rules of origin and other trade regulations that differ across export markets, and this would in turn make it very difficult for them to use existing preferences. This sort of difficulty encountered by operators would be relatively more significant for SMEs and exporters from developing countries. For the administering national authorities, too, such complexity creates substantial transaction costs, which may be especially steep for developing countries that face human, institutional and administrative capacity constraints. Such complexity worsens when a country is a party to more than one RTA, which is the norm for many regions.

Furthermore, it is argued that, contrary to the benign view of regionalism (a view prevailing, for example, in the “competitive liberalization” thesis), RTAs create negative incentives for countries to engage in multilateral non-discretionary trade liberalization efforts, since countries that have achieved preferential market access in key markets have an incentive to oppose multilateral liberalization in a desire to maintain preference margins. The proliferation in the use of preferential treatment has created a situation where MFN treatment – as Professor Bhagwati has pointed out – amounts to “least-favoured-nation” treatment. That is, most countries receive some sort of preferences, which makes MFN treatment an exception and not the norm. Such a situation may pose a systemic risk to the MTS, which is founded on the cardinal principle of non-discrimination. In this context, the recent revival of interest in transatlantic North-North RTAs could have significant bearing on the future of the MTS. In addition, the amount of negotiating capital – both political and administrative – devoted to regional negotiations may be such as to prevent countries, particularly developing countries,

from effectively engaging in concurrent negotiations at the multilateral level. On top of that, developing countries may find themselves disadvantaged by their lack of bargaining power, and the weakest and the most vulnerable may simply be left entirely out of the regional process. Thus, for the small and weaker members of the system, the rules-based MTS offers the best guarantee against possible discrimination.

All of these arguments on the pros and cons of RTAs and their implications for the MTS contain some measures of truth, although we have no definitive answer. We should, of course, bear in mind the potential and actual risks and benefits of regional trade agreements. Setting aside such general debate, however, one thing is clear: Regionalism is here to stay as an essential element of the international trading environment and an option for national trade and development policies.

Policies and approaches to maximizing benefits from RTAs

What, then, are the policies and approaches to negotiation that would maximize the chance of securing benefits from these trade agreements and negotiations, at the subregional, regional or interregional level? Data indicate that for most regional integration agreements, growth in intraregional merchandise exports significantly exceeds growth in merchandise exports to the rest of the world. New production and employment opportunities to meet demand in more accessible regional markets are a direct benefit of RTAs, and one which contributes to participants' overall development efforts. How can we ensure that these effects of RTAs are beneficial to both participating and non-participating countries?

North-South RTAs

What options are there in negotiating market access in goods and services or other regulatory issues in North-South RTAs? A number of developing countries are engaged in regional negotiations with developed countries, collectively or bilaterally, thereby transforming their economic relations with developed countries from one based on unilateral preferences to one based on reciprocity. The ongoing ACP-EU negotiations for economic partnership agreements are a notable example. This year will be critical for the conclusion of EPAs, as provided by the Cotonou Agreement. Moreover, the WTO waiver will come to an end. What approaches are best suited for developing countries engaged in North-South, as opposed to South-South, agreements in advancing their trade and development interests both offensively and defensively? Can we conceive of any new concept of SDT or other enabling mechanisms that would promote development solidarity – or “co-development” – under North-South RTAs – one which would effectively address the development objectives and concerns of developing countries? How best can one approach North-South negotiations when developing countries are in the process of consolidating and deepening existing South-South subregional integration processes?

South-South RTAs

As regards the South-South dimension, what role can RTAs play in expanding the benefits of regional trade and investment, and what particular mechanism may be used to promote their objectives? Based on their positive experiences with regional integration processes that have focused largely on the establishment of free trade areas for trade in goods, many developing countries have embarked on “deep integration”, expanding these agreements to cover such new areas as trade in services, investment, competition policy and trade facilitation. This kind

of "deepening" of integration could potentially generate longer-term dynamic gains for participants. It does, however, raise concerns about domestic regulatory autonomy and policy space, which can have implications for development. How can developing countries best address institutional, regulatory and infrastructure issues in their regional integration initiatives? What lessons can we learn from existing efforts under way in various regions in this regard?

Development implications of the MTS-RTA interface

Another important issue is the development implications of the interface between the MTS and RTAs. This is because both processes affect each other in a variety of ways. I have already mentioned some of the possible risks of RTAs to the MTS. But the MTS also affects RTAs in various manners: by setting out rules for the existence and operation of RTAs and providing surveillance mechanisms, including transparency; by setting MFN market access conditions, thus determining the potential level of preference in goods and services; and by providing multilateral disciplines on trade-related regulatory issues that should govern all countries' trade-related policy conduct, including under RTAs. Recently, an important advancement was made regarding WTO rules on RTAs when WTO Members decided to establish a new "Transparency Mechanism" on RTAs in order to facilitate an effective monitoring and review of RTAs.

There are other development implications arising from the interaction between the MTS and RTAs, as the benefits and costs expected from an RTA would depend on rules and commitments provided under the MTS – hence the need for countries to approach both negotiations in a coherent manner. We would like to promote discussion on how such coherence can be ensured and what role the MTS can and should play in realizing the development potential of RTAs. How can systemic imperatives and development imperatives be reconciled if there is any tension between the two? Should WTO rules on RTAs be reformed in order to cater for rapidly evolving RTAs worldwide, and, if so, in what ways? Can we envisage new modalities that would ensure coherence between the two processes?

These are some of the questions we wish to address at this meeting. We hope to benefit from your presence, share lessons learned, promote the exchange of experiences and engage in an interactive debate in order to generate new insights on regionalism and multilateralism as they relate to development. We hope the meeting will be useful for you in assessing and identifying possible policy options and approaches.

I wish you all success in your deliberations.

Thank you for your attention.

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