

Enhancing Coherence and Inclusiveness in the Global Trading System in the Era of Regionalism

Policy Options Paper



 The **E15** Initiative

STRENGTHENING THE GLOBAL TRADE AND
INVESTMENT SYSTEM FOR SUSTAINABLE DEVELOPMENT

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Enhancing Coherence and Inclusiveness in the Global Trading System in an Era of Regionalism

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on behalf of the E15 Expert Group on Regional Trade Agreements and Plurilateral Approaches

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* Paper prepared with collaboration by Antoni Esteve de Oda, Manager of the Integration and Trade Sector of the Inter-American Development Bank, co-convenor of the E15 Expert Group.

Note

The policy options presented in this synthesis are the result of a collective process involving all members of the E15 Expert Group on Regional Trade Agreements and Plurilateral Approaches. It draws on the active engagement of these eminent experts in discussions over multiple meetings as well as an overview paper and think pieces commissioned by the E15 Initiative and authored by group members. Kati Suominen was the author of the report. While a serious attempt has been made on the part of the author to take the perspectives of all group members into account, it has not been possible to do justice to the variety of views. The policy recommendations should therefore not be considered to represent full consensus and remain the responsibility of the author. The list of group members and E15 papers are referenced.

The full volume of policy options papers covering all topics examined by the E15 Initiative, jointly published by ICTSD and the World Economic Forum, is complemented with a monograph that consolidates the options into overarching recommendations for the international trade and investment system for the next decade.

The E15 Initiative is managed by Marie Chamay, E15 Senior Manager at ICTSD, in collaboration with Sean Doherty, Head, International Trade & Investment at the World Economic Forum. The E15 Editor is Fabrice Lehmann.

E15 Initiative

Jointly implemented by the International Centre for Trade and Sustainable Development (ICTSD) and the World Economic Forum, the E15 Initiative was established to convene world-class experts and institutions to generate a credible and comprehensive set of policy options for the evolution of the global trade and investment system to 2025. In collaboration with 16 knowledge partners, the E15 Initiative brought together more than 375 leading international experts in over 80 interactive dialogues grouped into 18 themes between 2012-2015. Over 130 overview papers and think pieces were commissioned and published in the process. In a fast-changing international environment in which the ability of the global trade and investment system to respond to new dynamics and emerging challenges is being tested, the E15 Initiative was designed to stimulate a fresh and strategic look at the opportunities to improve the system's effectiveness and advance sustainable development. The second phase of the E15 Initiative in 2016-17 will see direct engagement with policy-makers and other stakeholders to consider the implementation of E15 policy recommendations.

E15 Initiative Themes

- Agriculture and Food Security
- Clean Energy Technologies
- Climate Change
- Competition Policy
- Digital Economy
- Extractive Industries*
- Finance and Development
- Fisheries and Oceans
- Functioning of the WTO
- Global Trade and Investment Architecture*
- Global Value Chains
- Industrial Policy
- Innovation
- Investment Policy
- Regional Trade Agreements
- Regulatory Coherence
- Services
- Subsidies

* Policy options to be released in late 2016

For more information on the E15 Initiative:
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Abstract

Over the past two decades, regional trade agreements (RTAs) have proliferated alongside the WTO system, involving a wide variety of agreements. In the absence of significant progress on the multilateral front, they have served as focal points of inter-state cooperation, as well as incubators and testing grounds for new trade rules. Over time, these agreements have evolved and many now contain disciplines that are wider in scope, deeper in nature, and significantly more sophisticated than the multilateral trading system. There is also a new trend towards mega-regional initiatives of potentially systemic impact, as well as plurilateral negotiations in important functional areas such as services. These developments have opened opportunities but also given rise to challenges, particularly regarding issues of coherence and inclusiveness, in this emerging global trade and investment architecture. The present paper examines the implications of this new era

of regionalism and offers recommendations on how the system of RTAs can best be leveraged to advance trade and development. Seven policy options are grouped into three work areas: furthering the potential benefits of RTA integration with third parties; using plurilateral approaches as a means to multilateralize RTAs; and, pooling resources to advance the effective implementation of RTAs and new idea-generation. The analytical and practical perspective on which the options are framed is that WTO members need a new 21st century approach to RTAs; one that harnesses the opportunities created by RTAs to deepen and broaden global economic integration, and one that helps ensure that all WTO members, including the many developing countries that are outsiders to ongoing mega-regional and plurilateral initiatives, can benefit from the global trade and investment system. The paper concludes by identifying factors that will influence future patterns of regional economic integration.

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Abbreviations	
ADB	Asian Development Bank
CRTA	Committee on Regional Trade Agreements
EU	European Union
FTA	free trade agreement
FTAAP	Free Trade Area of the Asia-Pacific
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
IDB	Inter-American Development Bank
MFN	most favoured nation
NAFTA	North American Free Trade Agreement
OECD	Organisation for Economic Co-operation and Development
RCEP	Regional Comprehensive Economic Partnership
RoO	rules of origin
RTA	regional trade agreement
TiSA	Trade in Services Agreement
TPP	Trans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership
US	United States
WTO	World Trade Organization

Executive Summary

As the Doha Round of multilateral trade negotiations has stalled in recent years, regional trade agreements (RTAs) and plurilateral approaches to economic integration have commanded the principal focus in the trade policy strategies of many countries, including many of the largest economies. These include new mega-regional agreements, such as the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP), and the Regional Comprehensive Economic Partnership (RCEP). Meanwhile, several WTO members have moved to form plurilateral agreements in certain functional areas, such as the Trade in Services Agreement (TiSA). This has opened new opportunities but also given rise to challenges, particularly regarding issues of coherence and inclusiveness, in this emerging global trade and investment architecture.

As a contribution to the debate, the E15 Expert Group on Regional Trade Agreements and Plurilateral Approaches, convened by ICTSD and the World Economic Forum in partnership with the Inter-American Development Bank (IDB), has examined the implications of recent developments in RTAs, including their broader and deeper policy coverage, for the global trading system. The outcome of this expert dialogue process is a set of recommendations presented in this paper on how the evolving system of RTAs can best be leveraged to advance the WTO's mission "to open trade for the benefit of all."

The policy options are grouped into three work areas: furthering the potential benefits of RTA integration with third parties; using plurilateral approaches as a means to multilateralize RTAs; and, pooling resources to advance the effective implementation of RTAs as well as new idea-generation.

Background

Following a comprehensive overview of the historical interaction between the WTO and RTAs, and an overview of recent developments in regional integration, the paper identifies five areas on which WTO members should focus on for a new 21st century approach to RTAs.

The underlying perspective is that this approach should harness the opportunities created by RTAs to deepen and broaden global economic integration, and help ensure that all WTO members, including the many developing countries that are outsiders to ongoing mega-regional and plurilateral initiatives, can benefit from the evolving trade architecture.

First, questions about the impact of RTA disciplines on outsiders have not been systematically addressed or acted on when it would make the biggest difference: during RTA negotiations. Second, easing some of the transaction costs and complexity of overlapping RTAs could yield significant economic gains, including for smaller economies. Third, plurilateral agreements could be the right vehicles to enable a greater number of countries to sign onto rules incubated in RTAs, however, it is unclear which plurilateral agreements should be negotiated or how these negotiations and subsequent accessions should optimally be structured so as to potentially enable all WTO members to benefit from them. Fourth, the implementation of RTAs by policy-makers and the application of RTAs by firms are often suboptimal, as is the monitoring of their functioning, in part due to the dispersion of knowledge and resources on RTAs. Fifth, the recent mega-regional trade negotiations have raised new concerns among the general public about RTAs, and in particular regarding a lack of transparency.

Policy Options

There are three ways in which countries forging agreements, especially in the context of mega-regional arrangements, could consciously cultivate open regionalism, advance synergies among RTAs, and broaden the potential benefits from integration with third parties. First, countries negotiating agreements could be more deliberate about including in their agreements standards that outsiders will voluntarily adopt, and on creating markets that are more easily contested by non-parties. The *ex ante* impact assessment of agreements on outsiders should be furthered. Second, in addition to improving RTA disciplines, there are several ways in which RTA members can expand trade with outsiders. These include advancing trade facilitation, customs modernization, and regional infrastructure among RTA members. Third, there are opportunities to create greater coherence among RTAs, not least by unraveling the spaghetti bowl of rules of origin and allowing for diagonal cumulation across agreements.

A critical challenge that lies ahead is how the WTO and RTA systems can be made more synergistic and mutually reinforcing. Plurilateral agreements—broad-based agreements among subsets of the WTO membership—offer a path forward. They may also provide a means to pioneer entirely new rules and commitments in an otherwise clogged system. However, for plurilaterals to be truly effective and integrative, three reforms are needed. First, negotiating modalities in the WTO need to change. The WTO membership should agree on a shift from the current unanimity rule and single undertaking principle to enable

faster deals among a critical mass of members. Second, there are no common guidelines for negotiating plurilaterals. Countries should negotiate a multilateral code of conduct to govern the subsequent negotiation of plurilaterals in the context of formal WTO processes. Such a code could outline principles that would allay existing concerns on plurilaterals and provide members with procedural guidance as well as *ex ante* rules on future rights and obligations. Third, the WTO could create a “linking” mechanism whereby the commitments of new plurilaterals can be extended on a most-favoured-nation basis to third parties willing to adhere to these commitments, thus gradually multilateralizing the agreements.

Although RTAs are emerging as the centre of gravity in global trade and investment, there is no institution or body, to date, which methodically brings together all relevant information on RTAs around the world. To bridge this gap, the Inter-American Development Bank, in collaboration with the Asian Development Bank and ICTSD, is developing an RTA Exchange. The Exchange is conceived to further dialogue and thought on ways to make RTAs better work for trade and development. It will act as a global venue for information-sharing, idea-generation, e-learning, and capacity-building on practical and strategic aspects related to RTAs and the multilateral trading system among a broad and diverse set of stakeholders.

Next Steps

The seven policy options put forward by the Expert Group can all conceivably be considered for implementation over a short- to medium-term time horizon. While these recommendations for reform and dialogue are being pursued, longer-term thinking and engagement should start on the future of RTAs, particularly in light of the changing geography of trade and investment as well as new market drivers that will influence the pattern of economic integration over the coming years.

1. Introduction

As multilateral trade talks have stalled over the past several years, regional trade agreements (RTAs) have taken centre stage in the trade policy strategies of many countries. As of August 2015, 406 RTAs have been notified to the World Trade Organization (WTO) and several more are under negotiation. All WTO members are parties to at least one RTA. Markedly, today's mega-regional trade agreements, the Trans-Pacific Partnership (TPP), which is awaiting ratification, and the Transatlantic Trade and Investment Partnership (TTIP), which is under negotiation, will once concluded regulate trade among countries from which originate over 40% of world commerce. A new leading trader, China, is forging agreements in Asia, most notably the Regional Comprehensive Economic Partnership (RCEP). Several WTO members have also moved to form agreements in certain functional areas among "coalitions of the willing," such as the Trade in Services Agreement (TiSA) now under negotiation among 23 WTO members accounting for 70% of world trade in services. Some large RTAs, such as the Free Trade Area of the Asia-Pacific (FTAAP), are also actively being planned. In the trade policy work of most countries and companies, RTAs and plurilateral agreements now command the principal focus.

Regional trade agreements have in many ways been beneficial for countries around the world. They have enabled countries to open access to new markets and emerge as incubators of new trade-related rules in such areas as services trade, investment regulations, intellectual property rights, e-commerce, customs procedures and trade facilitation, and labour and environmental standards. RTAs have also propelled export-oriented, efficiency-seeking investment, fuelled the formation of value chains, and paved the way for cooperation among members in trade-related areas, such as infrastructure integration. In addition, RTAs have been found to help relax the political economy constraints to further trade liberalization in participating nations and cement national economic policies in areas such as competition policy.

The multilateral trading system and RTAs have co-existed for decades, albeit somewhat uneasily. From the beginning, the GATT system allowed member countries to grant each other preferential treatment under free trade areas or customs unions, as long as certain conditions were met. The proliferation of RTAs in the past two decades has created a sense of urgency among WTO members to examine whether RTAs are discriminatory towards outsiders, how exactly the various GATT regulations on preferential treatment should be interpreted, and whether their scope should be broadened. These concerns have grown as each WTO member has found itself an 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 needs to be addressed as such.

Given that RTAs are here to stay, it is time for policy-makers and trade experts to move beyond the traditional question of whether RTAs undermine or buttress the multilateral trading system. A much more fruitful discussion in today's world is how the system of RTAs can be best leveraged to enable companies of all sizes around the world to seamlessly export, import, invest across borders, and operate in global markets; consumers in every economy to access a wider variety of products and services at low cost; and all economies—particularly the many small and less developed economies that are not part of mega-regional agreements—to benefit fully from today's global trade architecture. In other words, it is time to analyse how the system of RTAs can best advance the WTO's mission "to open trade for the benefit of all."

For these objectives to be met, a number of specific issues and problems need to be addressed. Indeed, while RTAs have freed trade and deepened economic integration around the world, they have also created some challenges. Among these are concerns about preference erosion affecting especially developing economies, challenges faced by smaller businesses to meet demanding RTA standards and rules of origin, and the "spaghetti bowl" problem—the high complexity of overlapping rules and agreements facing companies that operate global supply chains across multiple RTAs.

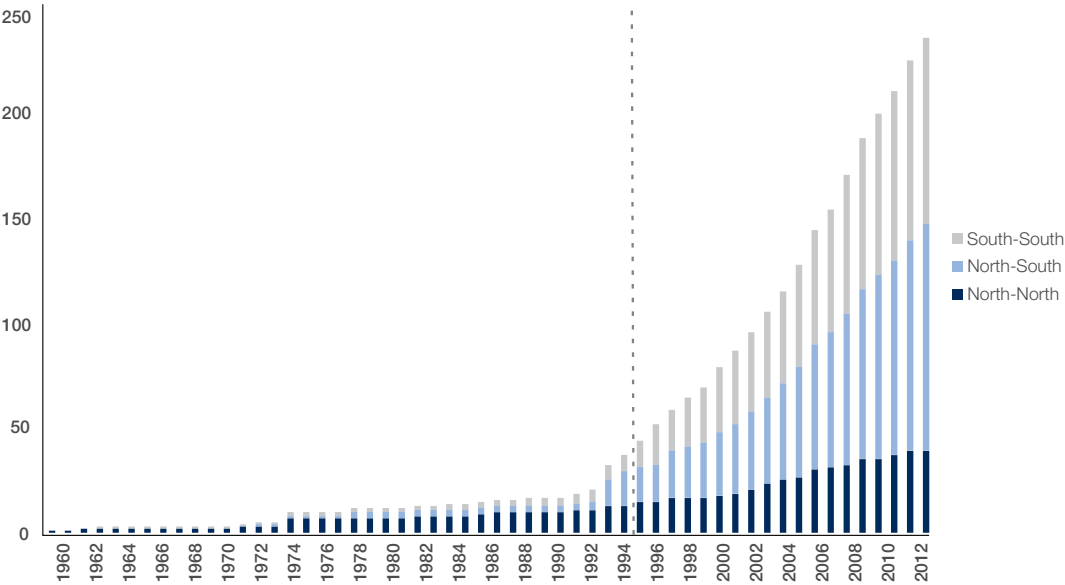
The purpose of this paper is to put forward policy options to address these and other challenges in today's global trade regime. The paper draws on the discussions and think pieces of the E15 Expert Group on Regional Trade Agreements and Plurilateral Approaches, convened by ICTSD and the World Economic Forum and supported by the Inter-American Development Bank (IDB). The next section reviews the proliferation of RTAs and the policy challenges that this emerging global trade architecture presents. Against this backdrop, the third section then lays out key policy options, as developed by the E15 Expert Group. The policy options are grouped under three categories: furthering the potential benefits of RTA integration with third parties; using plurilateral approaches as a means to multilateralize RTAs; and, promoting coherence among RTAs and the multilateral trading system. Section four concludes with a discussion on future patterns in economic integration in light of the changing geography of trade and new market drivers.

2. New Challenges and Opportunities in the RTA System

Regional trade agreements have proliferated around the world in the past decades alongside the GATT, the General Agreement on Trade in Services (GATS), and the WTO system. This proliferation has refashioned the geography of trade integration. In the past, perhaps with the exception of some European agreements, most RTAs were North-North agreements negotiated among advanced economies. Over the past two decades, however, RTAs have grown to include a wide variety of North-South and South-South agreements (Figure 1). Meanwhile, the share of world trade

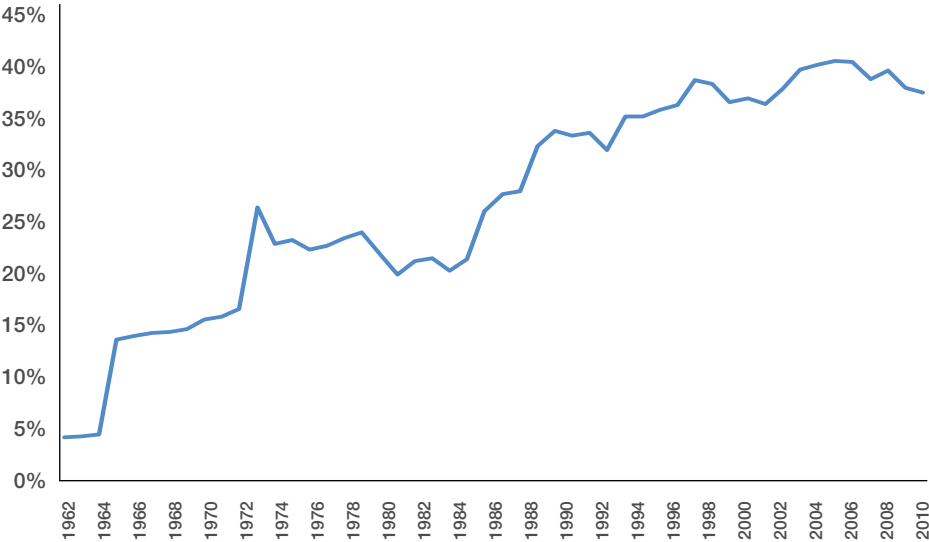
that flows among pairs of countries that share an RTA had grown to nearly 40% by 2012 (Figure 2). The make-up of RTAs has also changed. Following the conclusion in 1994 of the North American Free Trade Agreement (NAFTA)—which included extensive binding commitments across issue areas such as market access for goods, investment, trade in services, intellectual property rights, and competition policy—the number of such deep agreements has grown significantly (Figure 3).

Figure 1: Partners in RTAs Globally in 1960-2012, by Geography



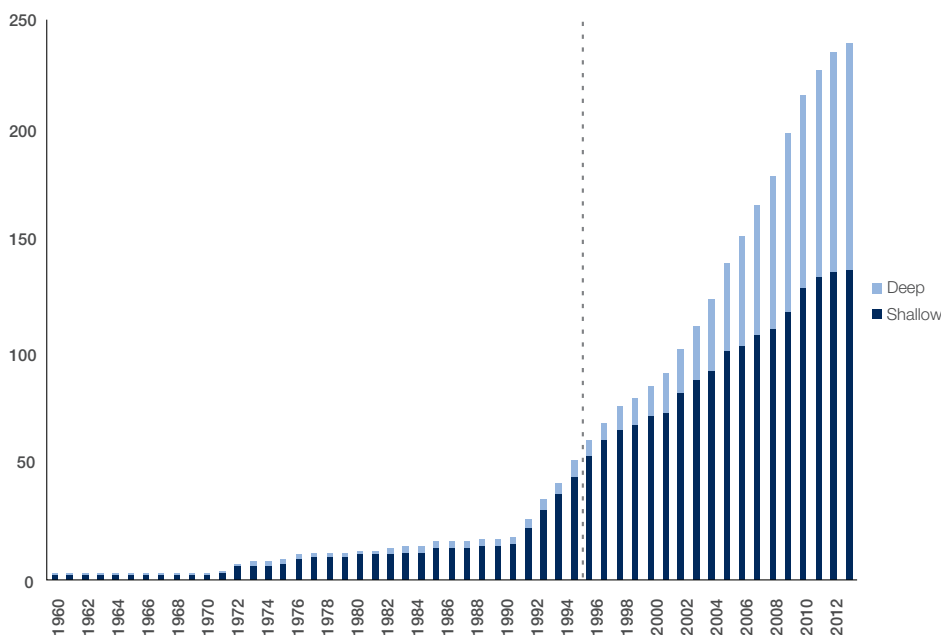
Source: IDB-INT based on WTO RTA database.

Figure 2: Share of World Trade Covered by RTAs, 1960-2010



Source: IDB data

Figure 2: Regional Trade Agreements in Effect in 1960-2010, by Depth of Commitments



Source: OECD Secretariat based on WTO RTA database and other sources.

For several WTO members and active trading nations, such as Chile, Peru, and Mexico in Latin America, or Korea and Singapore in Asia, regional and bilateral agreements are now the preferred and most important means to conduct economic exchange with trading partners. With the TPP, the TTIP, and the RCEP, this is becoming true for the world's largest traders: the United States, the EU, Japan, and China.

2.1. Interaction Between the WTO and RTAs

GATT and WTO members have been forming RTAs while concluding seven multilateral trade rounds, establishing the WTO in 1994, and, since 2001, negotiating the Doha Round. There are countless theories to explain this pattern—some focus on interest group pressures by exporter lobbies, others on developing country interests in using RTAs as a means to attract foreign direct investment, and still others on geopolitical considerations.¹

One explanation for the wildfire-like spread of RTAs is the lack of substantial progress in the WTO system since its establishment. Members have struggled under the WTO's standard negotiating modality, the single undertaking principle, where nothing is agreed until everyone agrees to everything. Also complicating multilateral talks and the Doha Round, in particular, are the changing political economy dynamics among WTO members, spawned by the rise of large emerging powers whose interests differ quite significantly from those of the main advanced economies. RTAs offer a way out of the deadlock at the multilateral level.

They enable countries to expand market access, attract foreign direct investment, and craft new rules that respond to emerging needs in the market. The RTA system itself encourages the formation of new agreements: as more and more RTAs are forged, outsiders face an urgent need to form agreements of their own so as not to miss out on the benefits RTAs confer to others.

The traditional question concerning RTAs is whether they help or hinder multilateralism and most-favoured-nation (MFN) treatment. This is an important question both from a formal, legal point of view and from an actual, economic point of view. Incompatibilities between RTAs and the multilateral trading system could be interpreted as violations of international trade law and could distort global trade flows, production patterns, and economic growth. It is a question that has troubled WTO members for decades.

The 1948 GATT allows member countries to grant each other preferential treatment under free trade agreements (FTAs) or customs unions as long as certain conditions are met. These conditions were defined mainly in GATT Article XXIV, but also in the GATS, other WTO agreements, and the so-called Enabling Clause, which exempts developing countries from MFN obligations in RTAs they form with each other. GATT Article XXIV stipulates that members notify their RTAs to what is now the WTO and that RTAs liberalize “substantially all trade” among members “in reasonable length of time” and not introduce new “restrictive rules on commerce.”² The article also demands open regionalism—i.e. that RTA members do not raise barriers to third parties.

¹ The literature is huge and only some representative studies are highlighted here. For more exhaustive literature reviews, see, Winters (1996); Baldwin (2006); Bhagwati (2008); Mansfield (1998); World Bank (2000); Schiff and Winters (2003); Esteveadoral and Suominen (2009).

² For the purposes of Article XXIV, a customs union is understood as “the substitution of a single customs territory for two or more customs territories, so that (i) duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories, and, (ii) ... substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union.” A free trade area is “a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated on substantially all the trade between the constituent territories in products originating in such territories.”

Concerns that RTAs are protectionist instruments have, since the early 1980s, prompted three major efforts in the GATT/WTO system to regulate them.³ However, WTO members have practically never debated or agreed whether any one RTA breaches multilateral trade rules, let alone the revised Article XXIV: multilateral, top-down regulation of RTAs has not worked. This is hardly surprising. WTO members are protective of their agreements, and they are unlikely to agree to any multilateral rules that might curb their ability to negotiate bilateral and plurilateral agreements or force them to modify their existing agreements. Moreover, since practically all WTO members participate in at least one RTA, all are reluctant to challenge the RTAs of other members as discriminatory (let alone take another member to the dispute settlement body), as the challenger could be next called out. As such, the dispute settlement body has dealt with RTAs on only a handful of occasions.⁴ Furthermore, the resources available to the WTO Secretariat to perform in-depth analyses on RTAs are limited; in addition, political sensitivities have curbed the ambition of these studies. WTO working papers and the World Trade Report have provided more detailed analyses on RTAs, but these are intended to provide information about RTAs rather than to pinpoint violations.

Nevertheless, WTO members have been concerned about the systemic implications of RTAs. In 1996, the WTO General Council established the Committee on Regional Trade Agreements (CRTA) to examine individual RTAs and consider their systemic, cross-cutting implications for the multilateral trading system. Members that were eager to engage in the debate included Australia, Hong Kong, India, Japan, Korea, New Zealand, and Pakistan, while the EU and the US, both of which were increasingly engaged in

negotiating RTAs, were reluctant. The Committee remained dormant, not issuing any examinations in the 1996–2001 period.⁵

Have WTO members complied with Article XXIV? The answer is negative in the sense that numerous RTAs among developing countries are exempted. But it also depends on how exactly the multilateral disciplines governing RTAs are interpreted.⁶ WTO members' interpretations of the Article vary widely (Estevadeordal and Suominen 2009). For example, "substantially all trade" has at least two different interpretations: a quantitative approach, geared towards a statistical benchmark, such as a percentage of trade between RTA parties, commonly suggested as 90%, 85%, or 80%; and, a qualitative approach, stipulating that no sector (or at least no major sector) should be kept from liberalization, with definitions of "sector" varying widely.

Empirically, most agreements do meet some of these most common interpretations of "substantially all trade" and "reasonable length of time"—liberalization of 90% of tariff lines and about the same amount of trade by year ten into the agreement (Estevadeordal and Suominen 2009). However, there are also a number of outlier RTAs (in general among developing countries) that do not want to single out product categories (particularly sensitive sectors, such as agriculture, textile and apparel, and footwear) that have prolonged tariff phase-outs and/or non-tariff barriers.

There also is no clear agreement on what constitutes "other restrictive regulations of commerce." RTAs carry several rules that can qualify the extent of market access that tariff liberalization provides, such as tariff-rate quotas; special safeguards; anti-dumping regulations; non-tariff measures;

³ As early as 1983, the GATT Director-General created an independent group of seven eminent persons to study and report on the problems facing the international trading system. The Leutwiler Report, issued in March 1985, concluded that multilateral "rules permitting customs unions and free-trade areas have been distorted and abused" and that "the exceptions and ambiguities which have thus been permitted have seriously weakened the trade rules, and make it very difficult to resolve dispute to which Article XXIV is relevant." During the 1986–1994 Uruguay Round, a group of countries that included Australia, India, Japan, Korea and New Zealand—nations that at the time had not set out to form numerous RTAs but did worry about the discriminatory impact of emerging agreements—called for toughening the language of Article XXIV (WTO 2011). India proposed reviewing the requirement that duties and other restrictive regulations be eliminated on "substantially all trade" between the RTA partners (Croome 1995). Japan called for improving the consultations before and after preferential agreements were reached and for improved procedures for examination of such agreements, proposing the establishment of special procedures separate from the GATT dispute settlement system aimed at discussing compensation for damages to outsiders to RTAs (Croome 1995). The members that opposed Japan's proposal suggested that RTAs be analysed under the newly-created Trade Policy Review Mechanism, which assesses WTO members' compliance with their multilateral trade commitments. The grievances did result in the Understanding on Interpretation of Article XXIV, which helped clarify "reasonable length of time" as 10 years into an RTA's lifespan and fine-tuned paragraph 5 to call for multilateral assessments of "the general incidence of the duties and other regulations of commerce applicable before and after the formation of a customs union." The Understanding also establishes procedures in cases where non-members to a customs union should be compensated if the common external tariff applied by the customs union is above the level of the tariff applied by any of the members prior to its forming. It also posits that concerns related to Article XXIV could be submitted to dispute settlement (Croome 1995). Despite initial opposition by the EU, India, and Yugoslavia, the Understanding was adopted and became part of the Uruguay Round agreements (WTO 2011). A further important outcome of the Uruguay Round was the inclusion of a provision on the regulation of regional and bilateral agreements on trade in services in the GATS.

⁴ The main one is Turkey–Textiles, the WTO Appellate Body held that the burden of establishing that an RTA meets the requirements of Article XXIV falls on the respondent WTO member if it invokes the RTA to justify a discriminatory measure.

⁵ One of the reasons was that WTO members were reluctant to provide information or agree to conclusions that could later be used or interpreted by the WTO's dispute settlement panel. The process was also stifled by the disagreements over the terminology of Article XXIV, and the lack of specific multilateral language on such provisions as preferential rules of origin. Also, views on whether the CRTA or the dispute settlement body should deal with RTAs remain divided. Some hold that the examination of the consistency of RTAs ought to be reserved solely to the CRTA. One notion is that GATT and WTO rules applying to RTAs are of less relevance today in the light of the fact that trade diversion is reduced as a result of multilateral tariff reductions. The empirical evidence on positive welfare effects of RTAs, and that they are different from WTO agreements, lie in that they cover more trade-related disciplines (Mavroidis 2010). As such, the Transparency Mechanism should become the de jure new forum to discuss RTAs within the multilateral trading system.

⁶ Indeed, the very design of Article XXIV was not immune to politics. It was sponsored in the 1940s by the US, a staunch advocate of multilateralism and non-discrimination, as a means to address customs unions, but it was extended to allow for the formation of FTAs to accommodate the imminent US-Canada FTA that was under secret negotiations but failed to materialize (Chase 2006).

and, rules of origin (RoO). Such disciplines are often put in place for political reasons, as governments may be more willing to engage in deep tariff liberalization in RTAs when defensive instruments are also available. However, the distortionary impact of these instruments can be significant and accentuate over time, as such rules tend to remain in place even after preferential tariffs have been phased out. For example, by tying final goods producers to using intra-RTA sourcing even if it is inefficient, stringent RoO can at the extreme augment intra-RTA production costs to the point where compliance costs exceed the benefits that RTA tariff preferences confer.⁷

Compliance of RTA members with the prohibition against raising barriers to third parties has also been disputed. Indeed, economists have long engaged in a contentious debate on whether RTAs are “building blocks” or “stumbling blocks” to multilateral trade liberalization. The building block camp argues that RTAs fuel the liberalizing logic of the multilateral system, help advance global trade talks, and serve as laboratories for new trade rules that could eventually be multilateralized. The stumbling block camp maintains that RTAs are discriminatory instruments that lead to trade diversion and deviate governments’ attention from multilateral trade talks.

While both views find support in the empirical literature, the available evidence generally supports the building block thesis, with the exception of some sectors with limited liberalization and/or complex RoO, and especially some South-South RTAs where members fail to commit to open regionalism and liberalize trade with outsiders. The concern that RTAs discriminate against outsiders has also been diluted as multilateral, regional, and unilateral trade liberalization has progressed over recent decades.

In addition, for every argument against RTAs there are several in their favour. For example, while RTAs have been blamed for sapping energy from the multilateral trading system, they have helped save the global trading system in times of crisis. 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, environmental norms, intellectual property rights, and e-commerce. In many of these areas, RTAs are unquestionably more advanced and sophisticated than the multilateral trading system, helping member countries test drive new rules matching today’s market realities.

RTAs have also been found to help generate goodwill and greater economic interaction among members, which can be conducive to deeper integration and the pooling of resources in other policy areas, such as infrastructure development, or—as is the case especially in the Americas—in the harmonization of product standards (e.g. NAFTA) or integrating national export promotion efforts and stock markets (e.g. the Pacific Alliance). And much like multilateral trade liberalization, RTAs have also been found to impart benefits beyond traditional analyses on gains from trade, such as propelling export-oriented, efficiency-seeking investment flows among members, and helping to relax the political economy constraints to trade liberalization by aggregating national pro-trade forces in the participating nations, as well as cementing political and strategic ties among the member economies.

2.2. Key Challenges to Address in the RTA system

WTO members need a new 21st century approach to RTAs; one that harnesses the many opportunities created by RTAs to deepen and broaden global economic integration and one that helps ensure that all WTO members, including the many developing countries that are outsiders to ongoing mega-regional and plurilateral initiatives, can benefit from the evolving trade architecture. In practice, this most immediately means that resources and attention should be geared towards addressing the main unresolved challenges in the system of RTAs and perfecting what is already in place. The five areas outlined below should be the focus of such an approach.

2.2.1. Lack of clarity on the impact of RTA disciplines during negotiations

It is perfectly reasonable for two or more RTA members to forge rules that are tailored to their distinctive needs and political economy circumstances. The more complex question is the impact of these rules after the RTA is in place, especially vis-à-vis third parties—for example, whether they encompass standards that outsiders find favourable and voluntarily adopt, whether such rules are easy for developing economies to adopt, and whether they create markets that are easily contested by outsiders. This is a particularly pressing issue in mega-regionals where the leading trading powers set preferred rules that will be *de facto* templates for global standards—rules that outsiders will be induced to adopt so as not to remain at a disadvantage.

Evidence thus far seems to indicate that the trade effects of various RTA rules on third parties are more positive than negative. However, it is also well known that stringent rules of origin tend to disincentivize the use of cheaper inputs from outsiders to RTAs. Estevadeordal et al. (2013) estimate that, on average, countries source 15% more of their foreign value added from members of the same RTA than

⁷ As such, demanding RoO are akin to a tariff on the intermediate product levied by the country importing the final good (Falvey and Reed 2000; Lloyd 2001). But, whether specific RoO are actually restrictive depends on the availability of inputs in the RTA region and the ex-ante production patterns.

from non-members. This concern is perhaps accentuated in the context of mega-regional agreements, as these agreements, which combined account for 49 economies, do not include most of the countries that stand to gain from accessing regional and global supply chains—smaller developing economies. Yet, questions about the impact of RTA disciplines on outsiders have not been systematically addressed or acted on when it would make the biggest difference: during RTA negotiations.

2.2.2. Complexity and transaction costs in the RTA system

Rather than centring production activities in a few locations, companies today tend to segment and spread production over an international network of sites. As a result, a growing share of global trade consists of intermediate goods shipped from one country to another, and many household items from cars to computers contain parts and labour from multiple geographical origins. The explosion of intermediate trade has been particularly striking in East and Southeast Asia. While RTAs are designed to lower the costs of cross-border business and global distribution networks, the spaghetti bowl of multiple overlapping RTAs has created transaction costs to companies that operate global supply chains. Furthermore, small business exporters seeking to trade across many different markets, each with its own RTA, are mired in a maze of rules.

Even though there are “RTA families” where different RTAs have rather similar rules (such as the respective trade agreements of the EU and the US), the proliferation of RTAs has compounded the spaghetti bowl problem. Studies by the Inter-American Development Bank (IDB) and Asian Development Bank (ADB) indicate that some 60–80% of large companies in diverse countries such as Peru, Singapore, Thailand, and Mexico would much prefer a single set of rules of origin to the numerous RoO regimes included in the RTAs signed by their respective governments. This complexity is also troublesome for customs officials in charge of verifying RoO in countries with multiple agreements, such as Chile, Mexico, Singapore, Thailand, the United States, and Vietnam. Easing some of these transaction costs could yield major economic gains, particularly for smaller economies.

2.2.3. Lack of clarity on best practices for plurilaterals

Regional trade agreements offer a vast reservoir of tested and tried rules that can help advance multilateral rule-making in critical areas. However, to date, many RTA disciplines have not been multilateralized, and, typically, they extend only to RTA members. They are also not covered by the WTO’s dispute settlement system. Expanding the number of countries that apply rules negotiated and applied in the major RTAs would most likely yield new efficiencies and increase world trade. Plurilateral agreements among large coalitions of the willing can be the right vehicles to enable a greater number of countries to sign onto rules incubated in RTAs. However, it is not yet clear which plurilaterals should be negotiated or how plurilateral talks

and subsequent accessions should optimally be structured so as to enable all WTO members to potentially benefit from them.

2.2.4. Gaps in the implementation, application, and real-time monitoring of RTAs

The implementation of RTAs by policy-makers and the application of RTAs by firms are still suboptimal, as is the monitoring of their functioning. The reasons behind these challenges include: lack of capacity and resources, especially among developing country policy-makers, to learn about best practices and policy innovations for negotiating and implementing RTAs; lack of real-time solutions to problems that companies face when applying RTAs; and, difficulties among policy-makers and business leaders to quickly identify the right sources to obtain data and get answers to specific questions related to RTAs.

All of these gaps can be bridged: the resources exist. After all, the RTA spree of the past decades has created a massive amount of rules, practical experiences, data, and debate on RTAs. Yet, these resources are dispersed across a variety of fora around the world, such as international organizations, multilateral and regional development banks, business associations, and regional organizations. Many useful experiences and lessons learned among experts and former negotiators remain altogether uncodified and untapped. This wealth of experiences and resources has yet to be purposefully brought together to advance the implementation, application, and monitoring of RTAs: there is no transmission mechanism. In addition, information and expertise is yet to be organized so as to systematically spark ideas and fresh thinking among experts around the world on the ways in which the RTA system could be improved. A number of policy entrepreneurs and intrepid analysts have brought some of this dispersed data and collective wisdom together, but such efforts, unless conducted at scale and on a sustainable basis, are of limited impact.

2.2.5. Pressures for greater transparency in RTA negotiations

The recent mega-regional trade negotiations have raised new concerns among the general public about RTAs and in particular with regard transparency. While RTA negotiations require a certain degree of confidentiality, the lack of transparency during the ratification process risks becoming the main focus and could derail approval.

3. Policy Options for System Coherence and Inclusiveness

There are several possible ways in which the challenges outlined in the previous section can be overcome to take fuller advantage of RTAs for global trade and development. This section offers a number of policy options that seek to act on the following question: how can RTAs best be used to broaden the gains from trade integration?

Encouragingly, the international debate is shifting in the right direction: moving away from a narrow focus on RTA trade effects to measures that strive to forge greater efficiencies and synergies across the many RTAs. The policy options presented below are grouped in three areas of work aimed at making more of RTAs: furthering open regionalism in RTAs, particularly in agreements under negotiation, and advancing synergies among the many RTAs; using plurilateral negotiations to multilateralize RTAs; and pooling resources across stakeholders in a purposeful manner to advance the effective implementation and application of RTAs as well as new idea-generation on RTAs.

3.1. Furthering the Benefits of RTA Integration with Third Parties

As indicated, the multilateral system and existing RTAs will be influenced by ongoing and future mega-regional agreements. New dynamics will likely unfold. One reason is that outsiders can voluntarily adhere to the standards and rules of these agreements because this can reduce their transaction costs (Lawrence 2014). Exporters in a third country may also have no choice but to configure their products to meet the particular standards of one very large market—but once they do, they are more likely to retain the same configuration in other markets. Indeed, mega-regionals can create a self-perpetuating network dynamic: as more members join the network, the more benefits there are in joining. A “race to conform” to a common standard develops. In addition, if the members of a deep regional agreement are prepared to grant one another concessions, they are more likely to be willing to grant other countries similar benefits, both in RTAs and multilaterally.

Countries forging agreements could (and should) consciously cultivate these potential benefits from integration. There are three ways in which this can be accomplished.

- *Policy Option 1: Furthering the ex ante understanding of the potential impact of agreements on outsiders.* Countries negotiating agreements can be more deliberate about including in their agreements standards that outsiders will voluntarily adopt, and on creating markets that are more easily contested by non-parties. This process could be aided through “Multilateral Impact Statements” that are designed by a think tank or a panel of trade experts and that encourage negotiators to design agreements that provide benefits to outsiders as well as to the participants. Such a system could mimic the federal guidelines for US policy-makers to take into account the environmental impacts of their actions by requiring all qualifying measures to be subject to an environmental impact assessment. The purpose of these efforts is not necessarily to prevent the measures from being implemented, but rather to raise awareness and encourage policies that minimize environmental impact.
- *Policy Option 2: Advancing trade facilitation and customs modernization via RTAs.* In addition to improving RTA disciplines, there are several ways in which RTA members can expand trade with outsiders. For example, trade facilitation, customs modernization, and improvements in infrastructure among RTA members benefit all countries, not just insiders. Such measures should be prioritized, as they tend to create trade gains that are far greater than those realized from new market access. They are also politically easier to accomplish than renegotiating existing agreements or negotiating new ones. However, they tend to require new investments and development assistance to be realized.
- *Policy Option 3: Encouraging the cumulation of origin.* There are opportunities to create greater coherence among RTAs. For example, in the TTIP, the US and EU can unravel the spaghetti bowl of RoO in the many RTAs they each have in place by implementing the same RoO and allowing for diagonal cumulation across all these agreements. This measure would instantly bring about greater coherence in the global trading system and help companies create economies of scale and reduce transaction costs, as well as help smaller “spoke” economies to benefit. Such an effort would not be entirely novel. Some groups of countries have made

concrete progress towards converging their bilateral and plurilateral RTAs into broader integration blocs—to use a gastronomic analogy, building “lasagna plates” from the RTA “spaghetti bowl.” Recently, Chile, Colombia, Peru, and Mexico harmonized the rules of origin of their various bilateral RTAs with each other in the context of their common integration scheme, the Pacific Alliance. The most prominent example of cumulation is the EU’s Pan-Euro system of cumulation. Created in 1999, the system essentially merged all bilateral RTAs between the EU and various Eastern European nations into a single agreement with a single RoO protocol. The Pan-Euro RoO have subsequently been transposed to the EU’s extra-regional FTAs.⁸

3.2. Using Plurilateral Approaches to Multilateralize RTAs

One of the critical challenges that lies ahead is how the WTO system and the RTA system can be made more synergistic and help deepen and enhance each other. Given that the WTO’s “one size fits all” single undertaking approach no longer works, plurilateral agreements—broad-based agreements among subsets of the WTO membership—offer a path forward. They also provide a means to pioneer entirely new rules and market access commitments in an otherwise clogged system. There are ongoing plurilateral negotiations towards a Trade in Services Agreement (TiSA—taking place outside the WTO) and the Environmental Goods Agreement. There are calls for plurilateral agreements in areas such as investment as well as data flows, and ideas are being put forward for negotiating a “sustainable” plurilateral (Draper and Dube 2013) and an agreement aimed at enabling global value chains. However, for plurilaterals to be truly effective and integrative, three reforms are needed.

- *Policy Option 4: Changing the negotiation modalities in the WTO.* It can certainly be argued that for WTO members to allow for plurilaterals means that the MFN principle loses its force, unless plurilateral commitments are negotiated on an MFN basis. However, this latter idea would defeat the purpose of plurilaterals as agreements among coalitions of the willing that alone assume the rights and obligations of the plurilateral. And, to put it bluntly, WTO members that do not accept plurilaterals will drive countries to negotiate more RTAs and mega-regionals and advance their trade interests outside the WTO system. In fact, offering a venue for plurilaterals may be the primary means for the WTO to remain relevant and impactful in the global trading system. It is also perhaps the most meaningful opportunity for WTO members, including less developed economies that are outsiders to plurilaterals (and mega-regionals), to be able to participate in shaping the future of the world trading system. The WTO membership needs to agree on a shift from the current unanimity rule and single undertaking

principle to enable faster deals among a critical mass of members. This critical mass should preferably be commercially meaningful—for example, plurilaterals could be required to include members whose cumulated trade is more than half of world trade. Such a rule could also help members decide which plurilaterals merit negotiation.

- *Policy Option 5: Establishing a common multilateral code of conduct for negotiating plurilateral agreements.* There are no common guidelines for negotiating plurilaterals. Countries should negotiate a multilateral code of conduct to govern the subsequent negotiation of plurilaterals in the context of formal WTO processes. Such a code could allay concerns about plurilaterals and provide members with guidance on ways to proceed. The code should define, for example, that: membership in plurilaterals is voluntary; participants need to have the means to implement the agreement; the issue subject to a plurilateral negotiation should have substantial support in the WTO; only parties to a plurilateral can initiate disputes related to the plurilateral; cross-agreement retaliation is prohibited; and, members should not have to provide the benefits of plurilaterals to non-participants.
- *Policy Option 6: Opening plurilaterals to outsiders.* WTO members willing to sign onto a plurilateral agreement should be able to do so. This has been part of standard practice, including in the plurilateral agreements on government procurement and information technology. Of course, in exclusive plurilaterals, such as the Government Procurement Agreement, WTO members left outside do not gain access to the benefits nor do they need to comply with the obligations until acceding to the Agreement. The WTO could create a “linking” mechanism whereby the commitments of new plurilateral agreements could be extended on an MFN basis to third parties willing to adhere to these commitments, thus gradually multilateralizing plurilaterals. The risk that less developed countries may remain outside plurilaterals is real, however, and could perhaps best be bridged through a concerted effort directed at technical assistance and capacity-building. This, of course, presupposes a willingness on the part of these economies to accede to the newly created system.

3.3. Fresh Idea Generation and Information Sharing: The RTA Exchange

The implementation, application, and real-time monitoring of RTAs are suboptimal, and there is a dearth of systematic and sustained global thinking about ways to perfect the RTA system. Although RTAs are emerging as the centre of gravity in global commerce, to date, there is no institution or body that systematically brings together all relevant information on RTAs around the world—let alone foster dialogue, the sharing of experiences, and capacity-building in negotiating

⁸ This increased trade between the Eastern European spokes by 7–22% and in the benefiting sectors by 14–72 percent (Augier et al. 2005, 2007). Harris and Suominen (2008) find that, over the past 50 years, adding partners representing 10% of world output to a “cumulation zone” is associated with a 3% increase in the bilateral trade of small countries. Importantly, this is a net effect, including any reduction in trade due to trade diversion.

and implementing RTAs. There is no dedicated forum that encourages global “mindshare” and “idea-generation” on ways to broaden and deepen trade integration on the back of existing and future RTAs, and on ways to build synergies among RTAs and with the WTO system. This is a lost opportunity, but also a gap that can be bridged through a new institution: the RTA Exchange (for further discussion, see Suominen 2014).

- *Policy Option 7: Furthering dialogue and the generation of ideas on ways to make RTAs work for trade and development: the RTA Exchange.* The Exchange is conceived as a first-class global venue for information-sharing, idea-generation, e-learning and capacity-building on diverse practical and strategic aspects related to RTAs among a broad and diverse set of stakeholders—e.g. private sector leaders, policy-makers, development practitioners, and analysts. While the WTO could lead this effort, politics among the membership have made it impossible. As a result, an international coalition has taken the lead: the Inter-American Development Bank, in collaboration with the Asian Development Bank and ICTSD, are in the process of establishing such a platform (Box 1). This pioneering initiative deserves broad support.

Box 1: RTA Exchange: A New Platform for Ideas, Learning, and Information Sharing

The Inter-American Development Bank, in collaboration with the Asian Development Bank and the International Center for Trade and Sustainable Development, is developing the RTA Exchange as a dynamic online platform and forum. It aims to: facilitate the sharing of information, ideas, experiences and good practices on RTAs; further capacity-building of negotiators and governments to negotiate and implement RTAs while also assisting companies to operate in RTAs globally; regularly take stock of the general public’s views on policies related to RTAs; survey private sector perspectives on the functioning of RTAs; and, encourage idea-generation to advance convergence and coherence with the multilateral system.

The RTA Exchange is an inherently bottom-up venue driven by its users. It includes various modes to engage users:

- *Clearing house of information:* A highly interactive website with a comprehensive and ever-growing body of information, data, and analysis on RTAs, curated from sources around the world.
- *Forum for engagement among stakeholders:* Regularly updated videos, blogs, announcements, and surveys, as well as ideas and analyses posted by contributors from around the world. The forum also includes a Wikipedia for experts on RTAs.
- *Discussion space:* A user-driven community and social network linking the various stakeholders, with lightly moderate discussions.

- *Webinars for education:* Frequent e-learning, such as online seminars engaging diverse experts on various aspects related to RTAs. Registered members can suggest topics for these seminars.

The RTA Exchange is built on the premise that 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, integration, and development. What has been lacking is a transmission mechanism between these objectives and the wealth of dispersed information, analysis, and collective international knowledge on RTAs. The RTA Exchange, fully launched in 2016 and accessible at RTAexchange.org, offers such a mechanism.

4. Next Steps: Making RTAs Work for Trade and Development

The WTO is at a defining moment. It faces ongoing questions about its legitimacy and effectiveness, and is surrounded by an increasingly vibrant system of RTAs. Regionalism has long been seen as competing with and undermining the multilateral trading system. Yet, at a time when the WTO is struggling to adjust to an increasingly complex global economy and an evolving constituency, RTAs must be viewed as important constituents of the 21st century multilateral trading system. RTAs have increased trade and investment, deepened relationships among countries, and paved the way for broader cooperation among members. They have manifestly been far more successful than the WTO system in advancing economic integration around the world and in creating new rules that respond to emerging needs in the marketplace.

This paper has put forward seven short to medium-term policy options aimed at addressing unresolved challenges in the RTA system in the interest of stimulating international trade and development. These options fall under three broad headings: furthering synergies between RTAs and third parties; using plurilateral approaches as a vehicle for advancing integration among large subset of WTO members; and, establishing the RTA Exchange. While the Expert Group recommendations for reform are being pursued, longer-term thinking and engagement needs to start on the future of RTAs, especially in light of the new patterns and trends described in the concluding section below.

4.1. Preparing for Future Patterns in Economic Integration

New geography of integration: RTAs of the past 20 years have been negotiated among relatively small groups of players and they have yet to be concluded among the largest trading powers. However, the TPP (which reached agreement in October 2015) and the TTIP (in which negotiations are ongoing) are changing the geography of formal trade integration. Looking further into the future, additional transformations could unfold. For example, the TPP and TTIP will almost *de facto* merge into a “super-deal.” After all, the US and EU already have bilateral agreements with several common partners in the TPP—Peru, Colombia, Chile, Australia, Singapore, Canada, and Mexico (the EU and Japan are also in the process of negotiating a bilateral FTA). It would thus not be a major leap to merge in some way the two agreements. As gatekeepers to markets with two-thirds of global spending power, the two agreements, alone and certainly combined, would also be attractive “docking stations” for outsiders. For example, if China and Brazil were to join, a TTIP-TPP super-deal would cover 80%

of global output. In this scenario, the WTO and (a large) part of its membership would be marginalized, and all meaningful action on trade policy-making would move to the RTA sphere—where questions such as outsider treatment and the management of disputes would become central.

Unfolding geoeconomics of trade: Even though the US, EU, and Japan will remain central to the world economy and trade flows for the foreseeable future, new dynamics in North-South and South-South trade are poised to gain in significance over the coming years. In all probability, China in particular will play an increasingly important role in world trade, the trade policy and geoeconomic considerations of individual nations, and in developments at the multilateral level. Some analysts have suggested that China may opt for a division of labour (or perhaps for the creation of spheres of influence) where China leads an Asian track of trade integration while the US pursues its pivot to Asia via the TPP. Others have proffered an alternative scenario where China decides to join the TPP so as to secure the rights and benefits the agreement confers to its members. Perhaps the likeliest scenario lies somewhere in between, especially given the considerable overlap between TPP and RCEP membership. In the scenario where China decides to work with, rather than against, the TPP, and use it to supplement the RCEP, plurilateral initiatives could become easier to realize.

New technology drivers: The priority for trade negotiators over the past 20 years has been to accommodate corporate supply chains by freeing trade and securing national treatment for foreign investors around the world. Today, however, new technologies such as e-commerce, the cloud, 3D printing, and the Internet of Things are revolutionizing world trade and production, and creating new challenges for policy-makers in areas such as intellectual property of 3D printed designs, regulation of cross-border data flows, and taxation of digital trade. However, given the rapid pace of technological change, it is not obvious that traditional, multi-year, and hard law trade negotiations serve the purpose they did in the past: rules agreed to today may prove counterproductive tomorrow. As such, the technology for negotiating trade agreements will probably need to change. For example, future commitments may more appropriately be developed as norms and codes of conduct.

The shrinking players: The advances of e-commerce and information technologies are opening new opportunities for entrepreneurs and small businesses around the world to engage in trade. To give a simple example: while only 5% of US brick and mortar businesses export, 97% of US eBay sellers ship their products to foreign markets.

And while the average US exporter sells to one or two overseas markets, eBay sellers that export sell on average to 19 markets. The fact that small businesses are now able to engage in trade at a relatively low cost creates new challenges for rule-making and the implementation of RTAs, not least because small businesses seldom have the capacity to interpret or apply complex trade disciplines. The implementation of RTAs will need to adjust to accommodate these new entrants in international trade. For example, governments can provide new tools for small and medium-sized enterprises to understand market access rules in their product categories across RTAs, and to access simplified forms and procedures for customs clearance.

In conclusion, as the world changes and the needs of companies and consumers evolve, RTAs can provide an enabling framework but will not suffice to meet the challenges that lie ahead. Multilateralism is also critical: global system manager institutions play a central role in ensuring non-discrimination and settling disputes. Ideally, RTAs and the WTO system will move in parallel and strengthen each other. The WTO is uniquely placed to provide a global venue for its members to discuss best practices in RTAs, negotiate plurilateral agreements, and generate ideas on new ways to use the RTA system for greater efficiency in global trade and investment. The WTO membership should embrace this opportunity.

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The papers commissioned for the E15 Expert Group on Regional Trade Agreements and Plurilateral Approaches can be accessed at <http://e15initiative.org/publications/>.

Annex 1: Summary Table of Main Policy Options

Policy Option	Timescale	Current Status and Gap	How to Get There
Furthering the potential benefits of RTA integration with third parties			
1. Further <i>ex ante</i> understanding of the potential impact of RTAs on outsiders and the extent to which they promote a more integrated global trading system.	Short term	The design of RTA disciplines essentially reflects the concerns of domestic constituencies with the effect on third parties considered at best as an after-thought. There is no conscious effort at promoting potential benefits for third countries.	Think tank or panel of trade experts to design guidelines for an <i>ex ante</i> “Multilateral Impact Statement” (e.g. mirrored on US federal guidelines for policy-makers on environmental impact assessments).
2. Advance trade facilitation and customs modernization through RTAs as a way to expand trade and ensure benefits with third countries.	Medium term	WTO Trade Facilitation Agreement remains relatively narrow. A broad focus on trade facilitation, including soft and hard infrastructure, is likely to produce significant gains and might be easier to achieve.	Integrate relatively similar/homogenous trade facilitation disciplines in RTAs as a way to accelerate the convergence of disciplines at the multilateral level.
3. Design rules of origin in a way that allows for cumulation of origin across RTAs or GSP schemes (diagonal cumulation).	Medium term	There is a limited set of precedents allowing for cumulation among a uniform set of RoO across members of an RTA (e.g. Pan-Euro RoO protocol, Pacific Alliance harmonization initiative).	EU and US to harmonize their RoO under TTIP and extend them to all their respective RTAs/GSP schemes allowing for diagonal cumulation.
Using plurilateral approaches as a means to multilateralize the benefits of RTAs			
4. Move beyond the unanimity rule and single undertaking principle and use the WTO as venue for negotiating all future plurilateral initiatives.	Medium term	<ul style="list-style-type: none"> – In face of WTO stalemate, plurilaterals might offer a way forward to keep centrality of MTS; – Inclusive plurilaterals (i.e. extending benefits on MFN basis) require critical mass but are not problematic from a WTO acceptance perspective; – Exclusive plurilateral (e.g. GPA) face more challenges in gathering acceptance by the rest of WTO members; – Need to define <i>ex ante</i> principles on the rights and obligations of plurilateral members and non-members. 	<ul style="list-style-type: none"> – Introduce the notion of a code of conduct into formal WTO processes defining principles and a set of rules governing future plurilateral initiatives; – Identify areas where potential plurilateral initiatives might gather sufficient “critical mass” of interest among WTO membership; – Design mechanism through which third parties can adhere to the commitments under exclusive plurilaterals to pave the way for progressive multilateralization once critical mass is reached.
5. Establish a multilateral code of conduct for negotiating plurilateral agreements in advance of any formal WTO plurilateral processes.	Medium term		
6. Create a “linking” mechanism to extend the benefits of plurilateral agreements on an MFN basis.	Medium term		

Policy Option	Timescale	Current Status and Gap	How to Get There
Idea generation and information sharing: the RTA Exchange			
7. Establish and support the “RTA Exchange” as an independent knowledge and dialogue platform on the interface between RTAs and the WTO and as an information pool for developing countries.	Short term	<ul style="list-style-type: none"> – No single instance bringing together all relevant information on RTAs and fostering dialogue, sharing of experience and knowledge generation on ways to enhance coherence between RTAs and the WTO. – Developing countries, and least developed countries in particular, would benefit from knowledge sharing and support to negotiate, implement, apply, and join RTAs. 	<ul style="list-style-type: none"> – International coalition of think tanks and IGOs to take the lead in establishing the knowledge and dialogue platform of the RTA Exchange (ICTSD, IDB, ADB).

Annex 2: Members of the E15 Expert Group

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The experts all participated in their personal capacity. The views and recommendations expressed in the policy options paper are not attributable to any institution with which members of the E15 Expert Group are associated.



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