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Plurilateral trading blocs and Bangladesh opportunity or mirage

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With the World Trade Organisation's (WTO's) multilateralism on tenterhooks, member countries, developed or developing, are aggressively pursuing alternatives. Consequently, regional trade and investment groupings—called plurilateral trading blocs—are gaining momentum around the globe. Since 1990, the number of regional trade agreements (RTAs) have risen from 70 to over 400 by 2013. Plurilateral agreements usually involve three or more countries negotiating liberalization or rule-making in trade and investment, and setting standards of cross-border transactions that could go well beyond WTO mandates. Sometimes referred to as trading blocs, plurilateral agreements are a reaction to the stalemate in multilateral negotiations at the WTO, especially since launching of the Doha Round (DR). Plurilateral agreements among a smaller group of nations with similar commitments to trade and investment liberalization are gaining momentum due to ease of the negotiation process.

There are different approaches to how plurilateral agreements are dealt with outside the WTO, and could take the shape of Regional Trade Agreements (RTAs), Free Trade Agreements (FTAs) and Preferential Trade Agreements (PTA). These arrangements are allowed under WTO rules as long as they are generalized and non-discriminatory with respect to the countries they benefit. Plurilateral agreements can often prepare countries for multilateral rule-making in the future, serving as stepping stones to a broader agreement. For instance, WTO's Information Technology Agreement (ITA) was initially based on plurilateralism but has now morphed into a multilateral agreement. The ITA now has 74 participants covering 97 per cent of IT trade, but excludes emerging economies such as Brazil (0.1 per cent) and South Africa (0.0 per cent). Further broadening of scope of the ITA is currently under consideration and backed by major industrial powers such as the US, European Union (EU), Japan etc. However, the ITA has been opposed by India, Egypt, and El Salvador. Thus, plurilateral agreements, if designed in a more inclusive manner could offer benefits to developing countries. Yet, this can only happen if such agreements are established in a way that takes into consideration the economic interests and technical capacity constraints of developing countries, something the WTO does as a matter of principle.

In practice, plurilateralism tends to undermine the broader multilateralism that is enshrined in the WTO principles. Thus critics often question: How can plurilateral agreements be "multilateralised" when they are a reaction to the deadlock faced in multilateral agreements? They also observe that plurilateral agreements may also contravene the multilateral principles of universality, inclusiveness and transparency, unless carefully addressed and wholeheartedly endorsed in the negotiation process — a feature that appears missing in some upcoming regional trading blocs.

There are several plurilateral agreements for which negotiations are ongoing, or completed. In contrast with the multilateral negotiation process under the WTO, much of the negotiations seem to be shrouded in secrecy making it difficult to plausibly analyze impacts on non-members. The most talked-about among these include the Trans-Pacific Partnership Agreement (TPP) of 12 Pacific Rim countries, Transatlantic Trade and Investment Partnership Agreement (TTIP) of EU and North-South American countries on either side of the Atlantic, and the Regional Comprehensive Economic Partnership (RCEP), an extension of ASEAN (Association of South East Asian Nations) PLUS that includes China, Japan, India, South Korea,

Australia, New Zealand, and a few more. Together, such trading blocs coming into fruition would cover 80% of world trade and some 90% of world gross domestic product (GDP), if anybody is keeping count. Though in principle these trading blocs are largely compliant with the WTO rules – in a WTO plus functioning mode – once fully operational, they will no doubt pose a serious challenge to the status and global clout of the WTO. Critiques argue that the TPP and TTIP, both sponsored by Washington, are overtly discriminatory against low income countries, violating a fundamental principle of multilateralism – non-discrimination.

Much has been said about what has become of the WTO decision making process, one that is based on the principle of decision by consensus of 161 members, and another that is based on the “single undertaking” i.e. all or nothing principle. Combination of these two principles often drive negotiations to the ground, as we have seen with the protracted Doha Round which is still inconclusive after 15 years of negotiations. So disillusionment with the WTO process is real. The speed at which the WTO and its rounds of trade negotiations are moving is acceptable to no one, given the fast pace of globalization and changing business environments. The result? While accepting the WTO as the bedrock of the global trading system, countries around the world are considering issue-based plurilateral agreements proactively in parallel with pursuing FTAs.

But what is the reality on the ground, particularly for developing countries like Bangladesh? First, getting into one of the plurilateral regional groupings that are primarily determined by geographical location leaves others out of consideration. Apart from SAFTA (South Asian Free Trade Area), and APTA (Asia-Pacific Free Trade Agreement), Bangladesh is currently not part of any other trade-related FTA, RTA or PTAs. The record of SAFTA shows that it has been largely ineffective in garnering trade and investment expansion in any significant magnitude, with intra-regional trade stagnant at about 5.0 per cent and investment barely 1.0 per cent. APTA, sponsored by the United Nations’ affiliate body — Economic and Social Commission for Asia and the Pacific (ESCAP) in 1975 — has led to periodic tariff reductions among its members but still falls far short of a free trade arrangement with countries maintaining high protective tariffs on far too many products.

What is perhaps disconcerting is that Bangladesh has not been able to initiate serious trade talks with any country or regional groups with regard to liberalization and rule-making in trade. For instance, for lack of any known overtures to the ASEAN secretariat, Bangladesh has

been completely left out of the most dynamic trade group in its neighbourhood, whereas India, China, Japan, South Korea, Australia, and New Zealand, struck FTAs with the ASEAN. Consequently, Bangladesh has no part of the lucrative job-creating regional value chain integration that has been a boon to the East Asian economies for the past two decades. This contrasts with the proactive approach taken by our close neighbour, India, who has been actively pursuing FTA engagement with the ASEAN, Australia, China, the EU, Latin America and the USA.

Being one of the least developed countries (LDCs), Bangladesh does not need FTAs with the EU or most developed economies for the time being, but not for long as it is poised to graduate out of the LDC status in 2018 if not by 2021. What is our level of preparedness to face a more competitive trading environment? For the time being, the lack of active participation in large RTAs has not affected Bangladesh's exports adversely since the country currently enjoys duty-free access to major markets like the EU, and substantially duty-free access to many other countries under the rubric of GSP (Generalized System of Preferences). This allows Bangladeshi exporters to gain competitive advantage over many of its larger competitors like China, India, Indonesia, etc.

Once Bangladesh graduates from its LDC status, lack of FTAs or not being part of any Plurilateral (PL) agreements could hinder its export expansion as it is likely to lose the preferential access it has been enjoying as a LDC. FTAs and RTAs not only provide greater market access for products within the member countries, these arrangements also promote investment from the more developed to less/least developed members of the RTAs. Mexico's success in attracting vast investment from the USA is largely due to North American Free Trade Agreement (NAFTA); Myanmar is getting much more foreign direct investment (FDI) than Bangladesh because of its ASEAN membership; Vietnam's FTA with the US was a stimulus to its export dynamism which will soon get a further boost from its inclusion in the TPP.

Plurilateral RTAs on the scale of mega trading blocs, such as the TPP, go well beyond free trade to include investment liberalization and enforcement of stricter product standards, labour standards, environmental standards and Intellectual Property Rights (IPR). The lack of RTA membership certainly hinders inflow of FDI into Bangladesh, and prevents it from integrating in the global or Asian value chain and moving up the value chain to achieve

greater export diversification. However, not all RTAs are within reach of Bangladesh's existing trade process or logistical infrastructure. Therefore, depending on the final outcomes, plurilateral agreements that are currently being negotiated have the potential to offer greater opportunities or pose serious challenges to Bangladesh's future trade prospects, depending on our level of participation in, or absence from, these agreements.

Membership in a trading bloc (if it occurred) may require Bangladesh to significantly reduce its protective tariff structure and impose trade costs by way of conforming to labour and environmental standards imposed by these RTAs. At the same time, Bangladesh exporters may face competitive disadvantage if some of Bangladesh's competitors such as Vietnam, Indonesia or India reap benefits out of their RTA membership when Bangladesh is a non-member.

Bangladesh needs to get a 'fair treatment' in global trade and aggressively fight for due access to global markets. While continuing to be an active member of the WTO and taking advantage of its Special and Differential Treatment (SDT) for less developed countries, Bangladesh need not wait for the WTO rounds to come to their natural conclusions. It needs to proactively enter into, or strike associations with, FTAs/RTAs with selected regional initiatives. It also needs to gain the experience and expertise required for carrying out such negotiations.

But there are entry barriers to be faced. Since FTAs typically begin with dismantling of tariffs, this puts Bangladesh at a disadvantage in moving forward in view of its current relatively high tariff structure which has to be brought close to the levels of the trading blocs of interest – a process that will need to begin sooner rather than later in order to acquire eligibility for membership. Without this minimum preparedness gaining membership or association in any of the mega trading blocs will remain a mirage. However, if Bangladesh were to be left out of all three mega trading blocs, its exports could face unequal tariff and non-tariff barriers while competitors who are part of these trading blocs (members or associates) will gain substantial competitive edge in Bangladesh's key export markets. That adverse prospect should serve as a wake-up call for Bangladesh to proactively seek association with one or more mega trading blocs. But getting there would require substantial restructuring of its current trade regime and the way we manage our production structure.