

TECHNICAL BARRIERS TO TRADE INDUCED BY MEGA REGIONAL TRADE AGREEMENTS (MRTAs) AND THEIR IMPACT ON ACP COUNTRIES, by Peter Draper

With the WTO-guided multilateral liberalization efforts in a stalemate for some time now, regional integration has gained ground. The most recent development is the rise of so-called mega regional trade agreements (MRTAs), or 'mega trading blocs'. These agreements are being negotiated among major players in global trade. Significant MRTAs are TPP (Trans Pacific Partnership), TTIP (Transatlantic Trade and Investment Partnership) and RCEP (Regional Comprehensive Economic Partnership). The TPP agreement was concluded on 5th of October year, and now awaits ratification by the national parliaments.

MRTAs are characterized by covering a large share in global economic output and world trade. TPP covers for example 38.4 % of world GDP and 25.3% of world merchandise trade (Palit, 2014). A typical feature of MRTAs is the scope of the negotiations, particularly qualitative enhancement to WTO rules. MRTAs not only address issues of border protection and tariff liberalization. They also specifically focus on behind-the-border measures and the regulatory level of member states, comprising product and production standards, existing technical barriers to trade (TBT) between member states, services, investment, and other issues. This deep integration among member economies is a new feature which distinguishes MRTAs from previous free trade agreements. The significance of a common regulatory framework is evident by the specific conditions of 21st century trade with its rising fragmentation of production processes driven by global value chains (GVCs).

Given this new and extended scope of trade negotiations, MRTAs will have a significant impact on world trade order, and also especially on countries outside the trade agreements. More than 160 countries are excluded from the MRTA negotiations, including all ACP countries. The ACP countries are characterized by heterogeneity in terms of geographical characteristics and economic development but with a generally high prevalence of small scale producers and suppliers. For the majority of ACP countries, plugging into existing GVCs is already rather difficult. For these countries, MRTAs may give rise to additional challenges but also potential opportunities. Both challenges and opportunities will depend on the countries' individual trade, economic and investment linkages with the MRTAs (Palit, 2015). Independently, the major challenge for all third countries outside MRTAs is to match the intended regulatory convergence of MRTA members which takes account of the rising importance of product and production standards in their role as strong technical barriers to trade (TBTs) in today's GVC based trade.

When looking at the TPP agreement, its focus on the convergence of the regulatory framework of the member countries is obvious. TPP negotiations were designed to develop a high-level 21st century trade agreement, with a particular focus on sustainability standards, comprising social and environmental product and production standards (Palit, 2015). The special emphasis on sustainability standards of TPP negotiations indicates their growing role in world trade. Compliance with these standards is increasingly essential for market access. For TPP – government-to-government – negotiations, public standard requirements are of particular interest. However, private standards set by companies are of growing importance in GVCs and in sustainability requirements. Both public and private standards influence one another. Private standards may sometimes even be more demanding than public standards (Liu, 2009).

In order to mitigate the impact of trade diversion being expected from TPP, provisions on standard requirements set by TPP are particularly important for excluded countries, in particular for ACP countries. For ACP countries, TPP countries are a major export market (Fricke, Freytag, Draper, 2015). Next to raw materials and primary products, ACP countries' exports are especially high in the product groups of textiles and apparel, and fruits and vegetables. While the former products are rather complementary goods to the TPP market, the latter two product groups are especially subject to consumer- and company-driven demands in terms of sustainability requirements for production and product standards, defined by both public and private standard requirements. As a consequence, TPP provisions on regulatory convergence are likely to affect ACP countries' exports negatively. This is mainly due to the already evident divergence between the current degree of standard adherence of TPP countries to international standards and the ACP countries' adherence to these standards.

To follow sustainability standards in the textiles, fruits and vegetables sectors in African LDCs for example, a comparison between African LDCs and TPP member states reveals that the number of certified facilities under selected international (ISO 14001 "environmental management", ISO 22000 "food safety management")¹ and private standards (WRAP: "Worldwide Responsible Accredited Production" 2, SA 8000: "Social Accountability International" 3) is rather small in African LDCs, much smaller than the number of certificates in TPP member states. The diverging number of certificates between African LDCs and TPP member states is a strong indication for the differing potential to comply with international and private sustainability standards (Fricke, Freytag, Draper, 2015). But compliance with those standards becomes increasingly decisive for producers in low-income countries. Compliance not only guarantees market access but also would positively affect the firms' efficiency and productivity due to capacity development (Kaplinsky, 2010). Moreover, compliance with standards is crucial for enterprises aiming at plugging-in or upgrading within value chains.

The imminent problem of establishing standard compliance is its costly process, including the costs of acquiring and maintaining the accreditation (resource costs, trained staff). These standards accreditation costs can be difficult to bear in particular for small and medium-sized enterprises (SMEs) and small-scale producers. But it is a challenge that inevitably must be confronted if those firms wish to export to global markets.

However, standard compliance can be beneficial: In the case of specific products, standard harmonization, as envisaged by TPP, can reduce 'lock-in' effects. Currently, after a company has invested in the accreditation of a certain standard applicable in one of the TPP countries, it may be costly to switch to another standard requirement in another TPP country. But if the same standard is recognized by different countries of TPP once the agreement comes into force, then another market could open up to the exporter concerned (World Economic Forum, 2014).

¹ International standards are developed by ISO in different technical committees (TC 38 Textiles, TC 94/SC 13 Protective clothing, TC 219 Floor coverings, TC 221 Geosynthetics).

² WRAP certification program mainly focuses on apparel, footwear and sewn products. Its certification is based on international workplace standards, health and safety requirements, environmental practices, etc.

³ Social Accountability International is an international NGO. SA 8000 aims at improving working conditions of employees and encourages organizations to apply socially acceptable practices in the workplace. Standard requirements comprise: ban on child labor and forced labor; health and safety provision at work; freedom of association; no discrimination; normal working hours per week (shall not exceed 48 hours).

Besides standards, another important issue in the TPP talks is rules of origin, especially for the textile industry. These could have an additional impact on exports of ACP countries, since the TPP-region is a major export market for yarn, fabric, and apparel. Regarding this, an impact is most likely to be experienced through investment diversion, as producers look to relocate their production into TPP member states. This is a particular concern for China, since it is not included in TPP negotiations, but it may become a concern also for some African LDCs too. Furthermore, their exports would be from outside of the TPP 'area', meaning they would have to conform to the TPP's onerous rules of origin which, in the case of textiles, could be prohibitive (Draper, Chikura, and Krogman, forthcoming).

Summarizing it has to be ascertained that MRTAs cause both economic challenges and opportunities for ACP countries. Their adjustment to the new developments in world trade is necessary. This comprises strategies for coping with new requirements for trade driven by MRTAs. A central point in that field is an effective assistance to capacity building aiming at strengthening competitiveness by business sophistication and increasing innovation capacity of exporters. These efforts should contain the assistance of small scale producers in achieving standards accreditation or in certification processes. Since standards are often set by multinationals, an additional tool could be promoting public-private collaboration between multinationals from countries abroad and ACP governments.

In a broader setting, international organizations can help in several ways: on the one hand by linking buyers and suppliers in key value chains and on the other hand by assisting suppliers from ACP countries to learn which standards are applicable to the products they supply. And finally they can assist SMEs through conformity assessment procedures in key MRTA markets (Fricke, Freytag, Draper, 2015).

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