

Future Contours of International Trade Policy

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Trade policy and related issues are evolving, becoming more comprehensive in scope and reach. They now include an array of non-tariff measures and regulatory issues, and it is essential that policy formulation recognize the complementary production linkages between services and goods through supply chains. At the same time, technological change is revamping both trade opportunities and the scope of policies across the world, while services represent a new source of dynamic trade growth that creates new opportunities for developed and developing countries alike—the importance of supply chains and trade in tasks shows us the importance of trade facilitation. Trade and investment are increasingly becoming two sides of the same coin, and the distinction between trade policies and domestic policies is eroding; constraints in one area usually limit effective operations in the other. With this continued evolution of trade policy issues, international trade policy concerns will depend on:

- Emerging policies likely to be adopted by large parts of world trade (e.g., the Trans-Pacific Partnership [TPP] and the Transatlantic Trade and investment Partnership [TTIP]).
- Policy changes within a single large market which affects a major area of a nation's trade (e.g., the EU, the United States, China).
- Policies of a generic nature that could have economy-wide implications (e.g., general standards linked to social policies).
- Diverse avenues and methods through which international initiatives could change the scope of future trade policy (international organizations, standardization bodies, senior level intergovernmental initiatives such as the G20).
- Private standards and technological change that reduce the scope of formal governance by public authorities.

Policy-makers and the business community will have to develop systems for rapid assessment of impact of change and quick response. Since multiple policy issues may arise within a short period of time, mechanisms will be needed also for clear prioritization of policy steps.

Such preparatory steps are needed soon because the content of trade policy is changing before our very eyes through the negotiation of mega-free trade agreements (FTAs), other large initiatives such as G20 meetings combined with evolving systems of supply chains and greater use of private standards. Consider, for instance, the topics covered by the TPP negotiations, which include (in addition to greater market access): enhanced disciplines on intellectual property rights; foreign investment, competition policy; environment; labour; state-owned enterprises; e-commerce; competitiveness and supply chains; government procurement; technical barriers to trade; transparency in health care technology and pharmaceuticals; and regulatory coherence. This list goes far beyond the remit of trade policy covered by any international agreement. Moreover, once there is progress on these issues they will be taken up for further attention by various international bodies relating to individual specific issues.

To the extent that a nation becomes an outlier in terms of the emerging agreements on trade regulation, it will find itself adversely affected in terms of level of investment and potential market access abroad. In this regard, it is noteworthy that a large number of trade policy issues covered by large FTAs will have a much more extensive coverage than is usually anticipated because:

- Certain regulatory standards, e.g., those relating to the environment and labour issues, could have a broader impact across the economy as a whole.
- Methods and instruments used in the negotiations will cover wide ranges of product categories and extend over time to incorporate results of other future negotiations (e.g., formulae, negative listing, the so-called “ratchet” approach).
- Business is looking for negotiating strategies that take account of the growing commercial and production linkages through supply chains (and the combinations of services and goods in these chains) and an overlap between investment and trade strategies. This will determine the nature and scope of provisions that would be negotiated, thereby using something like a cluster approach for regulatory policies that would cover multiple product groups together as a single category.
- Timely, reliable processing and delivery become crucial in light of increasing commercial activity due to the use of expanded supply chains and e-commerce. This would also affect the type of regulatory policies that would be emphasized by negotiators. Trade facilitation is a recent example of this aspect.
- The effect of the increased share of global trade from each individual mega-FTA is enhanced by the major overlap of issues between some of them (such as the TPP and the TTIP), thus extending their effective scope and coverage.
- China has begun to change its policies, which are moving in the direction of making them consistent with a post-TPP world.
- The framework of standards likely to emerge from TPP and TTIP would be higher than at present, and without domestic capacity upgrading most developing countries would find it difficult to retain market access for their exports.
- It is likely that the above-mentioned standards would be discriminatory in favour of the members of the agreements—diplomatic initiatives with like-minded nations in different parts of the world may be required to press for inclusive solutions.

International trade policy will be affected also by several initiatives outside the multilateral or plurilateral trade agreements. Such developments would take place on account of:

- Decisions on regulatory issues in the G20 and Organisation for Economic Co-operation and Development (OECD).
- Extension of agreements or common understanding at international institutions especially if their work is linked with organizations which develop standards.
- Policy decisions taken in large markets that will have a major impact—especially on regulatory issues pertaining to new and emerging technologies. An example is the Data Protection Directive of the EU, which could have a devastating effect on the market access of potential major areas of strength for emerging economies, namely information technology (IT) and IT-enabled services.
- The likely greater acceptability of corporate social responsibility as a link with trade and investment.

It is noteworthy that the growing nexus between trade and investment is an important part of mega-FTAs, and covers both goods and services. This will build upon the proliferation of bilateral investment treaties, including negotiations between China and United States and China and the EU. Though the area of investment is causing concern within large constituencies, major trading nations would need to be prepared in the not-too-distant future to take a large step in participating or working on the growing regulatory disciplines in new areas, including large plurilateral or multilateral agreements on investment. Therefore, internal preparations on these issues must begin soon.

An important point emphasized by these developments is that trade policy will keep evolving. Thus, in planning the future contours of their trade policy, there is a need—especially for large emerging economies—to develop a strategy for transition towards the kinds of regulatory standards and disciplines that reflect the future, such as those encompassed in the policy regimes of the OECD countries. Flexibility and quick response would become a key element of competitiveness. A system of benchmarking with others would serve as a guidepost for both the direction and the extent of progress.

In addition, nations will have to evolve ways to deal with the extensive use of private standards and the growing role of the private sector as an alternative determinant of trade policy through voluntary policies. Together with new developments in technology and social media, these factors make it difficult to govern or manage trade policy initiatives. They imply that governments need to develop or work with commonly agreed platforms or systems to enhance transparency and predictability. A key component of such an initiative has to be a systematic application of good governance principles, so as to encourage exchanging information, developing criteria for better harmonization or mutual recognition of standards, and addressing difficulties or disputes through reliable and acceptable mechanisms. It would thus be useful to identify already established international initiatives to do so.

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