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Distinguished Participants, Ladies and Gentlemen

First I would like to thank the organizers of this conference for inviting me to this panel. The outline of the presentation is as follows:

- Recent Developments in the World Economy
- Multilateralism versus Regionalism
- Trans-Atlantic Trade and Investment Partnership
 - Elimination of technical barriers to trade (TBTs)
 - Liberalization of Services
- Consequences for MENA Countries in particular for Turkey

1. Recent Developments in the World Economy

Since the middle of 1980s the developments in telecom and internet triggered a suite of information-management innovations that made it easier and cheaper to coordinate complex production activities from a distance. As a result some production stages previously performed in close proximity were dispersed to other countries. The process is called ‘offshoring or international outsourcing’. Manufacturing today is increasingly managed through global value chains abbreviated as GVCs, which according to WTO is one of the major developments in the world economy.

2. Multilateralism versus Regionalism

During the period when traditional trade, referring to goods made in one nation and sold to another, dominated world trade, rules of international trade after World War II were set first by GATT and thereafter by WTO. Although WTO has many advantages, the latest DOHA Round of Multilateral Trade Negotiations even after 13 years of negotiations could still not be concluded. DOHA has been mainly about tariffs, agricultural subsidies and unfair trade practices, covering also issues related to liberalization of services and protection of intellectual property rights. In this context, the starting of negotiations of a stand-alone plurilateral agreement on trade in services in 2013 is a positive development. But DOHA still does not deal with the issues raised by the GVC trade as comprehensively as required by this trade.

The industrial countries US, EU and Japan, noting that GVC trade is not global and rather regional, have decided to establish the rules of GVC trade regionally rather than multilaterally. They started to sign FTAs with deep provisions that are pro GVC trade. They also signed Bilateral Investment Treaties (BIT) tackling different investment issues. As a result, the centrality of WTO in global trade governance started to erode.

Recently, US and the EU started to negotiate mega regionals such as the Trans Pacific Partnership (TPP) and Trans-Atlantic Trade and Investment Partnership (TTIP). It seems that in the future WTO will keep governing the traditional trade while mega-regionals will set the rules in general for the 21st century international trade.

3. Trans-Atlantic Trade and Investment Partnership (TTIP)

According to the ‘Final Report’ of the ‘High Level Working Group on Jobs and Growth’ the TTIP negotiations should aim to achieve outcomes in (a) market access, (b) regulatory issues and non-tariff barriers, and (c) rules, principles and new modes of cooperation to address shared global trade challenges and opportunities. Since each of these issues is rather challenging I will concentrate in the following my remarks on the elimination of TBTs and liberalization of services only.

3.1 Elimination of TBTs

There are essentially two ways to eliminate TBTs: harmonization and mutual recognition. The harmonization approach has been pursued intensively within the EU. On the other hand, under mutual recognition, countries agree to recognize each other's standards and conformity assessment procedures. But this approach is based on mutual trust by the parties and requires as a minimum a relatively high degree of harmonization of standards and testing procedures.

Since US has its own system of standards, conformity assessment and market surveillance, and the US system deviates from the EU system and since both sides consider their own system as superior to that of the partner, achieving harmonization will be almost impossible. The only alternative is mutual recognition. But here the problem is to determine how high the minimum degree of harmonization of standards and testing procedures should be. There is a third alternative which Patrick Messerlin calls mutual equivalence abbreviated as ME.

Under ME each party recognizes the norms and procedures of implementation of its partner as fully equivalent to its own norms and procedures. But ME requires as a preliminary step a joint process of mutual evaluation of respective regulations at stake by two partners allowing to list the goods and services to be excluded from mutual recognition in the sector in question. Thus, ME requires the participation of regulatory bodies in the negotiations. The procedure is as follows: TTIP trade negotiators draw a list of sectors to be candidates for mutual recognition. Then TTIP sectoral regulators will have to undertake the mutual evaluation of the regulations in question, and agree on which regulations could be considered as equivalent possibly with some agreed exceptions and reviews.

3.2 Liberalization of Services

Recent research indicates that barriers to services trade remain prevalent in the EU countries and USA, and that service barriers in different service sectors vary considerably among the EU Member Countries. But barriers to services trade lead to inefficiencies in service sectors and to high costs of services. TTIP aims to eliminate these barriers. But how can this be achieved? It will be through negotiation on regulations shaping the functioning of these services markets.

The problem is similar to elimination of TBTs. There are essentially three ways to achieve liberalization of services: harmonization, mutual recognition, and mutual equivalence. Of these options harmonization seems to be the most difficult one to achieve. Mutual recognition requires as a minimum a relatively high degree of harmonization of rules and regulations between the parties. Problem is to determine how high the minimum degree of harmonization of rules and regulations should be. Furthermore, the different levels of OECD's Product Market Regulation indexes for the different EU Member Countries for same service sectors reveals how difficult it is to liberalize under mutual recognition. The only remaining feasible alternative seems to be mutual equivalence.

4. Consequences for MENA Countries in particular for Turkey

As emphasized above, TTIP together with TPP will set the rules of 21st century international trade and investment, and WTO will have no part in this rule making. Hence MENA countries will be outside the rule making process. But they are fortunate to have preferential trade agreements with EU and/or US. Other countries are not that fortunate. Some of these agreements are shallow, some are a bit deeper such as the EU-Turkey Customs Union (CU).

The EU-Turkey CU of 1995 has been a major instrument of integration into the EU and global markets for Turkey, offering the country powerful tools to reform its economy. Under the CU EU and Turkey preferentially grant tariff-free market access to each other's imports of industrial goods and agree to apply the EU's Common External Tariff to industrial imports from the rest of the world. In addition Turkey had to adopt and effectively apply the EU rules on

- Modernization of customs
- Elimination of TBTs
- Competition Policy
- Intellectual Property Rights
- Anti-dumping, countervailing duties, surveillance and safeguards measures

Fulfilling the requirements of the CU in particular on the elimination of TBTs, state aid and enforcement of IPRs has been quite challenging for Turkey.

Although the requirements of the CU have been substantial the requirements of TTIP are more demanding. Once TTIP is implemented Turkey will have to adjust to TTIP rules on

- Liberalization of services
- Investment reforms
- Government procurement
- Elimination of TBTs and sanitary and phytosanitary measures (SPS)
- Trade facilitation
- Competition policy
- Environment and labor, and
- State owned enterprises

These are very demanding requirements. What are the alternatives for Turkey?

Turkey could try to deepen the present CU decision to include the liberalization of services and agriculture. Alternatively it could try to conclude a FTA or a CU Agreement with the EU covering services and agriculture as proposed recently in a World Bank study commissioned by the European Commission. Turkey by deepening the CU Decision or by signing a CU or FTA with the EU could benefit from the accumulated knowledge of the EU, that the EU has acquired since the formation of the European Economic Community.

Since under TTIP the EU and the US will most probably accept the mutual equivalence approach as emphasized above meeting the requirements of the EU will be sufficient to meet the requirements of the US.

Turning to MENA countries we note that they could follow a similar approach to that proposed for Turkey. They could try to sign deep and comprehensive FTAs covering the issues that will be included in the TTIP. Once they will meet the requirements of the EU this will be sufficient to meet the requirements of the US as US will most probably accept the equivalence approach during the negotiations for liberalizing services, agriculture and eliminating TBTs.

An alternative approach for MENA countries would be to try to sign deep and comprehensive FTAs with the US, and then satisfy the requirements of the EU.

Both approaches would be feasible. In principle one could then choose the least costly one among the two alternatives.