PLURILATERAL TRADE AGREEMENTS AND THE IMPACT ON LDCS – TO PARTICIPATE OR NOT TO PARTICIPATE?

FINAL REPORT

25 OCTOBER 2017

South African Institute of International Affairs (SAIIA), North-West University’s TRADE research entity and Trade Matters

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Team Leader and Coordinator: Talitha Bertelsmann-Scott (SAIIA)

Principal authors include: Susara J Jansen Van Rensburg (NWU), Ali Parry (Trade Matters), Asmita Parshotam (SAIIA), Dorica Phiri Nkhata (Imani Development) and Riaan Rossouw (NWU).

Peer review and supervision: Neuma Grobbelaar (SAIIA) and Wilma Viviers (NWU).

Other contributing authors include: Azwimphelele Langalanga (SAIIA), Tsotesi Makong (Imani Development), Sonja Grater (NWU) and James Nedumpara (Jindal Global University).

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<td>African Caribbean and Pacific Group</td>
</tr>
<tr>
<td>AGOA</td>
<td>African Growth and Opportunity Act</td>
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<td>AGPA</td>
<td>Amended Government Procurement Agreement</td>
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<tr>
<td>APEC</td>
<td>Asia-Pacific Economic Community</td>
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<tr>
<td>APTA</td>
<td>Asia-Pacific Trade Agreement</td>
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<td>ASEAN</td>
<td>Association of South-East Asian Nations</td>
</tr>
<tr>
<td>AVE</td>
<td>Ad Valorem Equivalent</td>
</tr>
<tr>
<td>BEE</td>
<td>Black Economic Empowerment</td>
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<tr>
<td>BIMSTEC</td>
<td>Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation</td>
</tr>
<tr>
<td>BKMEA</td>
<td>Bangladesh Knitwear Manufacturers Export Association</td>
</tr>
<tr>
<td>BRICS</td>
<td>Brazil, Russia, India, China and South Africa</td>
</tr>
<tr>
<td>CET</td>
<td>Common External Tariff</td>
</tr>
<tr>
<td>CFTA</td>
<td>Continental Free Trade Agreement</td>
</tr>
<tr>
<td>CGE</td>
<td>Computable General Equilibrium</td>
</tr>
<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
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<tr>
<td>DECEO</td>
<td>Directorate on Corruption and Economic Offences (Lesotho)</td>
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<tr>
<td>DDA</td>
<td>Doha Development Agenda</td>
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<td>DDR</td>
<td>Doha Development Round</td>
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<tr>
<td>DFID</td>
<td>Department for International Development</td>
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<td>DFQF</td>
<td>Duty-Free Quota-Free</td>
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<tr>
<td>dti</td>
<td>Department of Trade and Industry (South Africa)</td>
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<td>EAC</td>
<td>East African Community</td>
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<td>EBA</td>
<td>Everything But Arms</td>
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<td>EHS</td>
<td>Early Harvest Scheme</td>
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<td>EPA</td>
<td>Economic Partnership Agreement</td>
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<td>EU</td>
<td>European Union</td>
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<td>EV</td>
<td>Equivalent Variation</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FTA</td>
<td>Free Trade Agreement</td>
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<td>GATS</td>
<td>General Agreement on Trade in Services</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GPA</td>
<td>Government Procurement Agreement</td>
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<td>GSP</td>
<td>Generalised System of Preferences</td>
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<td>GTAP</td>
<td>Global Trade Analysis Project</td>
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<tr>
<td>HS</td>
<td>Harmonised System</td>
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<tr>
<td>ICT</td>
<td>information and Communications Technology</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IP</td>
<td>Intellectual Property</td>
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<td>IPCs</td>
<td>Internal Procurement Committees (Malawi)</td>
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<td>ITA</td>
<td>Information Technology Agreement</td>
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<tr>
<td>LDC</td>
<td>Least-Developed Country</td>
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<td>MCCCI</td>
<td>Malawi Chamber of Commerce and Industry</td>
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<tr>
<td>MDGS II</td>
<td>Malawi Development and Growth Strategy</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<td>--------------</td>
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<tr>
<td>MFA</td>
<td>Ministry of Foreign Affairs (Chile)</td>
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<td>MFN</td>
<td>Most Favoured Nation</td>
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<tr>
<td>MIC</td>
<td>Middle-Income Country</td>
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<td>MICT</td>
<td>Ministry of Information and Communications Technology (Malawi)</td>
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<td>MITT</td>
<td>Ministry of Industry, Trade and Tourism (Malawi)</td>
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<tr>
<td>MK</td>
<td>Malawi Kwacha</td>
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<tr>
<td>MRA</td>
<td>Malawi Revenue Authority</td>
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<tr>
<td>MS</td>
<td>Member States</td>
</tr>
<tr>
<td>n.e.c.</td>
<td>Not elsewhere classified</td>
</tr>
<tr>
<td>NAMA</td>
<td>Non-Agricultural Market Access</td>
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<tr>
<td>NES</td>
<td>National Export Strategy (Malawi)</td>
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<tr>
<td>NTB</td>
<td>Non-Tariff Barrier</td>
</tr>
<tr>
<td>NTM</td>
<td>Non-Tariff Measure</td>
</tr>
<tr>
<td>NWGTP</td>
<td>National Working Group on Trade Policy (Malawi)</td>
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<td>NWU</td>
<td>North-West University</td>
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<tr>
<td>ODPP</td>
<td>Office of the Director of Public Procurement (Malawi)</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<tr>
<td>PPA</td>
<td>Public Procurement Act (Malawi)</td>
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<td>PTA</td>
<td>Plurilateral Trade Agreement</td>
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<tr>
<td>RCEP</td>
<td>Regional Comprehensive Economic Partnership</td>
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<tr>
<td>RDP</td>
<td>Reconstruction and Development Programme</td>
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<tr>
<td>RECs</td>
<td>Regional Economic Communities</td>
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<tr>
<td>REIPP</td>
<td>Renewable Energy Independent Power Producer Programme</td>
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<tr>
<td>RMG</td>
<td>Ready-Made Garment</td>
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<tr>
<td>RTA</td>
<td>Regional Trade Agreement</td>
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<tr>
<td>SAARC</td>
<td>South Asian Association for Regional Cooperation</td>
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<tr>
<td>SACU</td>
<td>Southern African Customs Union</td>
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<tr>
<td>SADC</td>
<td>Southern African Development Community</td>
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<tr>
<td>SAFTA</td>
<td>South Asian Free Trade Area</td>
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<tr>
<td>SAIIA</td>
<td>South African Institute of International Affairs</td>
</tr>
<tr>
<td>SDT</td>
<td>Special and Differential Treatment</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium-Sized Enterprise</td>
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<tr>
<td>SOE</td>
<td>State-Owned Enterprise</td>
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<tr>
<td>SSC</td>
<td>South-South Cooperation</td>
</tr>
<tr>
<td>STRI</td>
<td>Services Trade Restrictiveness Index</td>
</tr>
<tr>
<td>TBT</td>
<td>Technical Barriers to Trade</td>
</tr>
<tr>
<td>TFA</td>
<td>Trade Facilitation Agreement</td>
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<tr>
<td>TFTA</td>
<td>Tripartite Free Trade Area</td>
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<tr>
<td>TiSA</td>
<td>Trade in Services Agreement</td>
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<tr>
<td>TPP</td>
<td>Trans-Pacific Partnership</td>
</tr>
<tr>
<td>TRIPS</td>
<td>Trade-Related Aspects of Intellectual Property Rights</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>US</td>
<td>United States</td>
</tr>
<tr>
<td>WITS</td>
<td>World Integrated Trade Solution</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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<tr>
<td>ZAR</td>
<td>South African Rand</td>
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Executive Summary

Plurilateral trade agreements (PTAs) are voluntary agreements of a sectoral nature that are entered into by more than two World Trade Organization (WTO) member states (MS). PTAs are to be notified to the WTO membership upon signatories’ desire to formally incorporate a PTA into the WTO architecture. However, MS’ decision to embark on plurilateral negotiations does not require formal consideration by other WTO MS not party to such negotiations. Nevertheless, incorporation of a PTA into WTO architecture requires compliance with Annex 1 Agreements or Annex 4 Agreements as per the WTO Marrakesh Agreement, in terms of which, “The Plurilateral Trade Agreements do not create either obligations or rights for Members that have not accepted them. The Ministerial Conference, upon the request of the Members parties to a Plurilateral Trade Agreement, may decide to delete that Agreement from Annex 4.”¹

The overarching purpose of this project was to understand what factors limit developing country and LDC participation in plurilateral agreements currently being negotiated by a variety of countries in different formations. The aim was to promote greater inclusivity in plurilateral agreements and their negotiation. Therefore, the objective of the research was to identify, analyse and understand developing countries’ lack of engagement in plurilateral agreements, and to quantify the losses resulting from their non-participation, to:

- Inform developed countries’ positions in respect of current and future plurilateral negotiations, thereby ensuring that developing country voices, concerns and positions are heard;
- Help developing countries understand current debates around plurilateral agreements so as to facilitate their participation in these agreements, either directly or through developed countries taking due cognisance of developing country positions and including them in their positions; and
- Stimulate a global debate on how to move the WTO agenda forward in a way that invites inclusivity within processes outside of the DDR (Doha Development Round).

Ultimately this will enhance discussions about these issues not only within developed and developing countries, but also between these country groupings and within the WTO as a whole. It will serve to revitalise the global public interest in developments at the WTO and reinforce the organisation’s relevance even though progress on DDR issues has stalled.

This final report of the project focuses specifically on the following plurilateral agreements (for more detailed discussion on the PTAs, please refer to Section 1 of the report): the Trade in Services Agreement (TiSA); the Government Procurement Agreement (GPA); the Environmental Goods Agreement (EGA) and the Information Technology Agreement II (ITA-II).

The methodology followed was mixed, with both GTAP and SMART modelling being used to quantify the impact of the PTAs on developing countries and LDCs. These results were complemented with in-depth case studies on three countries: Bangladesh, Chile and Malawi. Further, shorter policy briefs

explored the political economy reasons why South Africa, Lesotho and India do not currently participate in these negotiations.

**E.1 Quantitative Results**

The results from the GTAP model on all four plurilateral agreements are summarised below, and while the results show small positive gains from participation they are not significant for the developing country and LDC group on aggregate. It is important to note that scenarios differ for individual countries and policy makers should delve deeper into specific country case analysis to fully understand each of the four PTAs’ potential impact.

Table E.1: Summarised results of the GTAP analysis

<table>
<thead>
<tr>
<th>PTA</th>
<th>GTAP results for selected developing countries and LDCs. Refer to Table 1 on page 21 for a full list of included countries.</th>
</tr>
</thead>
</table>
| TiSA | • Aggregate GDP of all selected developing countries and LDCs that choose to participate in the TiSA is projected to increase by between 0.01 and 0.02 percentage points over the period 2017 to 2025.  
• Investment is projected to rise, with gains ranging from 0.0004 to 0.035 percentage points across developing countries and LDCs, attributable largely to higher investment growth in the services sectors.  
• An increase in welfare of US$ 1.5 billion (in Scenario B) is projected for all developing countries and LDCs.  
• Taking into consideration the potential GDP, welfare and investment gains foregone, the total opportunity cost of developing countries and LDCs not participating in the TiSA is a loss in additional GDP growth of approximately 0.01 percentage points; US$ 1.2 billion in terms of foregone welfare gains; and a loss of 0.004 percentage points in foregone investment growth over the period 2011 to 2025.  
• Most of the economic gains are driven by the reduction in the binding overhang.  
• The TiSA presents net economic benefits to most countries that choose to participate, but there will be adjustment costs arising from increased competition and cross-sectoral obligations.  
• For all developing countries and LDCs, most benefits are concentrated in maritime transport, with most other services sectors experiencing limited growth. As sectors expand and contract, demand for labour in different sectors changes. Indeed, estimated changes in sectoral employment are in general in line with sectoral output changes; namely concentrated in only one or two sectors, in this case, water or sea transport. Other sectors experience marginal changes. In Chile, for example, the various manufacturing sectors are negatively impacted, with the services sectors gaining most from joining the TiSA. |
| EGA  | • Aggregate GDP of all developing countries and LDCs that choose to participate in the EGA is projected to increase by between 0.1 and 0.43 percentage points over the period 2017 to 2025.  
• Investment is projected to rise, with gains ranging from 0.23 to 6.67 percentage points across developing countries and LDCs, attributable mainly to higher investment growth in |

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2 The gap between the bound and applied MFN rates is called the binding overhang. Trade economists argue that a large binding overhang makes a country’s trade policies less predictable. This gap tends to be small on average in industrialised countries and often fairly large in developing countries, [http://wits.worldbank.org/wits/wits/witshelp/content/data_retrieval/p/intro/C2.Types_of_Tariffs.htm](http://wits.worldbank.org/wits/wits/witshelp/content/data_retrieval/p/intro/C2.Types_of_Tariffs.htm) accessed on 30 August 2017.
the environmental goods (EGs) sectors.

- **An increase in welfare** of US$ 2.9 billion (in Scenario B) is projected.
- Taking into consideration the potential GDP, welfare and investment gains foregone, the total **opportunity cost** of developing countries and LDCs not participating in the EGA is a loss in additional GDP growth of approximately 0.33 percentage points; US$ 2.8 billion in terms of **foregone welfare gains** (the difference between Scenarios A and B); and a loss of 0.9 percentage points in **foregone investment growth** over the period 2011 to 2025.
- Most developing countries and LDCs experience increased real spending on EGs, resulting in gains in economic **benefits linked to improved environmental quality**.

### GPA

- **Aggregate GDP of all selected developing countries and LDCs** that choose to participate in the GPA is projected to **increase** by between 0.21 and 1.75 percentage points over the period 2017 to 2025.
- **Investment** is projected to **rise**, with gains ranging from 0.11 to 10.36 percentage points across all developing countries and LDCs, attributable largely to the decrease in home bias.
- **An increase in welfare** of US$ 56 billion (in Scenario B) is projected.
- Taking into consideration the potential GDP, welfare and investment gains foregone, the total **opportunity cost** of all selected developing countries and LDCs not participating in the GPA represents a loss in additional GDP growth of approximately 0.52 percentage points; US$ 54 billion in terms of **foregone welfare gains** (the difference between Scenarios A and B); and a loss of 2.11 percentage points in **foregone investment growth** over the period 2011 to 2025.
- Most of the economic gains are driven by the reduction in home bias and resulting changes in government procurement or linked sectors.

### ITA-II

- **Aggregate GDP of all selected developing countries and LDCs** that choose to participate in the ITA-II is projected to **increase** by between 0.002 and 0.005 percentage points over the period 2017 to 2025.
- **Investment** is projected to **rise**, with gains ranging from 0.01 to 0.03 percentage points across developing countries and LDCs, attributable largely to higher investment growth in the IT-related sectors.
- **An increase in welfare** of US$ 213 million (in Scenario B for the upper bound) is projected using GTAP and an estimated US$ 441 million for the upper bound using the SMART model.
- Taking into consideration the potential GDP, welfare and investment gains foregone, the total **opportunity cost** of developing countries and LDCs not participating in the ITA-II is a loss in additional GDP growth of approximately 0.001 percentage points for both the lower and upper bound scenarios; US$ 13 million for the lower bound and US$ 50 million for the upper bound scenario in terms of **foregone welfare gains** (this is significantly lower than the US$ 315 million for the lower bound and US$ 441 million for the upper bound estimated using the SMART model); and a loss of 0.06 percentage points for the lower bound and 0.1 percentage points for the upper bound scenario in **foregone investment growth** over the period 2011 to 2025.

### E.2 Qualitative Results on Country Case Studies and Policy Briefs

This report provides information on six case studies: three in-depth country case studies looking at Chile, Bangladesh and Malawi, and three shorter policy briefs aimed at understanding the political economy reasons why South Africa, India and Lesotho are not engaging in PTA negotiations. Each of the six countries provides perspectives on plurilateral negotiations relating to their respective social
and economic development levels. Of the six country case studies, Chile is the only country participating in a plurilateral negotiation, namely the TiSA.

The country case studies reveal a wide range of reasons for their general non-participation in the plurilateral negotiations to date. These include a lack of technical capacity at government level, together with a lack of human resources and financing to participate in these negotiations. There are also concerns around the piecemeal impact that plurilaterals will have on the yet unresolved WTO Doha negotiations, an unwillingness to participate without a clear view of the gains to be achieved and, for some, distrust of the process. Of great concern is the general lack of participation by some of the world’s largest economies, notably China and India. Even where they have expressed interest in joining this interest is subject to other countries’ willingness to permit their participation in negotiations.

The country case studies and policy briefs show that countries are willing to forego the significant anticipated net welfare gains in favour of maintaining control over the policy space that most LDCs and developing countries use for a variety of policy objectives. For some countries, like Bangladesh and Malawi, the potential benefits of participating in some of the PTAs are simply too small to warrant already limited resources being spent on these negotiations. However, there is a strong case to be made for a number of countries to explore participation in at least one if not two PTA/s. The table below gives a broad overview of potential gains to be had for the six countries in the four plurilateral agreements, based on the GTAP analysis.

Table E.2: Potential overall gains as modelled for all impact areas for the six case study countries from participating in the PTA negotiations

<table>
<thead>
<tr>
<th>Country / Plurilateral</th>
<th>TiSA</th>
<th>EGA</th>
<th>GPA</th>
<th>ITA-II</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Very low potential with possible negative impact</td>
<td>Moderate</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Good potential benefits</td>
<td>Very low potential</td>
</tr>
<tr>
<td>Malawi</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>South Africa</td>
<td>Low potential</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Lesotho</td>
<td>Low potential</td>
<td>Moderate</td>
<td>Low potential</td>
<td>Very low potential</td>
</tr>
<tr>
<td>India</td>
<td>Moderate</td>
<td>Good potential benefits</td>
<td>Good potential benefits</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

Source: GTAP Analysis, 2017
E.3 Insights
In researching PTAs and their impact on developing countries and LDCs, the team arrived at some important insights on the current PTA landscape where very few developing countries and LDCs participate in the PTA negotiations (except for in the ITA).

1. According to officials interviewed, the agenda shaping for plurilateral negotiations has happened largely without developing country and LDC participation resulting in developed countries tailoring the contents of the agreements to suit their interests. Developing countries and LDCs now fear having to give up their policy space to adopt agendas set without them and without due attention being given to their interests. This has created the impression that (i) developed countries are not really interested in including developing countries and LDCs in multilateral initiatives from the outset and (ii) developed countries might not be interested in equal partnerships and approach negotiations in a manner that can be detrimental to developing countries. Misunderstandings, therefore, together with different approaches to negotiations and different rankings of important issues, have resulted in developed and developing countries approaching negotiations from fundamentally different vantage points. PTAs have been initiated and are progressing despite reservations being expressed by a number of developing countries regarding the content, scope and direction of these negotiations. Furthermore, LDCs stand outside of the PTA negotiations.

2. The stagnation of the DDR in relation to non-agricultural market access (NAMA) and agricultural goods is an issue of prime concern among developing countries and LDCs alike. From a mercantilist perspective, because there has been little progress on agricultural issues at the WTO, some of the officials interviewed feel that engaging in plurilaterals and opening their markets to sectors that they have no real interest in is unfair. They have chosen not to participate in the negotiations because their interests are not being met. The fact that many developed economies continue to provide their farmers with subsidies remains a source of contention amongst developing countries, particularly since agriculture often provides their natural competitive advantage. For most LDC officials interviewed during this project, addressing LDC concerns within NAMA is critical for unlocking the entire DDR. Goodwill gestures to continuously work on non-tariff barriers (NTBs) rather than just special and differential treatment (SDT) will also strengthen relationships between the developed and developing world. Seeing as the plurilaterals were born out of the DDR impasse, LDC and developing country participation seems unlikely as they are still holding out hope that the DDR will deliver on their international trade ambitions.

3. Commitments and measures taken within many developed and developing countries are tied to domestic political cycles. As such, one of the key difficulties that developing countries face is the ability to implement long-standing national and international policies that are carried through

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3 Interview with ODEPA official, 4 April 2017; see also interview with MFA official B, 5 April 2017.
4 Interview with MFA official B, 5 April 2017.
5 Interview with DIRECON officials, 4 April 2017.
6 Interview with ECLAC representative, 3 April 2017.
7 Interview with Ministry of Environment official, 3 April 2017.
by different political parties. This is another contributory factor pointing to why developing countries’ participation in and commitment to multilateral efforts can change under different domestic political regimes, making advancement at an international level that much more difficult.

4. **SDT is insufficient in helping developing countries further their participation at a multilateral level,** and sometimes there can be a lack of understanding from developed country peers as to the exact kinds of constraints developing countries face on these fronts but also a lack of articulation on the part of developing countries on the exact nature of the constraints faced. It would be useful if developing countries could be provided with longer tariff phase-out provisions for both developing countries that have already joined or those that may consider joining in future. There is also the additional problem that SDT can be insufficient to offset many of the NTBs that developing countries face. NTBs are the key area of concern for developing countries and LDCs. Consequently, the fact that the plurilateral negotiations are predominantly concerned with tariff reduction also places them at odds with the need to address NTBs present in the international trading system.

### E.4 Recommendations

The report makes seven recommendations based on the findings. A golden thread throughout these recommendations is the need to increase research on the implications for developing countries and to improve communication with and outreach efforts to developing countries and LDCs on the PTAs. The provision of focused technical assistance and capacity building aimed at government ministries as well as the private sector will also promote greater understanding and participation.

1. **There should be open and regular dialogue between developed and developing countries and LDCs on PTAs, while progress within the DDR should be promoted.** This should be informed by evidence-based research. Building relationships through regular contact will go a long way towards opening doors to future developing country and LDC participation in PTAs. Moreover, research programmes on multilateralism and the position of LDCs in this context need to be expanded in LDCs and some developing countries.

2. **Developed nations should provide technical and financial assistance specifically focused on the PTAs and how they fit into other multilateral processes and negotiations.** This will provide LDCs and developing countries with the capacity to make informed decisions about their participation in plurilateral negotiations and how this may affect the DDR outcomes.

3. **Development partners should also direct their technical assistance at strengthening the private sector’s engagement** with government ministries so that their views are effectively considered, internal learning can take place and a common position can be formulated.

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8 Ibid
9 Interview with MFA official A, 6 April 2017.
10 Interview with MFA official B, 5 April 2017.
11 M. Wu, op cit
4. The WTO’s Aid for Trade programmes should develop mechanisms whereby Ministries of Trade and private sector representative bodies receive regular updates from Geneva via outreach visits or official communication on developments within the PTAs.

5. Hosting regular side events to PTA negotiations to disseminate information to developing countries and LDCs, and maintaining an open invitation for LDCs and developing countries to give input on their specific concerns and interests, could act as continuous reminders to participating countries that although LDCs and developing countries are not participating at present, their specific interests should still be considered in the negotiations.

6. Ultimately, developed countries should reach a point where they include developing country and LDC positions on the negotiating agenda. This would be a strong signal that LDC and developing countries concerns and interests are catered for within the PTAs and as with the ITA that they are not only the purview of developed economies. It is important to understand developing countries’ and LDCs’ aspirations and concerns (e.g. the need for inclusiveness, policy space and flexibility) so that the agreements’ scope and modus operandi can – if necessary – be made more accommodating and appealing.

7. Due consideration needs to be given to provisions within the PTAs that outline their future and how non-signatories will be accommodated if necessary and how PTAs may be multilateralised. In designing support programmes, development partners need to take potential accession negotiations into account and what the capacity gaps may be if individual developing countries and LDCs take such negotiations on board. These programmes could focus on the following:

- The accession procedures for the different agreements;
- Future offers/schedules of concessions for tariff reductions/commitments and the implementation of the different plurilaterals;
- The various commitments/obligations of some of the agreements themselves (for instance, the revised GPA clearly sets out that, “no later than three years after the entry into force of the revised GPA and periodically thereafter, the parties shall undertake further negotiations to reduce and eliminate discriminatory measures progressively and to achieve the greatest possible extension of the coverage”); and
- The need for clarity on whether positive or negative list approaches would be taken or whether project approaches would be taken\textsuperscript{12}. (For example, in the EGA, developing countries have always opposed the list approach and favoured the project approach. This will influence how they view/approach these agreements.)

\textsuperscript{12} Under a positive list approach, the list of commitments comprises a national schedule and contains all of the commitments, set out by sector, which a party to a trade agreement has chosen to include. Under a negative list approach, the list that is found in annexes to a trade agreement and that contains all of the measures that do not conform to the core disciplines of the relevant chapters and that governments choose to maintain.
1. SECTION ONE: BACKGROUND

1.1 Introduction
This Report has been produced by the South African Institute of International Affairs (SAIIA), the North-West University (NWU) TRADE research entity and Trade Matters. The report focuses on the qualitative and quantitative effects of four plurilateral trade agreements (PTAs) on Least-Developed Countries (LDCs): the Trade in Services Agreement (TiSA), the Environmental Goods Agreement (EGA), the Government Procurement Agreement (GPA) and the Information Technology Agreement II (ITA-II). The purpose of this report is to present the findings of the Global Trade Analysis Project (GTAP) modelling as well as the results of the field work conducted in Chile, Bangladesh and Malawi. Also, the report includes policy briefs on South Africa, Lesotho and India. The report draws conclusions for policy makers on:

1. The impact of the four PTAs on least-developed and developing countries (this analysis will be based not only on the three country case studies but also on the broader group of countries that were analysed in the GTAP model);
2. Summary findings on whether participation or non-participation is in their interests;
3. Reasons why developing countries do not participate in the PTAs;
4. The plurilateral architecture and how developed countries can promote developing country and LDC participation;
5. How the developed countries could accommodate developing country and LDC priorities in their own negotiations.

1.1.1 Background to the Plurilateral Agreements
PTAs are voluntary agreements of a sectoral nature that are entered into by more than two World Trade Organization (WTO) member states. Plurilaterals are supposed to be notified by members to the WTO, although this rarely happens in practice. Moreover, the WTO cannot veto a plurilateral agreement, nor does such an agreement receive formal consideration by the WTO; hence many members do not view the WTO process as being binding or necessary, and embark on plurilateral negotiations independently.

An optimal arrangement would be for all plurilaterals to be ‘multilateralised’ and become part of the WTO framework and then to be notified to the WTO. This ensures that the PTA is subject to all WTO rules and mechanisms, including the dispute resolution mechanism. It further broadens the scope and participation in the agreement, allowing for global coverage. The Trade Facilitation Agreement (TFA) is an example of an agreement that was later multilateralised.

During the GATT (General Agreement on Tariffs and Trade) years, the WTO presided over a number of sectoral plurilateral agreements that were later subsumed under the WTO architecture. It was

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13 In trade policy, ‘PTA’ is most widely known as an acronym for ‘Preferential Trade Agreement’. However, we use the acronym here for plurilateral trade agreement as the text makes several references thereto and no alternative seems to be available to us.
15 M. Kim (2014) Ibid.
also during the Uruguay Round that the single undertaking rule and consensus rule (i.e. all WTO MS had to agree on a particular issue before it became part of the covered agreement) were adopted. These rules generally favour developing countries in line with one of the cornerstones of the multilateral trading system which is the ‘evening out of asymmetries’. However, plurilaterals are a deviation from both the single undertaking and consensus rules, and create a dynamic that divides developed and developing countries. This is because the single undertaking requires consensus from every single WTO member. In short: ‘nothing is agreed until everything is agreed’ and every item of negotiation forms part of an indivisible package agreement that cannot be negotiated separately.\textsuperscript{16} In comparison, plurilaterals are negotiated outside of the WTO's multilateral framework, amongst a select group of countries only, and has taken the approach of selecting very specific issues from the multilateral agenda for further discussion and negotiation.

Whereas developed countries tend to favour plurilaterals, developing countries are generally averse to them, although selected emerging economies are party to specific plurilateral negotiations. The perceived thrust driving plurilaterals is to convince all MS to sign up with the view to incorporating such agreements under the existing WTO architecture. This is a key deterrent for developing country support, as once they have joined a plurilateral, developing countries are unable to change its scope and content afterwards. Poor nations are apprehensive that the growing support for and growth of plurilaterals could achieve critical mass, thereby reshaping global trade rules to suit developed countries. Another fear is that the focus on plurilaterals could prompt a deviation from the Doha Development Round (DDR), as developed countries cherry pick issues around which to negotiate plurilaterals.\textsuperscript{17} Critical mass can best be understood to exist when a ‘sufficient number of parties that do not represent the entire membership agree upon a common course of cooperative action to be taken under the auspices of the WTO’.\textsuperscript{18} Within the context of the plurilateral negotiations, critical mass has permitted relaxation of the consensus rule, particularly because it has allowed countries to incorporate agreements on cherry-picked issues (and thus a deviation from the DDR) that only require approval from selected member states for its incorporation into the WTO legal architecture.

Admittedly, plurilaterals can go some way towards tackling the deadlock gripping the WTO’s multilateral negotiation processes. The Technical Barriers to Trade (TBT) and Subsidies Codes from the Tokyo Round of negotiations were integrated into the GATT of 1994, showing that plurilateral processes could lead to the formulation of multilateral rules.\textsuperscript{19} Plurilaterals could be responsive to poor country concerns if such concerns are addressed explicitly in the negotiations.

It is for this reason that there is strong support amongst developing countries (and some developed countries) for an LDC Package, which could resemble a plurilateral initiative.\textsuperscript{20} While developing countries are concerned that continued differentiated treatment could further fragment the multilateral system and reverse the progress to date, this would be minimised if developing

\textsuperscript{16} WTO. How agreements are negotiated, https://www.wto.org/english/tratop_e/dda_e/work_organis_e.htm accessed on 26 June 2017
\textsuperscript{17} The emerging economies in the BRICS alliance are currently leading the resistance to plurilaterals.
countries could become party to a plurilateral agreement under flexible rules. Furthermore, WTO rules could be modified to allow for a clear critical mass (e.g. 75%) being in place before an agreement becomes part of the covered agreements in the WTO system. Such an approach would show receptiveness towards an asymmetrical system of rights and obligations within the WTO.  

The fact that a large majority of developing countries are not participating in several plurilaterals currently being negotiated raises questions about how inclusive these agreements will be if they are incorporated into the WTO architecture. Moreover, how they will impact developing countries in the absence of developing country input is a matter of growing concern.

1.1.2 Stalemate in the DDR and the Emergence of Plurilateral Agreements

The rise of plurilateral agreements comes on the back of the WTO’s protracted DDR of negotiations, which have been deadlocked since 2008. There are various reasons for this, including contentious agricultural subsidies and dumping of excess produce on the global market by some western MS. Agricultural subsidies have incensed the WTO’s developing MS, given that many have a comparative advantage in this sector.

Progress has been made in resolving some of the issues retarding progress in the DDR. At the WTO Nairobi Conference in 2015, WTO MS undertook to abolish specified export subsidies for farm products; fast-track a decision on public stockholding for food security purposes; and adopt a Special Safeguard Mechanism allowing developing countries to “temporarily increase tariffs on agriculture products in cases of import surges or price declines.” However, for the most part, the impasse over substantive issues persists. This has prompted countries to turn their attention towards plurilateral agreements and mega-regional free trade agreements beyond the confines of the WTO.

<table>
<thead>
<tr>
<th>Format of the negotiations</th>
<th>Content of proposed agreement</th>
<th>Member States that are party to the negotiations</th>
<th>State of play</th>
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</table>
| TiSA negotiations are participant- and consensus-driven. They are also informal in set-up and coordinated by the rotating chairs (Australia, EU and the United States). Negotiations are similar to FTA negotiations, where working groups run in parallel to the negotiations. | The EU envisages a TiSA covering:  
- Basic GATS provisions (market access, national treatment, exceptions, etc.)  
- GATS plus provisions (horizontal national treatment, market access 'standards')  
- Regulatory disciplines (domestic regulation, ICT services, logistics, financial services, government procurement)  
- Institutional provisions (accession, dispute settlement, etc.) | Negotiating parties: the EU Member States, Australia, Canada, Chile, Chinese Taipei, Colombia, Costa Rica, Hong Kong, Iceland, Israel, Japan, Korea, Liechtenstein, Mauritius, Mexico, New Zealand, Norway, Pakistan, Panama, Peru, Switzerland, Turkey and the United States. | By June 2016, 18 negotiation rounds had taken place. There is no formal deadline for ending the negotiations. Formal negotiations were cancelled in 2017 in favour of a review of progress made. |

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The DDR reached an impasse when countries asking for greater scope within the General Agreement on Trade in Services (GATS) were met with strong demands for progress on agricultural issues first, that were deemed unreasonable by negotiators supports the GATS expansion. This deadlock provided the motivation for the US and Australia to initiate negotiations on a plurilateral TiSA, which would allow new space and scope for countries to expand services liberalisation without having to accede to the agriculture demands made. Commencing in April 2013, the TiSA group comprises 23, mostly developed, WTO member states, representing about 70% of international trade in services. In theory, negotiations are open to all countries interested in participating, although there is no political unanimity in accepting new countries. Trade in services contributes approximately 51% to GDP in developing countries, and none of the largest emerging economies is a party to the negotiations. Moreover, the BRICS countries (Brazil, Russia, India, China and South Africa), which together account for some 13% of global services exports, are not participants in the TiSA negotiations. If they were included, the TiSA would cover 85% of global trade in services.

As of November 2016, 21 rounds of negotiations had taken place. There is no formal deadline for the conclusion of the negotiations, although achieving a critical mass would be necessary for multilateralising the agreement under the WTO architecture. Despite the TiSA’s accession clause for future WTO MS, the agreement would not necessarily contain rules and provisions that take into consideration the concerns of developing countries. This is because any meaningful contribution to the negotiation process has been blocked by the ‘Really Good Friends of Services’ (i.e. the parties to the TiSA negotiations) who have chosen to conduct their negotiations without permitting observers from third countries. This level of secrecy has garnered much criticism from developing countries. Despite a reference to ‘like-minded countries’, the current negotiations fail to provide for the inclusion of developing countries, including the largest emerging economies, leaving them largely devoid of insights on the services needs of low-income countries. For developing countries, there are concerns over the TiSA’s omission to include discussions on cooperation and capacity building, business development, regulatory coherence and competitiveness.

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28 Ibid
30 Parties to the TiSA negotiations include the EU 28 member states and selected other western WTO Members. Mauritius is the only African country that is party to the TiSA negotiations, http://ec.europa.eu/trade/policy/in-focus/tisa/ accessed on 25 October 2016.
32 Currently, TiSA negotiations are being conducted within the framework of a free trade agreement (FTA), based on GATS Article V (economic integration), but outside the WTO mandate and without formal assent from other WTO members. E. Vilup (2015) Ibid
33 S. Stephenson et al., op cit
also voiced their concerns over regulation boundaries, which are necessary for them to retain policy space over public services.\(^\text{34}\)

The absence of wider representation in the TiSA negotiations means that:

(i) There is likely to be great reluctance on the part of other (predominantly developing) WTO members to consent to a finalised agreement should there eventually be efforts to multilateralise the TiSA;

(ii) the privileged nature of the negotiations reinforces existing barriers between developed and developing country interests on trade in services; and

(iii) incorporating such an agreement into the WTO multilateral system would be challenging as it would deviate from the current GATS provisions.\(^\text{35}\)

**Environmental Goods Agreement (EGA) Negotiations**

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</table>
| EGA negotiations were launched on 8 July 2014, aiming to liberalise trade in environmental goods by the EU plus 13 other WTO MS that were involved in the green goods negotiations. There are hopes that EGA will be a “living agreement”, which would allow for the addition of new products. The EU’s ambition is to include services related to exports of environmental goods and to address non-tariff barriers, such as local content requirements or restrictions on investment.\(^\text{36}\) | The EGA aims to “enhance trade in environmental goods and technologies contributing to environmental protection, in particular to combatting climate change and to accelerate uptake of environmental technologies”. The EGA envisages:  
- The full elimination of tariffs on a broad list of environmental goods.  
- A “living agreement”, i.e. the inclusion of a revision clause to update the product list in the event of technological changes.  
- Other issues in the sector (NTBs, services) being addressed through a work programme.\(^\text{37}\) | Negotiating parties: the EU Member States, Australia, Canada, China, Costa Rica, Chinese Taipei, Hong Kong (China), Iceland, Israel, Japan, Korea, New Zealand, Norway, Switzerland, Singapore, Turkey and the United States. EGA membership outreach (i.e. to encourage other WTO Members to become party to the EGA processes) is currently underway, e.g. Chile, Mexico, Thailand, Malaysia, Vietnam, Morocco, Tunisia, Brazil and Pakistan. | In the most recent round of negotiations in June 2016, negotiating parties focused on 350-odd potential tariff lines across 10 categories of environmental goods in a ‘convergence list’, as well as China’s revised offer.\(^\text{38}\) Discussions also centred on how to successfully conclude the agreement by the end of 2016. |

The EGA negotiations are a piecemeal attempt to move forward discussions on environmental goods (EGs) liberalisation in the WTO. Within the DDR, negotiations on possible EG classifications were

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\(^{34}\) Ibid  
supposed to (i) address non-tariff barriers in the trade in EGs, which would encourage the use of environmentally-oriented technologies and induce technology transfer, and (ii) enhance developed and developing countries’ access to high-quality EGs. However, the failure to find acceptable outcomes has contributed to the current DDR inertia and given rise to the plurilateral EGA negotiations that are currently under way. At present the EGA negotiations involve only selected WTO MS and developing countries’ concerns are not a key focus area.

Any deal reached within the group would be extended to new members who choose to join, and once critical mass has been reached the lowered tariffs would extend to all WTO member states, regardless of their participation in the negotiations. Some reports suggest that South-South trade in renewable energy and environmental goods is amongst the most dynamic, and that developing countries have the greatest prospects for market growth. However, there remains little appetite for participation amongst developing countries. There are four potential reasons for this:

(i) Developing countries are applying a form of infant industry protection;
(ii) By withholding their participation, developing countries are engaging in a form of political protest over the DDR’s stagnation;
(iii) Very few developing countries have significant export interests in EGs and environmental goods and services (EGS) and would simply be able to ‘free ride’ off the gains made in the negotiations; and
(iv) Developing countries have always had serious objections to the list approach as it could, inter alia, restrict their flexibility to formulate environmental policy. India has proposed a project approach, which has enjoyed support from Bangladesh and South Africa.

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40 Negotiating parties: the EU member states, Australia, Canada, China, Costa Rica, Taiwan, Hong Kong (China), Iceland, Israel, Japan, Korea, New Zealand, Norway, Switzerland, Singapore, Turkey and the United States. EGA membership outreach (i.e. to encourage other WTO members to become partied to the EGA processes) is currently under way, e.g. Chile, Mexico, Thailand, Malaysia, Vietnam, Morocco, Tunisia, Brazil and Pakistan.
42 Ibid
43 M. Wu, op cit
Government Procurement Agreement (GPA) Negotiations

<table>
<thead>
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<tr>
<td>All WTO MS are eligible to accede to the GPA. 9 WTO MS are in the process of acceding, while 6 others have undertaken commitments via their WTO accession protocols to initiate accession to the GPA. Following Article V of the revised GPA, S&amp;D treatment is offered to developing countries in the form of transitional measures such as offsets, price preference programmes, initially higher thresholds and phasing-in of entities. This can be negotiated by a developing acceding country, subject to the agreement of the other parties and the acceding member’s development needs.45</td>
<td>The revised GPA of 2014 includes the following changes: • Rewording of text for easier comprehension; • The use of electronic tools in current government procurement practices; • Clarification and improvement of special and differential treatment provisions that are available to developing members acceding to the GPA; • Specific new requirements to avoid conflicts of interest and prevent corrupt practices in the interests of good governance among negotiating parties.46</td>
<td>Negotiating parties: Armenia, Canada, EU Member States, Hong Kong (China), Iceland, Israel, Japan, Korea, Lichtenstein, Netherlands (with respect to Aruba), Norway, Singapore, Switzerland, Chinese Taipei and United States.47</td>
<td>The revised GPA entered into force in April 2014. However, this revised GPA co-exists with the GPA of 1994, which remains in force for those parties still in the process of ratifying the GPA of 2014. Therefore, both versions will continue to exist until all parties to the earlier GPA become signatories to the revised GPA.48</td>
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In general, developing countries have shown little appetite for signing the GPA. Originally signed in 1994 during the Marrakesh Round, the GPA has since been revised, with the new agreement entering into force in 2014. The two agreements co-exist: the 1994 GPA remains in force for those parties still in the process of ratifying the 2014 GPA.49 The 2014 GPA addresses new issues such as sustainable procurement, the inclusion of small and medium-sized enterprises’ (SMEs) participation in procurement markets, and the creation of a new electronic tool to make information on market access opportunities under the GPA more accessible to businesses.50 The revised GPA also covers an estimated US$ 1.7 trillion in total procurements annually.51

A procurement is only included within the GPA’s rules upon the fulfilment of three criteria: (i) the procurement entity is covered; (ii) the specified procurement is included in the relevant Party’s commitments; and (iii) the value of the procurement is above the threshold levels contained in the Party’s schedules.

Although the revisions in the 2014 GPA are designed to attract developing countries through SDT provisions, the principles of national treatment52 and non-discrimination53 could sit uncomfortably

45 https://www.wto.org/English/tratop_e/gproc_e/memobs_e.htm
46 https://www.wto.org/English/tratop_e/gproc_e/gpa_1994_e.htm
47 https://www.wto.org/english/tratop_e/gproc_e/gp_app_agree_e.htm
51 Ibid
52 National treatment is a basic principle of GATT/WTO that prohibits discrimination between imported and domestically produced goods with respect to internal taxation or other government regulation.
with some developing countries. This is because relations between service providers and government often have deep roots and there is a home bias problem (i.e. the protection of government procurement markets from foreign competition). Acceding to the GPA would also require a regulatory and infrastructure overhaul for many developing countries, including developing the requisite technical expertise. Lastly, there are concerns that liberalising government procurement would result in a loss of policy space for developing countries to fulfil their socio-economic development goals.

**Information Technology Agreement II (ITA-II) Negotiations**

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| An informal ITA process geared towards launching negotiations for the expansion of the product coverage of the ITA began in June 2012. This process led to the establishment of a technical working group which met informally in Geneva, outside of the formal framework of the WTO ITA Committee. | To become an ITA II participant, there are three basic principles that must be respected:  
• All products listed in the Declaration must be covered;  
• All of these products must be reduced to a zero tariff level;  
• All other duties and charges must be bound at zero.  
There are no exceptions to product coverage. However, for sensitive items it is possible to have an extended implementation period. Tariff elimination is implemented on an MFN basis and ITA concessions are included in the WTO schedule of concessions. This means that even non-partied countries will eventually benefit from ITA tariff elimination and market/trade opportunities. | 97 participating WTO Member States, which account for 90% of global trade in IT products. Developing country participants have been granted extended periods for some products. Brazil, South Africa and Mexico are among large emerging economies that are not parties to the ITA II. | ITA II was concluded in 2015 at the WTO Nairobi Conference. 54 WTO Member States are parties to the ITA. The ITA now covers an additional 201 products valued at over US$ 1.3 trillion per year and accounts for up to 7% of global trade today. In terms of the ITA, the majority of tariffs will be eliminated on listed products within a period of three years from 2016 to 2019. |

Developing country participation in the ITA-II is equally meagre. The first ITA was signed at the Singapore Round in December 1996 where participating member states removed tariffs on eight categories of information and communications technology (ICT) products. An informal ITA process

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53 Under the WTO agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members.
56 Ibid
57 https://www.wto.org/english/tratop_e/inftec_e/itaintro_e.htm
58 https://www.wto.org/english/tratop_e/inftec_e/itaintro_e.htm
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61 https://www.wto.org/english/tratop_e/inftec_e/itapart_e.html#fnt2
62 https://www.wto.org/english/tratop_e/inftec_e/inftec_e.htm
63 https://www.wto.org/english/tratop_e/inftec_e/itaintro_e.htm
geared towards launching negotiations for the expansion of product coverage began in June 2012 amongst 33 WTO members.\textsuperscript{65}

The ITA-II was finalised in December 2015 at the WTO Nairobi Conference, and now includes 201 additional products such as new generation communication (smartphones), data and medical devices. “Annual trade in these 201 products is valued at over US$ 1.3 trillion per year, and accounts for approximately 7\% of total global trade today.”\textsuperscript{66} Currently, there are 97 participating WTO member states, which account for 90\% of global trade in IT products. Developing country participants have been granted extended periods for liberalising some products; however, Brazil, South Africa and Mexico are amongst the large emerging economies that are not parties to the ITA-II.\textsuperscript{67}

The ITA-II participation requires adherence to three key principles: (i) all products listed in the declaration must be covered; (ii) all these products must be reduced to a zero tariff level; and (iii) all other duties and charges must be bound at zero.\textsuperscript{68} Tariff elimination commitments are undertaken on a Most Favoured Nation (MFN) basis: in 2013, the cumulative value of import duties eliminated since the inception of the ITA was estimated at US$ 1.6 trillion.\textsuperscript{69} Compared to the ITA-I, where membership correlated with higher imports and 8\% higher exports of final ITA products, higher exports are not expected to flow automatically from the ITA-II.\textsuperscript{70} Exports from non-members will benefit from the same tariff reductions as the ITA-II members’ exports and trade opportunities, regardless of whether they participate in the negotiations or not and are not expected to reduce tariffs if they are not participating.\textsuperscript{71}

However, concerns surround the ITA-II and its potential to undermine developing countries in the following ways:\textsuperscript{72}

(i) It provides for parties to the agreement that export IT products to enjoy duty-free access for such goods. However, few developing countries actually export IT goods, which means that the large majority of developing countries would derive little benefit from this provision.

(ii) The ITA-II could have a negative impact on infant industries in developing countries across a range of IT sectors.

\textsuperscript{65} WTO, Information Technology Agreement, \url{https://www.wto.org/english/tratop_e/inftec_e/itaintro_e.htm} accessed on 25 April 2017.
\textsuperscript{66} Ibid
\textsuperscript{67} \url{https://www.wto.org/english/tratop_e/inftec_e/itapart_e.htm}#fnt2 accessed on 31 August 2017
\textsuperscript{68} \url{https://www.wto.org/english/tratop_e/inftec_e/itaintro_e.htm} accessed on 31 August 2017
\textsuperscript{71} WTO. Information Technology Agreement — an explanation, \url{https://www.wto.org/english/tratop_e/inftec_e/itaintro_e.htm} accessed on 26 April 2017. See also R. Rossouw (2017) ITA GTAP modelling report.
\textsuperscript{72} M. Mendez-Parra (July 2015) New global IT trade deal offers little to developing countries ODI Blogs, \url{https://www.odi.org/comment/9752-new-global-trade-deal-offers-little-developing-countries} accessed on 26 June 2017.
1.2 Methodology

The research presented in this report is based on a mixed methodology, namely a quantitative and a qualitative approach. The quantitative analysis covers a wide variety of countries included within a GTAP model, whereas the qualitative analysis is based on three case study countries (Bangladesh, Chile and Malawi), complemented by an additional three countries (South Africa, Lesotho and India) that provided policy briefs on their governments’ thinking behind accession or non-accession to plurilateral trade agreements. Section Two of this report delves into the broader findings from both the quantitative and qualitative analyses. More detail on the methodology, the case studies and the policy briefs is available in the Annexes to this report.

Below is a brief overview of the methodology used for the qualitative and quantitative analyses.

1.2.1 Qualitative Analysis

The qualitative analysis focused on a literature review and interviews with a broad spectrum of stakeholders in the six case study and policy brief countries (Bangladesh, Chile, India, Lesotho, Malawi and South Africa). During field trips, the researchers targeted government officials, academia, research organisations, development partners and other institutions. A broad questionnaire was designed to ensure that the same topics were covered across the six countries, including:

- Evidence of the costs and benefits of plurilateral agreements;
- Developing country sentiment towards plurilateral agreements (e.g. are they in favour of such agreements?);
- Evident challenges in engaging with multilateral and plurilateral agreements;
- Developing country experiences in engaging with plurilateral processes;
- Whether there are any institutional constraints within the WTO that prevent developing countries’ participation in plurilateral agreements, e.g. lack of access or exclusivity;
- How plurilateral agreements may be adapted to ensure that poorer developing countries can participate effectively; and
- Potential future plurilateral negotiations that may be of particular interest to developing countries.

1.2.2 Quantitative Analysis

The quantitative component is the evidence base of this research as it provides objective evidence of the costs and benefits of plurilateral agreements. The quantitative analysis also informed the questions posed by the researchers during their field work.

The analytical framework used for the analysis is the Global Trade Analysis Project (GTAP) model, which is a global multi-region and multi-sector computable general equilibrium (CGE) trade model that has been widely used in regional economic analysis. The model provided an ideal framework for this study. The latest release of the GTAP database (i.e. GTAP-9), features 2004, 2007 and 2011 reference years as well as 140 regions for all 57 GTAP commodities, thereby providing a detailed and consistent representation of the global economy-wide structure of production, demand and

73 See, for example, https://www.gtap.agecon.purdue.edu/databases/v9/default.asp for more detail on the model and database.
international trade at a regionally and sectorally disaggregated level. It also combines comprehensive bilateral trade and protection data reflecting economic linkages among regions with individual country input-output data, which account for inter-sectoral linkages within regions.

A CGE model starts from an assumed equilibrium state in the economy. By introducing policy changes, this equilibrium is distorted, and the different actors in the economy respond to the shifts in a particular way until the economy eventually returns to a new equilibrium state. By analysing the difference in the initial equilibrium state of the economy and the new equilibrium state, we gain insight into the impact of policy changes (for example, a tariff change).

The CGE approach allows a consistent, integrated, predictive evaluation of sectoral production and employment impacts, aggregate income and welfare effects of changes in trade barriers, while taking full account of the macroeconomic repercussions arising, for example, from terms-of-trade effects, tariff revenue changes and inter-sectoral input-output linkages. CGE models also take account of economy-wide resource constraints such as limited productive capital, skilled labour and land, and adhere to all macroeconomic consistency constraints which require, for example, that the balance of aggregate imports and exports matches a country’s net capital inflows, or that aggregate investment matches total savings.  

1.2.3 Scenarios

For all four of the PTAs, two general experiments or scenarios were modelled:

- The first (Scenario A) involved binding each PTA’s specific requirements (i.e. applying the relevant shocks) across all current member states that are party to the negotiations of that PTA.
- The second (Scenario B) involved an expansion of each PTA to cover more ‘developing’, or ‘low-income’ countries – the countries selected to be representative of LDCs are listed in Table 1 (below).

Such an approach helped to identify both the direct (i.e. those countries included in Experiment B through direct participation in a PTA) and indirect or spill-over benefits (i.e. those excluded from Experiment A) to the selected ‘developing’ or ‘low-income’ countries.

Table 1: Countries selected for inclusion in ‘Experiment B’

<table>
<thead>
<tr>
<th>Selected Developing and Least-Developed Countries (LCDs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria (Rest of North Africa: Algeria + Libya + Western Sahara)*</td>
</tr>
<tr>
<td>Bangladesh</td>
</tr>
<tr>
<td>Botswana</td>
</tr>
<tr>
<td>Brazil</td>
</tr>
<tr>
<td>India</td>
</tr>
<tr>
<td>Kenya</td>
</tr>
<tr>
<td>Laos</td>
</tr>
<tr>
<td>Lesotho (Rest of SACU: Lesotho + Swaziland)*</td>
</tr>
<tr>
<td>Peru</td>
</tr>
<tr>
<td>Senegal</td>
</tr>
<tr>
<td>South Africa</td>
</tr>
<tr>
<td>Sri Lanka</td>
</tr>
</tbody>
</table>


**The countries listed in Table 1 were selected on the basis of the research team’s internal discussion regarding which countries would be a representative mix of developing countries and LDCs. These are the countries that the spill-over effects from Scenario A are also measured on.**
The analysis was dynamic, i.e. the economies were projected to 2025 (this year was chosen given that trade forecast data is available for most countries until 2025 from the International Monetary Fund’s (IMF) World Economic Outlook database). 

To facilitate the discussions surrounding participation by ‘developing’ or ‘low-income’ countries in PTA negotiations, it was necessary to consider trade-offs. For example, what are countries potentially missing out on in terms of foregone economic, social and welfare gains by not participating in PTAs? The modelling showed that the economic outcomes of the various PTAs for each developing country and LDC hinge crucially on the countries’ existing economic structure and make-up. The results also indicated that the aggregate welfare effects are less pronounced, while structural and distributional impacts are relatively significant.

The modelling exercise provided results, based on various metrics/indicators in the model, on the following broad categories:

- **Macroeconomic effects**: Impact on GDP, household income and wages, trade flows, employment, factor price effects, commodity and service prices, government revenue, consumption, aggregate welfare (real absorption), etc. In the GTAP model, welfare is based on the equivalent variation (EV). EV measures what a consumer would be willing to be compensated to forego the policy change (for example, by not joining a particular PTA). More technically, EV is the difference between the expenditure required to obtain the post-simulation level (e.g. Chile joins the TiSA) of utility at initial prices (e.g. Chile does not accede to the TiSA).

- **Effects on third countries**: The model shows the impact on those countries not participating in the various PTA negotiations.

- **Sectoral effects**: Insight was gained on the expected changes in sectoral growth, employment, wages, output, prices, etc.

- **Social impact**: This can be measured indirectly through changes in economic indicators (changes in wages, sectoral employment [i.e. reallocation of employment], production patterns, consumption, prices, etc.).

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Note: * These countries are only available as part of regional groupings in the GTAP-9 database. The Southern African Customs Union (SACU) countries comprise South Africa, Botswana, Lesotho, Namibia and Swaziland.
2. SECTION TWO: SUMMARY FINDINGS AND RECOMMENDATIONS TO POLICY MAKERS

This section of the report presents the findings from the study. It starts off with the general findings from the GTAP analysis and the implications for developing countries and LDCs. It then draws some qualitative conclusions from the case studies and policy briefs.

2.1 Findings from the GTAP Modelling

The results discussed in this section focus on the implications for the developing countries and LDCs listed in Table 1 on page 21 – resulting from Scenarios A and B – along with some of the estimated impacts on the chosen case study countries. Only where specifically stated do we refer to and discuss the impact on developed countries.

2.1.1 Trade in Services Agreement (TiSA)

The GTAP modelling considered the potential effects on selected developing countries and LDCs of joining the TiSA by assuming that the agreement would lead to binding currently applied policies. Accordingly, two scenarios were modelled over the period 2011 to 2025. The first (Scenario A) involved binding current market access across all current TiSA participants and the second (Scenario B) involved an expansion of the TiSA to include more developing countries and LDCs. More specifically, Scenario A captured the spill-over effects on developing countries and LDCs (listed in Table 1 on page 21), while Scenario B measured the direct effect of these developing countries and LDCs participating.

Joining the TiSA is expected to have a positive but small impact on participants’ economies, with the results of both experiments suggesting an increase of between 0.01 and 0.02 percentage points in the aggregate GDP of all developing countries and LDCs involved in the TiSA. Scenario B resulted in a marginally higher GDP and real income increase (for all developing countries and LDCs) due to more countries reducing their binding overhang than in Scenario A. The gap between bound commitments and market access (i.e. the actual applied rates) is referred to as the “binding overhang” or “water in the GATS.”

The overall opportunity cost of not joining the TiSA (calculated as the sum of all costs incurred and benefits foregone), i.e. under Scenario A, is a loss in additional GDP growth of approximately 0.01 percentage points.

The total welfare gains (as measured by the equivalent variation or EV measure) across all countries from joining the TiSA are US$ 4.2 billion, of which the benefit accruing to developing countries and LDCs is about US$ 1.5 billion (in Scenario B). The spill-over benefit for developing countries and LDCs when not joining the TiSA is an increase in welfare of about US$ 307 million. Therefore, the opportunity cost to developing countries and LDCs of not joining the TiSA equates to about US$ 1.2 billion in respect of foregone welfare gains. Investment is also projected to increase.

78 As a measure of the welfare of the citizens of a country, this report employs the Equivalent Variation (EV) measure (in US$ millions) to initial income as the indicator. EV measures the gaps between the household total consumption budget and the minimum consumption that the household needs to spend. A higher EV indicates a larger gap in household remaining budget after the simulation. Thus, a higher EV means higher household welfare and vice versa.
relative to the baseline when joining the TiSA, with gains ranging from 0.0004 to 0.035 percentage points across developing countries and LDCs (listed in Table 1), assuming a reduction in the binding overhang.

Table 2 shows the projected impact for the different country groups of both joining and not joining the TiSA. For the ‘Join’ column (Scenario B) in Table 2, the arrow indicates the opportunity cost relative to ‘not joining’ (Scenario A), e.g. if GDP is higher relative to GDP when ‘not joining’ then the arrow will point up — even if the change relative to the baseline is negative. Using only GDP, investment and welfare as our core measures we find that all country groups (i.e. LDCs, developing and developed) benefit from joining (Scenario B) the TiSA. For developing countries, additional gains are estimated in terms of trade, production/output and skilled employment.\(^7\)

![Table 2: Projected impact of the TiSA on the economies of selected country groups based on GTAP](image)

<table>
<thead>
<tr>
<th>GTAP Metrics (%) point change from baseline growth</th>
<th>LDCs</th>
<th>Developing</th>
<th>Developed(^8)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Scenario A</td>
<td>Scenario B Join</td>
<td>Scenario A Don’t Join</td>
</tr>
<tr>
<td>Real GDP (%)</td>
<td>0.0004 ▲</td>
<td>0.0071 ▲</td>
<td>0.0096 ▲</td>
</tr>
<tr>
<td>Investment (%)</td>
<td>0.0025 ▲</td>
<td>0.0048 ▲</td>
<td>0.0031 ▲</td>
</tr>
<tr>
<td>Equivalent Variation (Welfare) (US$ millions)</td>
<td>1.0 ▲</td>
<td>3.9 ▲</td>
<td>34.0 ▲</td>
</tr>
<tr>
<td>Real national income (%)</td>
<td>0.0019 ▲</td>
<td>0.0187 ▲</td>
<td>0.0121 ▲</td>
</tr>
<tr>
<td>Value of imports (%)</td>
<td>-0.0021 ▼</td>
<td>-0.0047 ▼</td>
<td>0.0123 ▲</td>
</tr>
<tr>
<td>Volume of imports (%)</td>
<td>0.0065 ▲</td>
<td>0.0060 ▲</td>
<td>0.0210 ▲</td>
</tr>
<tr>
<td>Value of exports (%)</td>
<td>-0.0029 ▼</td>
<td>-0.0063 ▼</td>
<td>0.0236 ▲</td>
</tr>
<tr>
<td>Volume of exports (%)</td>
<td>-0.0002 ▼</td>
<td>-0.0105 ▼</td>
<td>0.0281 ▲</td>
</tr>
<tr>
<td>Terms of trade (%)</td>
<td>0.0056 ▲</td>
<td>0.0137 ▲</td>
<td>0.0041 ▲</td>
</tr>
<tr>
<td>Factor income (%)</td>
<td>0.0029 ▲</td>
<td>0.0220 ▲</td>
<td>0.0106 ▲</td>
</tr>
<tr>
<td>Output (%)</td>
<td>-0.0245 ▼</td>
<td>0.0013 ▲</td>
<td>0.0350 ▲</td>
</tr>
<tr>
<td>Unskilled employment (%)</td>
<td>-0.6407 ▼</td>
<td>-0.6578 ▼</td>
<td>-0.7553 ▼</td>
</tr>
<tr>
<td>Skilled employment (%)</td>
<td>0.1327 ▲</td>
<td>0.1545 ▲</td>
<td>0.3058 ▲</td>
</tr>
</tbody>
</table>

Source: GTAP modelling results

The developing countries and LDCs that are estimated to gain the most from being a member of the TiSA are those for which services sectors are relatively more important. That is, developing countries and LDCs are expected to benefit from higher real national income increases if their services sectors’ export share in GDP is relatively high. Accordingly, developing countries and LDCs such as Mauritius,\(^7\) All three groups include all countries in the model (regardless of whether they join or don’t join), i.e. within each group (LDC, developing, developed) there will be individual countries that don’t join in Scenario A and that do join in Scenario B, but there are also countries (those not included in Table 1 or not currently part of a specific PTA) that don’t join in either of the two scenarios. The rest of the discussions and tables (other than these summary tables for each PTA) refer only to the developing countries and LDCs specified in Table 1.

\(^8\) The aggregates in Table 2 (i.e. LDCs, developing and developed) have been grouped according to the ‘Development Status’ of the countries/regions in the GTAP model. Given that the ‘Rest of the World’ aggregate consists of mostly developed countries, it has been included in the ‘Developed’ group.
Kenya and Ethiopia which have significant shares of services are shown to experience the greatest benefits, with an increase in real income of between 0.11 and 0.17 percent when joining the TiSA.

Most developing countries and LDCs’ exports and imports are estimated to increase when joining the TiSA, although only marginally. The developing countries and LDCs expected to experience the greatest benefits in terms of real national income increases are also the countries that are estimated to see the largest increase in their trade. Also, several developing countries and LDCs with relatively high binding overhangs, which are subsequently removed, are expected to see more increased trade. For those developing countries and LDCs not participating in the TiSA negotiations (Scenario C), no significant effects are expected, with national income changes generally being below 0.1 percentage point. (The largest effects are expected on trade flows, which then impact on income, welfare, employment and more.)

Table 3 summarises the results for the six case study countries, i.e. India, Bangladesh, Chile, Lesotho, South Africa and Malawi. As before, using only GDP, investment and welfare as our most important measures, we find that all six countries benefit from joining the TiSA, with some additional gains estimated in terms of trade, production/output and skilled employment for Chile and South Africa, and in terms of trade and factor income for all countries.

Table 3: Opportunity cost of joining vs. not joining (% point change from baseline growth)

<table>
<thead>
<tr>
<th>GTAP Metrics (% point change from baseline growth)</th>
<th>India</th>
<th>Bangladesh</th>
<th>Chile</th>
<th>Lesotho</th>
<th>South Africa</th>
<th>Malawi</th>
</tr>
</thead>
<tbody>
<tr>
<td>TISA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scenario A Don’t Join</td>
<td>0.001</td>
<td>0.014</td>
<td>0.001</td>
<td>0.003</td>
<td>0.008</td>
<td>0.015</td>
</tr>
<tr>
<td>Scenario B Join</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.000</td>
<td>0.006</td>
</tr>
<tr>
<td>TISA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scenario A Don’t Join</td>
<td>0.000</td>
<td>0.007</td>
<td>0.000</td>
<td>0.003</td>
<td>0.000</td>
<td>0.006</td>
</tr>
<tr>
<td>Scenario B Join</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.000</td>
<td>0.007</td>
</tr>
</tbody>
</table>

- Real GDP (%)
- Investment (%)
- EV (US$ millions)
- Real national income (%)
- Value of imports (%)
- Volume of imports (%)
- Value of exports (%)
- Volume of exports (%)
- Terms of trade (%)
- Factor income (%)
- Output (%)
- Unskilled employment (%)
- Skilled employment (%)
The marine sector stands to benefit the most by all countries joining the TiSA. As sectors expand and contract, demand for labour in different sectors would change. Indeed, estimated changes in sectoral employment would in general be in line with sectoral output changes, namely concentrated in only one or two sectors – in this case, water or sea transport. Other sectors would experience marginal changes. In Chile, for example, the various manufacturing sectors would be negatively impacted, with the services sectors gaining most from joining the TiSA. Other sectors that are projected to benefit in each respective country are shown in Table 4.

Table 4: Sectors in each case study country benefitting from joining the TiSA

<table>
<thead>
<tr>
<th>All case study countries</th>
<th>Sectors that experience the highest impact under both scenarios</th>
</tr>
</thead>
<tbody>
<tr>
<td>All countries</td>
<td>The TiSA has the highest impact on the marine sector</td>
</tr>
<tr>
<td>India</td>
<td>Dwellings, recreation and other services, communication, air transport, other transport, trade, construction, utilities, petroleum and chemicals sector, agriculture</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Dwellings, other business services, other transport, utilities</td>
</tr>
<tr>
<td>Chile</td>
<td>All services sectors, except air transport, and oil, gas, mining and quarrying</td>
</tr>
<tr>
<td>Lesotho</td>
<td>Dwellings, other business services, trade (i.e. wholesale and retail), utilities, some manufacturing sectors, agriculture</td>
</tr>
<tr>
<td>South Africa</td>
<td>Most services sectors (including dwellings, recreation and other services, business and financial services, and insurance), utilities, textiles, food and beverages, agriculture</td>
</tr>
<tr>
<td>Malawi</td>
<td>Air transport, trade, food and beverages, agriculture</td>
</tr>
</tbody>
</table>

In summary, if all the selected developing countries and LDCs participated in the TiSA:

- Aggregate GDP of all selected developing countries and LDCs that choose to participate is projected to increase by between 0.01 and 0.02 percentage points over the period 2017 to 2025.
- Investment is projected to rise, with gains ranging from 0.0004 to 0.035 percentage points across developing countries and LDCs, attributable largely to higher investment growth in the services sectors.
- A collective increase in welfare of US$ 1.5 billion (in Scenario B) is projected for all developing countries and LDCs.
- Taking into consideration the potential GDP, welfare and investment gains foregone, the total opportunity cost to developing countries and LDCs of not participating in the TiSA is a loss in additional GDP growth of approximately 0.01 percentage points; US$ 1.2 billion in terms of foregone welfare gains; and a loss of 0.004 percentage points in foregone investment growth over the period 2011 to 2025.
- Most of the economic gains would be driven by the reduction in the binding overhang.
- The TiSA would present net economic benefits to most countries that choose to participate, but there would be adjustment costs arising from increased competition and cross-sectoral obligations.
• For all developing countries and LDCs, most benefits would be concentrated in maritime transport, with most other services sectors experiencing limited growth.

2.1.2 Environmental Goods Agreement (EGA)

The EGA, which currently has 18 participants representing 46 WTO members (the 28 EU nations plus 18 individual MS), aims to eliminate tariffs on a diverse set of green technologies. Accordingly, the GTAP modelling exercise focused on the potential impact on selected developing countries and LDCs of joining the EGA. The model looked at both the removal of tariffs on EGs between EGA members and all other countries, as well as the reduction in non-tariff measures (NTMs) (by 50%). Two methods were applied to assess the future economic impact of the EGA, namely a partial equilibrium approach using the World Bank’s SMART model focusing on trade in the specific products liberalised by the EGA, and a CGE (i.e. the GTAP) model capturing the wider economic effects not covered by the former.

A detailed product level analysis using the PE (SMART) model found that after the elimination of tariffs on all EGA products, developing countries and LDCs (those specified in Table 1) joining the EGA would increase their environment goods imports by between 0% and 19% (or between US$ 0 and US$ 1.24 billion). The developing countries and LDCs that would gain the most from joining the EGA (ranked from highest to lowest in terms of increased exports) are India, Brazil, Algeria, Pakistan, Nigeria, Thailand, Mexico and Ethiopia. All developing countries and LDCs that choose to participate would benefit from joining, based on export and welfare gains, except Mauritius whose tariffs are already at zero. The gains would vary based on the relative size of the affected environmental goods in the countries’ export/import baskets. Analysis of the product level results for all developing countries and LDCs showed that increases in trade flows would be relatively concentrated in only a few EGs. Approximately 50% of export growth would be concentrated in only 31 HS6 lines.

This analysis, however, ignored indirect effects of this liberalisation. Since many of the products are inputs, direct and indirect, to other economic activities, the actual economic effect may be significantly underestimated. A CGE analysis using the GTAP model, which takes due account of these indirect effects, finds much stronger effects on trade.

Table 5 shows the projected impact for the different country groups of both joining (Scenario B) and not joining (Scenario A) the EGA. The GTAP modelling results demonstrated that full implementation of EGA commitments would have a clear positive benefit for developing countries and LDCs, but not necessarily for developed countries (mainly due to the relatively small share of EGs in the countries’ total GDP). Using only GDP, investment and welfare as our core measures, we find that for developing countries there are clear advantages from either joining (Scenario B) or not joining (Scenario A), with the exception of lower levels of investment and welfare for LDCs when not joining (Scenario A).

---

Table 5: Projected impact of the EGA on the economies of selected country groups based on GTAP

<table>
<thead>
<tr>
<th>GTAP Metrics (% point change from baseline growth)</th>
<th>LDCs</th>
<th>Developing</th>
<th>Developed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Don’t Join</td>
<td>Join</td>
<td>Don’t Join</td>
</tr>
<tr>
<td>Real GDP (%)</td>
<td>0.0917 ▲</td>
<td>0.3628 ▲</td>
<td>0.2567 ▲</td>
</tr>
<tr>
<td>Investment (%)</td>
<td>-0.2017 ▼</td>
<td>0.5520 ▲</td>
<td>0.3390 ▲</td>
</tr>
<tr>
<td>Equivalent Variation (Welfare) (US$ millions)</td>
<td>-43.7 ▼</td>
<td>448.7 ▲</td>
<td>9.904.4 ▲</td>
</tr>
<tr>
<td>Real national income (%)</td>
<td>0.2471 ▲</td>
<td>0.7442 ▲</td>
<td>0.6436 ▲</td>
</tr>
<tr>
<td>Value of imports (%)</td>
<td>0.0601 ▲</td>
<td>0.5499 ▲</td>
<td>0.2094 ▲</td>
</tr>
<tr>
<td>Volume of imports (%)</td>
<td>-0.1253 ▼</td>
<td>0.4336 ▲</td>
<td>0.1200 ▲</td>
</tr>
<tr>
<td>Value of exports (%)</td>
<td>0.4308 ▲</td>
<td>0.8038 ▲</td>
<td>0.3612 ▲</td>
</tr>
<tr>
<td>Volume of exports (%)</td>
<td>0.3302 ▲</td>
<td>0.5710 ▲</td>
<td>0.1504 ▲</td>
</tr>
<tr>
<td>Terms of trade (%)</td>
<td>-0.0718 ▼</td>
<td>0.1182 ▲</td>
<td>0.1152 ▲</td>
</tr>
<tr>
<td>Factor income (%)</td>
<td>0.2968 ▲</td>
<td>0.6566 ▲</td>
<td>0.7318 ▲</td>
</tr>
<tr>
<td>Output (%)</td>
<td>0.2824 ▲</td>
<td>0.1992 ▼</td>
<td>0.4318 ▲</td>
</tr>
<tr>
<td>Unskilled employment (%)</td>
<td>0.2461 ▲</td>
<td>-0.3036 ▼</td>
<td>0.0654 ▲</td>
</tr>
<tr>
<td>Skilled employment (%)</td>
<td>0.3275 ▲</td>
<td>-0.1933 ▼</td>
<td>0.0372 ▲</td>
</tr>
</tbody>
</table>

Source: GTAP modelling results

The GTAP results showed that the EGA is expected to have a positive impact on the economies of the group of developing countries and LDCs selected in Table 1, although the estimated impact is small, with Scenario A (not joining) suggesting an expansion of about 0.1 percentage points and Scenario B (joining) suggesting an increase of about 0.43 percentage points in aggregate GDP for these selected countries. The overall opportunity cost (calculated as the sum of all costs incurred and benefits foregone) to the selected developing countries and LDCs of not joining the EGA (i.e. difference between Scenarios A and B) is a loss in additional GDP growth of approximately 0.33 percentage points.

Most developing countries and LDCs would experience an increase in welfare when joining (Scenario B) the EGA, with only Nigeria, Algeria, Peru, the DRC, Botswana, Lesotho and other LDCs experiencing a negative welfare effect. Malawi, Mauritius, Laos, Tanzania, Colombia, South Africa, Brazil and Mexico would go from negative to positive welfare gains when joining the EGA, while only Costa Rica would become worse off when joining. In general, the simulation results showed that annual welfare is estimated to increase in most developing countries and LDCs and therefore, on the whole (and based on the share of EGs in these countries’ economies), becoming a participant in the EGA is judged to be welfare increasing. Increased investment in these countries is also expected when joining the EGA, with gains ranging from 0.23 to 6.67 percentage points across the group of

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82 The aggregates in Table 5 (i.e. LDCs, developing and developed) have been grouped according to the ‘Development Status’ of the countries/regions in the GTAP model. Given that the ‘Rest of the World’ aggregate consists of mostly developed countries, it has been included in the ‘Developed’ group.
developing countries and LDCs, assuming the elimination of tariffs on all EGs and a reduction in NTMs. The opportunity cost of not joining the EGA is a potential average increase in investment of 0.9 percentage points for all developing countries and LDCs choosing not to join.

The countries that are estimated to gain the most from joining the EGA are those for which EG sectors are relatively more important. More specifically, countries are expected to benefit from higher real national income increases if their EG sectors’ export share in GDP is greater. Results suggest that Singapore, Taiwan, South Korea, Malaysia and Thailand would gain the most from participating in the EGA. Singapore has the highest share of EG exports of GDP, followed by Taiwan, Malaysia, Thailand, South Korea and Switzerland. Singapore, Taiwan, South Korea and Thailand are in the top five countries that would experience an increase in real income relative to the base.

Table 6 summarises the results for the six case study countries. As before, if using only GDP, investment and welfare as our most important measures we find that all six countries would benefit in the most part from joining the EGA, with some additional gains estimated in terms of trade, production/output and skilled and unskilled employment for all case study countries except Lesotho and Malawi.

Table 6: Opportunity cost of joining vs. not joining (% point change from baseline growth)

<table>
<thead>
<tr>
<th>GTAP Metrics (% point change from baseline growth)</th>
<th>India</th>
<th>Bangladesh</th>
<th>Chile</th>
<th>Lesotho</th>
<th>South Africa</th>
<th>Malawi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP (%)</td>
<td>0.394</td>
<td>0.758</td>
<td>0.430</td>
<td>0.507</td>
<td>-0.130</td>
<td>-0.039</td>
</tr>
<tr>
<td>Investment (%)</td>
<td>1.704</td>
<td>3.029</td>
<td>1.569</td>
<td>1.926</td>
<td>-0.573</td>
<td>-0.226</td>
</tr>
<tr>
<td>EV (US$ millions)</td>
<td>18428</td>
<td>51003</td>
<td>1240</td>
<td>2212</td>
<td>-18.6</td>
<td>-1.1</td>
</tr>
<tr>
<td>Real national income (%)</td>
<td>1.519</td>
<td>1.559</td>
<td>0.777</td>
<td>0.940</td>
<td>0.094</td>
<td>0.118</td>
</tr>
<tr>
<td>Value of imports (%)</td>
<td>0.596</td>
<td>1.525</td>
<td>0.068</td>
<td>0.115</td>
<td>0.021</td>
<td>0.062</td>
</tr>
<tr>
<td>Volume of imports (%)</td>
<td>0.490</td>
<td>1.430</td>
<td>0.196</td>
<td>0.335</td>
<td>-0.002</td>
<td>-0.161</td>
</tr>
<tr>
<td>Value of exports (%)</td>
<td>-0.216</td>
<td>-0.325</td>
<td>-0.165</td>
<td>-0.236</td>
<td>0.946</td>
<td>0.622</td>
</tr>
<tr>
<td>Volume of exports (%)</td>
<td>-0.006</td>
<td>-1.112</td>
<td>-0.275</td>
<td>-0.644</td>
<td>0.096</td>
<td>0.193</td>
</tr>
<tr>
<td>Terms of trade (%)</td>
<td>-0.255</td>
<td>0.640</td>
<td>0.215</td>
<td>0.567</td>
<td>-0.612</td>
<td>0.182</td>
</tr>
<tr>
<td>Factor income (%)</td>
<td>1.947</td>
<td>1.769</td>
<td>0.770</td>
<td>0.960</td>
<td>0.619</td>
<td>0.228</td>
</tr>
<tr>
<td>Output (%)</td>
<td>-0.127</td>
<td>1.551</td>
<td>1.094</td>
<td>1.453</td>
<td>-0.351</td>
<td>-0.004</td>
</tr>
<tr>
<td>Unskilled employment (%)</td>
<td>-0.590</td>
<td>0.166</td>
<td>0.643</td>
<td>0.842</td>
<td>-0.163</td>
<td>-0.064</td>
</tr>
<tr>
<td>Skilled employment (%)</td>
<td>-0.100</td>
<td>1.704</td>
<td>0.868</td>
<td>1.239</td>
<td>-0.304</td>
<td>-0.127</td>
</tr>
</tbody>
</table>

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The sectors with the highest increase in output or production under both scenarios are summarised in Table 7.

Table 7: Sectors in each case study country benefitting from joining the EGA

<table>
<thead>
<tr>
<th>Case study countries</th>
<th>Sectors with the highest increase in output/production under both scenarios</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>Transport and communication, petroleum and coal products, metal products and retail trade services</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Public services, transport and communication, petroleum and coal products, chemicals, rubber and plastics, and retail trade</td>
</tr>
<tr>
<td>Chile</td>
<td>Wearing apparel and leather goods, paper products, publishing and printing, extractive sectors and petroleum, and coal products</td>
</tr>
<tr>
<td>Lesotho</td>
<td>Transport and communication, and agriculture</td>
</tr>
<tr>
<td>South Africa</td>
<td>Metal products, wearing apparel and leather goods, and public services</td>
</tr>
<tr>
<td>Malawi</td>
<td>Financial services, agriculture, and wearing apparel and leather goods</td>
</tr>
</tbody>
</table>

As many of these sectors are aggregates and contain some degree of EGs, they are also the sectors most affected by joining the EGA. Therefore, results for these sectors stem mostly from direct effects, but also from indirect effects. While the emphasis of this study is on direct economic effects of tariff elimination, the primary benefits for many countries may likely come from environmental effects. Investment in a cleaner environment carries economic benefits related to improved human health and to the environment which can far outweigh immediate costs.  

In summary, if the group of developing countries and LDCs selected in Table 1 participated in the EGA:

- Aggregate GDP of all developing countries and LDCs that participated is projected to increase by between 0.1 and 0.43 percentage points over the period 2017 to 2025.
- Investment is expected to rise, with gains ranging from 0.23 to 6.67 percentage points across developing countries and LDCs, attributable largely to higher investment growth in the EGs sectors.
- An increase in total welfare of US$ 2.9 billion (in Scenario B) is projected.
- Taking into consideration the potential GDP, welfare and investment gains foregone, the total opportunity cost to developing countries and LDCs of not participating in the EGA is a loss in additional GDP growth of approximately 0.33 percentage points; US$ 2.8 billion in terms of foregone welfare gains (the difference between Scenarios A and B); and a loss of 0.9 percentage points in foregone investment growth over the period 2011 to 2025.

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Most developing countries and LDCs would experience increased real spending on environmental goods and gains in economic benefits linked to improved environmental quality.

2.1.3 Government Procurement Agreement (GPA)

The size of procurement spending in most developed economies is set at double-digit percentage points of GDP.

Accordingly, the aim of the GTAP modelling was to analyse the impact of removing domestic preferences (or ‘home bias’) on the economies of selected developing countries and LDCs of joining the GPA. Home bias refers to a government showing a preference for local suppliers/service providers when engaging in procurement activities, thereby shielding them from foreign competition. For this purpose, we applied the newly created public procurement database and modelling extension of the GTAP model. The shock design of the modelling scenarios was based on studies by Kutlina-Dimitrova (201684; 201785) and Aguiar et al. (2015; 2016)86 and was calculated as the difference between private sector and government import penetration. See Annex A.1, 1.2 for more detail.

The results from the modelling suggested that Scenario B would lead to an increase in GDP for the participating developing countries and LDCs (as per Table 1) of 0.66%. The increase in GDP for these countries when not joining the GPA (Scenario A) would be about 0.14%. The overall opportunity cost to developing countries and LDCs of not joining the GPA would thus be a loss in additional GDP growth of approximately 0.52 percentage points.

The welfare impact for the specified developing countries and LDCs of joining the GPA would amount to almost US$ 56 billion, showing clearly that economic gains would stem from trade liberalisation of public procurement. These same countries would experience a US$ 1.6 billion increase in welfare when not joining the GPA (Scenario A), and the opportunity cost to these countries of not joining the GPA would therefore equate to US$ 54 billion in respect of foregone welfare gains.

Investment is also projected to increase over the baseline when joining the GPA, with gains ranging from 0.11% to 10.36% across countries, assuming a reduction in ‘home bias’. Investment is expected to increase most in Vietnam, followed by Cambodia, Malaysia, Thailand, Laos and Malawi. All developing countries and LDCs selected in Table 1, except for Nigeria, Botswana and the ‘other LDCs’ category, would experience an increase in investment when joining the GPA. The opportunity cost to Vietnam, for example, of not joining the GPA would be a potential increase in investment of 8.39 percentage points.

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Table 9 shows the projected impact on the different country groups of both joining (Scenario A) and not joining (Scenario B) the GPA. Using only GDP, investment and welfare as our core measures we find that all country groups (i.e. LDCs, developing and developed) would benefit from joining the GPA, with only developed countries losing out in respect of declining investment when joining (but gaining in other areas, such as employment, output and exports). For LDCs, there would be clear gains from joining the GPA, with the ‘developing countries’ group also mostly benefitting from participation.

Table 8: Projected impact of the GPA on the economies of selected country groups based on CGE model

<table>
<thead>
<tr>
<th>GTAP Metrics (% point change from baseline growth)</th>
<th>LDCs</th>
<th>Developing</th>
<th>Developed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GPA</td>
<td>GPA</td>
<td>GPA</td>
</tr>
<tr>
<td></td>
<td>Scenario A Don’t Join</td>
<td>Scenario B Join</td>
<td>Scenario A Don’t Join</td>
</tr>
<tr>
<td>Real GDP (%)</td>
<td>0.1296 ▲</td>
<td>0.6440 ▲</td>
<td>0.1693 ▲</td>
</tr>
<tr>
<td>Investment (%)</td>
<td>-0.1789 ▼</td>
<td>1.7563 ▲</td>
<td>0.7254 ▲</td>
</tr>
<tr>
<td>Equivalent Variation (Welfare) (US$ millions)</td>
<td>-39.8 ▼</td>
<td>164.7 ▲</td>
<td>600.6 ▲</td>
</tr>
<tr>
<td>Real national income (%)</td>
<td>-0.4275 ▼</td>
<td>1.0463 ▲</td>
<td>0.5858 ▲</td>
</tr>
<tr>
<td>Value of imports (%)</td>
<td>-0.5241 ▼</td>
<td>0.5857 ▲</td>
<td>0.2560 ▲</td>
</tr>
<tr>
<td>Volume of imports (%)</td>
<td>-0.2253 ▼</td>
<td>0.9787 ▲</td>
<td>0.5545 ▲</td>
</tr>
<tr>
<td>Value of exports (%)</td>
<td>-0.3609 ▼</td>
<td>-0.0095 ▲</td>
<td>-1.0099 ▼</td>
</tr>
<tr>
<td>Volume of exports (%)</td>
<td>0.1897 ▲</td>
<td>-0.1864 ▼</td>
<td>-0.1691 ▼</td>
</tr>
<tr>
<td>Terms of trade (%)</td>
<td>-0.2506 ▼</td>
<td>0.5705 ▲</td>
<td>0.3806 ▲</td>
</tr>
<tr>
<td>Factor income (%)</td>
<td>-0.4179 ▼</td>
<td>1.2541 ▲</td>
<td>0.7259 ▲</td>
</tr>
<tr>
<td>Output (%)</td>
<td>0.0114 ▲</td>
<td>-0.4192 ▼</td>
<td>-0.1317 ▼</td>
</tr>
<tr>
<td>Unskilled employment (%)</td>
<td>-0.0091 ▼</td>
<td>-0.2995 ▼</td>
<td>-0.1653 ▼</td>
</tr>
<tr>
<td>Skilled employment (%)</td>
<td>-0.0535 ▼</td>
<td>-0.5602 ▼</td>
<td>-0.2288 ▼</td>
</tr>
</tbody>
</table>

Source: GTAP modelling results

For many of the industries across the six case study countries, there would be a decrease in production output. The exceptions would be dwellings; government services; construction; petroleum, chemicals, rubber and plastics; motor vehicles; other manufacturing, transport and other services sectors. The decrease in production would be driven by the loss of domestic sales, particularly those originally destined for intermediate use subject to finite local procurement regimes, that is, sales that used to benefit from special procurement regimes created for a specific purpose. A detailed breakdown is shown in Table 9.

Table 9: Sectors in each case study country benefitting from joining the GPA

<table>
<thead>
<tr>
<th>Case study countries</th>
<th>Sectors with the highest increase in output/production under both scenarios</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>Petroleum, chemicals, rubber and plastics, as well as government services, dwellings</td>
</tr>
</tbody>
</table>

87 The aggregates in the above table (i.e. LDCs, developing and developed) have been grouped according to the ‘Development Status’ of the countries/regions in the GTAP model. Given that the ‘Rest of the World’ aggregate consists of mostly developed countries, it has been included in the ‘Developed’ group.
Table 10 summarises the results for the six case study countries. As before, if using only GDP, investment and welfare as our most important measures we find that all six countries would benefit from joining the GPA, with some additional gains estimated in respect of trade and factor income for all case study countries.

### Table 10: Opportunity cost of joining vs. not joining (% point change from baseline growth)

<table>
<thead>
<tr>
<th>GTAP Metrics ( % point change from baseline growth)</th>
<th>Bangladesh</th>
<th>Chile</th>
<th>Lesotho</th>
<th>South Africa</th>
<th>Malawi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario A</td>
<td>Don’t Join</td>
<td>Scenario B</td>
<td>Join</td>
<td>Scenario A</td>
<td>Don’t Join</td>
</tr>
<tr>
<td>Real GDP (%)</td>
<td>0.069</td>
<td>0.448</td>
<td>0.145</td>
<td>0.548</td>
<td>0.090</td>
</tr>
<tr>
<td>Investment (%)</td>
<td>-0.121</td>
<td>0.578</td>
<td>-0.237</td>
<td>2.133</td>
<td>-0.174</td>
</tr>
<tr>
<td>EV (US$ millions)</td>
<td>934.0</td>
<td>11508</td>
<td>75.0</td>
<td>1098</td>
<td>160.0</td>
</tr>
<tr>
<td>Real national income (%)</td>
<td>-0.395</td>
<td>0.947</td>
<td>-0.378</td>
<td>2.089</td>
<td>-0.283</td>
</tr>
<tr>
<td>Value of imports (%)</td>
<td>-0.561</td>
<td>0.859</td>
<td>-0.348</td>
<td>2.052</td>
<td>-0.453</td>
</tr>
<tr>
<td>Volume of imports (%)</td>
<td>-0.142</td>
<td>1.563</td>
<td>-0.141</td>
<td>2.522</td>
<td>-0.119</td>
</tr>
<tr>
<td>Value of exports (%)</td>
<td>-0.335</td>
<td>1.312</td>
<td>-0.078</td>
<td>0.464</td>
<td>-0.298</td>
</tr>
<tr>
<td>Volume of exports (%)</td>
<td>0.167</td>
<td>1.328</td>
<td>0.386</td>
<td>-0.431</td>
<td>0.111</td>
</tr>
<tr>
<td>Terms of trade (%)</td>
<td>-0.082</td>
<td>0.683</td>
<td>-0.255</td>
<td>1.365</td>
<td>-0.075</td>
</tr>
<tr>
<td>Factor income (%)</td>
<td>-0.373</td>
<td>1.073</td>
<td>-0.347</td>
<td>2.256</td>
<td>-0.266</td>
</tr>
<tr>
<td>Output (%)</td>
<td>-0.015</td>
<td>-0.372</td>
<td>-0.054</td>
<td>-1.124</td>
<td>-0.049</td>
</tr>
<tr>
<td>Unskilled employment (%)</td>
<td>-0.058</td>
<td>-0.547</td>
<td>-0.139</td>
<td>-1.029</td>
<td>-0.074</td>
</tr>
<tr>
<td>Skilled employment (%)</td>
<td>0.006</td>
<td>-0.399</td>
<td>-0.083</td>
<td>-0.735</td>
<td>-0.029</td>
</tr>
</tbody>
</table>

Source: GTAP modelling results
countries. Changes regarding terms of trade (the value of a country’s exports relative to that of its imports) are estimated to be relatively small for most countries, below 2%. In respect of total GPA parties’ exports, the cut in domestic preferences would lead to a modest increase of 2%.

In summary, if the group of developing countries and LDCs selected in Table 1 participated in the GPA:

- Aggregate GDP of all selected developing countries and LDCs is projected to increase by between 0.21% and 1.75% over the period 2017 to 2025.
- Investment is projected to rise, with gains ranging from 0.11% to 10.36% across all developing countries and LDCs, attributable largely to the decrease in home bias.
- An increase in welfare to US$ 56 billion (in Scenario B) is projected.
- Taking into consideration the potential GDP, welfare and investment gains foregone, the total opportunity cost of all selected developing countries and LDCs not participating in the GPA would be a loss in additional GDP growth of approximately 0.52 percentage points; US$ 54 billion in terms of foregone welfare gains (the difference between Scenarios A and B); and a loss of 2.11 percentage points in foregone investment growth over the period 2011 to 2025.
- Most of the economic gains would be driven by the reduction in home bias and resulting changes in government procurement-related or linked sectors.

2.1.4 Information Technology Agreement II (ITA-II)

The ITA expansion has 25 members (including the EU as one member) and cuts tariffs to zero on a list of 201 products. A large part of the tariff liberalisations occurs instantaneously upon entry into force, but for some sensitive products, tariff reductions are staged over a period of up to seven years.

A detailed product level analysis using a PE (SMART) model found that when selected developing countries and LDCs join the ITA-II, where only tariff lines without ex-outs are covered, these countries’ imports would increase by US$ 5.6 billion. Where ex-out lines are included, imports of the same set of joining countries would increase to US$ 7.7 billion. Two scenarios were modelled: an upper and a lower bound scenario. The latter contains only those lines under Attachment A that do not have ex-outs. The upper bound scenario includes a rough estimation of the value of trade under Attachment B and also includes ex-outs.

This analysis, however, ignores indirect effects of this liberalisation. Since many of the products are inputs (direct and indirect) to other economic activities, the true economic effect may have been significantly underestimated. The GTAP model, which takes due account of these indirect effects,

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88 ITA-II covers specific products listed in two separate attachments, A and B. All the trade under Attachment B and a part of the trade under Attachment A cannot be perfectly measured in terms of the World Customs Organization HS tariff classification system (which uses chapters [two-digit product codes], headings [four-digit product codes] or subheadings [six-digit product codes]). In Attachment A, such product codes are called ex-outs which means that not all the trade covered under an HS6 code will be liberalised under the ITA-II, while for Attachment B there is no standard mapping of specific products to the HS classification across all ITA-II participants, i.e. each country has its own national product codes. Including all the HS6 product codes that cover trade subject to the ITA-II provides an upper bound scenario of the value of liberalised trade, while the product codes under Attachment A that are not subject to ex-outs provide a lower bound scenario. (See also section 1.5.4.)
found many modest effects on trade. When comparing the results for all developing countries and LDCs of the GTAP model to the PE (SMART) model, we find that total exports of goods and services would increase by 5.9% for the lower bound scenario and by 6.3% for the upper bound scenario based on the PE (SMART) model results, while the GTAP model results show an average increase of 3.3% for the lower bound scenario and an average increase of 3.6% for the upper bound scenario.

For all developing countries and LDCs, and based on the PE (SMART) model results, tariff net revenue losses arising from the liberalisation of all ITA-II products would amount to US$ 1.09 billion for the lower bound scenario (i.e. Attachment A without ex-outs) and US$ 1.37 billion for the upper bound scenario (i.e. including all ex-outs and an estimate of the value of the goods under Attachment B).

Many products covered by the agreement must be classified as inputs into other production processes. Therefore, part of the tariff reductions, even if they were unilateral, will work as a direct cost reduction for producers as opposed to a cost reduction only benefitting consumers. The PE (SMART) model, which does not distinguish between intermediate and final products, ignores these effects. For that reason, an analysis of the CGE (GTAP) model has been performed.

Table 11 shows the projected impact on the different country groups of both joining (Scenario B) and not joining (Scenario A) the ITA-II. The GTAP modelling results demonstrated that full implementation of ITA-II commitments would have a clearly positive benefit for developing countries and LDCs, but not necessarily for developed countries as most of the benefits would have accrued under the first ITA. Using GDP, investment, welfare and real income as our core measures we find that, for LDCs and developing countries, there would be clear advantages from either joining (Scenario B) or not joining (Scenario A), with greater benefits accruing to these countries when joining the ITA-II.

<table>
<thead>
<tr>
<th>GTAP Metrics (%) point change from baseline growth</th>
<th>LDCs</th>
<th>Developing</th>
<th>Developed^89</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ITA-II</td>
<td>ITA-II</td>
<td>ITA-II</td>
</tr>
<tr>
<td>Scenario A Don’t Join</td>
<td>Scenario B Join</td>
<td>Scenario A Don’t Join</td>
<td>Scenario B Join</td>
</tr>
<tr>
<td>Real GDP (%)</td>
<td>0.0043 ▲</td>
<td>0.0060 ▲</td>
<td>0.0039 ▲</td>
</tr>
<tr>
<td>Investment (%)</td>
<td>0.0126 ▲</td>
<td>0.0202 ▲</td>
<td>0.0258 ▲</td>
</tr>
<tr>
<td>Equivalent Variation (Welfare) (US$ millions)</td>
<td>15.2 ▲</td>
<td>16.6 ▲</td>
<td>135.7 ▲</td>
</tr>
<tr>
<td>Real national income (%)</td>
<td>0.0081 ▲</td>
<td>0.0107 ▲</td>
<td>0.0069 ▲</td>
</tr>
<tr>
<td>Value of imports (%)</td>
<td>0.0145 ▲</td>
<td>0.0172 ▲</td>
<td>0.0098 ▲</td>
</tr>
<tr>
<td>Volume of imports (%)</td>
<td>0.0077 ▲</td>
<td>0.0112 ▲</td>
<td>0.0106 ▲</td>
</tr>
<tr>
<td>Value of exports (%)</td>
<td>0.0159 ▲</td>
<td>0.0161 ▲</td>
<td>0.0029 ▲</td>
</tr>
<tr>
<td>Volume of exports (%)</td>
<td>0.0030 ▲</td>
<td>0.0030 ▼</td>
<td>-0.0045 ▼</td>
</tr>
</tbody>
</table>

^89 The aggregates in Table 11 (i.e. LDCs, developing and developed) have been grouped according to the ‘Development Status’ of the countries/regions in the GTAP model. Given that the ‘Rest of the World’ aggregate consists of mostly developed countries, it has been included in the ‘Developed’ group.
As discussed in relation to the PE (SMART) model results, whether the impact of joining the ITA-II is positive or negative for each country depends on whether the additional gains that result from joining outweigh the costs in terms of forgone revenue, growth, employment, etc. The total gains in aggregate GDP across all developing countries and LDCs from joining the ITA-II would be between -0.005 and 0.052 percentage points for the lower bound scenarios and between -0.005 and 0.053 percentage points for the upper bound scenarios. Scenario B would result in a marginally higher GDP and income increase, due to more countries eliminating tariffs on IT products when participating in the ITA-II. There would be a marginal difference between the lower and upper bound scenarios regarding GDP growth, with a definite improvement in GDP growth for most countries when joining the ITA-II. The overall opportunity cost of not joining the ITA-II, using both the lower and upper bound results, would be a loss in additional GDP growth of approximately 0.001 percentage points. Therefore, on average, there would be little to gain in terms of GDP growth for developing countries and LDCs from joining the ITA-II. There are, however, individual countries that would benefit from joining.

The total welfare gains (as measured by EV) across all developing countries and LDCs from not joining the ITA-II would be US$ 163 million, and for joining, US$ 213 million, both for the upper bound scenario. For the lower bound scenarios, these same countries would experience a loss of US$ 175 million when not joining and a loss of US$ 161 million when joining the ITA-II. The opportunity cost to these countries of not joining the ITA-II equates to US$ 13.5 million for the lower bound and US$ 49.8 million for the upper bound scenario in terms of foregone welfare gains. This is significantly lower than the US$ 315 million for the lower bound and US$ 441 million for the upper limit estimated using the SMART model.

Investment is also projected to increase over the baseline when joining the ITA-II, with the highest gains observed being between 0.23 and 0.33 percentage points for the lower and upper bound respectively when not joining, and between 0.26 and 0.38 percentage points for the lower and upper bound scenarios respectively when joining, assuming a removal of tariffs on ITA-II-related products by 2025. Investment is expected to increase most in Thailand, followed by Cambodia, Tunisia, Malaysia, Mexico and Ghana. All countries, except for Algeria, Nigeria, Ethiopia, Mauritius, Chile and Colombia would experience an increase in investment when joining the ITA-II for the upper bound scenarios. The opportunity cost, for example, for Lesotho of not joining the ITA-II would be a potential increase in investment of 0.03 percentage points using the upper bound scenario.

Note that percentage point changes in GDP here are measured as changes in the quantities produced in a given economy. In other words, the model uses base period values as weights to produce a measure of change in aggregate output. In this sense, GDP changes simply measure the percentage point change in aggregate quantities.

Opportunity cost of not joining = Costs incurred + Benefits foregone.
Table 12 summarises the results for the six case study countries. As before, if using only GDP, investment and welfare as our most important measures we find that four of the six countries, i.e. India, Chile, South Africa and Malawi, would benefit the most part from joining the ITA-II, with some additional gains estimated across some of the other measures.

Table 12: Opportunity cost of joining vs. not joining (% point change from baseline growth)

<table>
<thead>
<tr>
<th>GTAP Metrics</th>
<th>India</th>
<th>Bangladesh</th>
<th>Chile</th>
<th>Lesotho</th>
<th>South Africa</th>
<th>Malawi</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ITA-II Don't Join</td>
<td>ITA-II Join</td>
<td>ITA-II Don't Join</td>
<td>ITA-II Join</td>
<td>ITA-II Don't Join</td>
<td>ITA-II Join</td>
</tr>
<tr>
<td>Real GDP (%)</td>
<td>0.001</td>
<td>0.005</td>
<td>0.002</td>
<td>0.002</td>
<td>-0.001</td>
<td>-0.001</td>
</tr>
<tr>
<td>Investment (%)</td>
<td>-0.022</td>
<td>-0.005</td>
<td>-0.005</td>
<td>-0.001</td>
<td>-0.027</td>
<td>-0.028</td>
</tr>
<tr>
<td>EV (US$ millions)</td>
<td>-333.3</td>
<td>-174.0</td>
<td>-2.4</td>
<td>-2.9</td>
<td>52.6</td>
<td>57.6</td>
</tr>
<tr>
<td>Real national income (%)</td>
<td>0.004</td>
<td>0.007</td>
<td>-0.006</td>
<td>-0.006</td>
<td>0.000</td>
<td>0.001</td>
</tr>
<tr>
<td>Value of imports (%)</td>
<td>-0.018</td>
<td>-0.010</td>
<td>0.007</td>
<td>0.008</td>
<td>0.001</td>
<td>0.002</td>
</tr>
<tr>
<td>Volume of imports (%)</td>
<td>-0.019</td>
<td>-0.008</td>
<td>0.000</td>
<td>0.001</td>
<td>-0.009</td>
<td>-0.009</td>
</tr>
<tr>
<td>Value of exports (%)</td>
<td>-0.048</td>
<td>-0.056</td>
<td>0.006</td>
<td>0.006</td>
<td>0.029</td>
<td>0.030</td>
</tr>
<tr>
<td>Volume of exports (%)</td>
<td>-0.057</td>
<td>-0.067</td>
<td>0.011</td>
<td>0.010</td>
<td>0.002</td>
<td>0.001</td>
</tr>
<tr>
<td>Terms of trade (%)</td>
<td>0.006</td>
<td>0.010</td>
<td>-0.010</td>
<td>-0.011</td>
<td>0.015</td>
<td>0.017</td>
</tr>
<tr>
<td>Factor income (%)</td>
<td>0.004</td>
<td>0.003</td>
<td>-0.007</td>
<td>-0.008</td>
<td>0.004</td>
<td>0.006</td>
</tr>
<tr>
<td>Output (%)</td>
<td>-0.801</td>
<td>-2.821</td>
<td>-0.404</td>
<td>-0.801</td>
<td>-2.821</td>
<td>-0.404</td>
</tr>
<tr>
<td>Unskilled employment (%)</td>
<td>-1.758</td>
<td>-2.858</td>
<td>-0.479</td>
<td>-1.758</td>
<td>-2.858</td>
<td>-0.479</td>
</tr>
<tr>
<td>Skilled employment (%)</td>
<td>2.158</td>
<td>1.940</td>
<td>2.997</td>
<td>2.158</td>
<td>1.940</td>
<td>2.997</td>
</tr>
</tbody>
</table>

Source: GTAP modelling results

The sectors benefitting by case study country are listed in Table 13. Many of the variations in the non-IT-related sectors stem from indirect effects and value chain effects.

Table 13: Sectors in each case study country benefitting from joining the ITA-II

<table>
<thead>
<tr>
<th>All case study countries</th>
<th>Sectors that experience the highest impact under both scenarios</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>IT sectors of motor vehicles and parts, transport equipment not elsewhere classified (n.e.c.)</td>
</tr>
</tbody>
</table>
and machinery and equipment n.e.c., but also gains in other services

<table>
<thead>
<tr>
<th>Country</th>
<th>IT sectors of transport equipment n.e.c. and machinery and equipment n.e.c., with additional gains in the primary sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>IT sector, chemical, rubber and plastic products, but much larger gains in textiles, wearing apparel and leather, financial services, public services, other services and in the primary sectors</td>
</tr>
<tr>
<td>Chile</td>
<td>IT sectors of electronic equipment and metal products, but also in wood products and some of the services sectors</td>
</tr>
<tr>
<td>Lesotho</td>
<td>IT sectors of other manufactures and metal products, as well as in mining/extraction (which use these IT sectors’ products as inputs in production)</td>
</tr>
<tr>
<td>South Africa</td>
<td>IT sectors of transport equipment n.e.c. and machinery and equipment n.e.c., and also in the petroleum and coal products sector</td>
</tr>
</tbody>
</table>

Source: GTAP modelling results

In summary, if the group of developing countries and LDCs selected in Table 1 participated in the ITA-II:

- Aggregate GDP of all selected developing countries and LDCs that choose to participate in the ITA-II is projected to increase by between 0.002 and 0.005 percentage points over the period 2017 to 2025.
- Investment is projected to rise, with gains ranging from 0.01 to 0.03 percentage points across developing countries and LDCs, attributable largely to higher investment growth in the IT-related sectors.
- An increase in the welfare of US$ 213 million (in Scenario B for the upper bound) is projected using GTAP and US$ 441 million for the upper bound estimated using the SMART model.
- Taking into consideration the potential GDP, welfare and investment gains foregone, the total opportunity cost for developing countries and LDCs of not participating in the ITA-II would be a loss in additional GDP growth of approximately 0.001 percentage points for both the lower and upper bound scenarios; US$ 13 million for the lower bound and US$ 50 million for the upper bound scenario in terms of foregone welfare gains (this is significantly lower than the US$ 315 million for the lower bound and US$ 441 million for the upper bound estimated using the SMART model); and a loss of 0.06 percentage points for the lower bound and 0.1 percentage points for the upper bound scenario in foregone investment growth over the period 2011 to 2025.

2.2 Recommendations Flowing from the GTAP Analysis

We have considered the potential effects on the economies of the selected developing countries and LDCs as indicated in Table 1 of not joining (Scenario A) and joining (Scenario B) the various PTAs. The results showed that these countries, in general, would be better off when joining the various PTAs, i.e. the direct benefits in Scenario B would be greater than the spillover benefits in Scenario A. The magnitude of the benefits accruing to each country would depend on the relative importance of the specific sector(s) to each country’s economy. Also, developing countries and LDCs were found to
benefit from higher real national income, GDP and employment increases, amongst others, if the relevant sectors’ exports share in GDP is higher.

However, ironically, the GTAP results for the case study countries in many instances also showed that the sectors which one would expect would automatically benefit from joining a specific PTA, e.g. information technology goods for the ITA-II, services for the TiSA, environmental goods for the EGA, etc., are small and show little competitive advantage. This is also the case in many other LDCs and developing countries.

Nonetheless, based on the analyses conducted, the results indicated that joining the various PTAs would hold positive net benefits for developing countries and LDCs (even though the potential gains would often be small). This means that the gains, in terms of broader or economy-wide benefits, accruing to these countries would outweigh the negatives, which would include, for example, a loss of revenue following the elimination of tariffs on products in the case of the ITA-II and the EGA, the lowering of ‘home bias’ (which benefits local industries) in the case of the GPA, and the elimination of the binding overhang (which affords protection to some smaller countries) in the case of the TiSA.

Moreover, the effect of taking part in any plurilateral will depend on each country’s capacity to move labour and capital into those industries targeted by each plurilateral, so as to take advantage of new opportunities. If the labour market is not sufficiently flexible, it is possible that wages in these sectors (e.g. the IT product sectors in the case of the ITA-II, or EG sectors in the case of the EGA) would increase without a significant increase in employment.

In such instances, policy makers offering added ‘assistance’ or facilitation in areas such as education and training and other complementary measures which would support the flexibility of workers, including assistance (or facilitation) in implementing appropriate social welfare systems, may maximise potential benefits and mitigate potential costs. This could contribute to positive employment effects.

The analysis also showed that the overall effects could be positive, due to lower input prices for specific sectors relevant to each PTA (e.g. electronics in the case of the ITA-II), which would increase competitiveness and thus the output, employment and investment in areas that use these cheaper inputs as intermediate goods in a relatively intensive way.

Providing facilitation services and/or offering developing country and LDC policy makers insights into the benefits of joining global value chains (GVCs) may also help to increase benefits. Specifically, GVCs present opportunities for many small and medium-sized enterprises (SMEs) to participate in globally dispersed production processes, despite their modest size. They allow firms to focus on a fairly narrow area of production and to expand beyond the small domestic market in which they are located and to access a broader international market through specialisation, cost reduction and value addition.

Examples of measures that could help to drive the realisation of potential benefits and mitigate potential costs include:
• Upskilling programmes to increase the supply of highly skilled workers to support the shift towards higher-tech manufacturing and R&D, and which are also needed to support higher upstream investments;
• More efficient and integrated infrastructure to facilitate higher export volumes;
• Capacity-building measures to raise the competitiveness of small and medium-sized firms;
• Measures to support the capabilities of domestic firms, which could involve industry consolidation; and
• Measures to enhance export-oriented capabilities, encourage innovation and review government procurement frameworks, etc.

Becoming a participant in a PTA may be a natural progression for many LDCs and developing countries, enabling them to move, from whatever level they are currently at, to a higher stage of production of a relevant product or service. This could be further supported if, for example, advice, facilitation services and/or assistance are provided in the following areas:

• Education and training (particularly of the vocational and technical varieties) which would help the labour force to acquire the right skill sets;
• Trade facilitation capacity building.

2.3 Findings from the Country Case Studies and Policy Briefs
As explained above, details of the country case studies can be found in the Annexes. Most of the case study countries do not currently participate in any of the plurilateral trade agreements, apart from Chile which participates in the TiSA. The reasons are varied and nuanced and range from a lack of knowledge and capacity to invest in negotiations that are perceived to hold only limited benefits, to ideological opposition to the direction the PTAs are taking and the impact on the WTO DDR.

2.3.1 Key Message from Bangladesh
The GTAP analysis showed only moderate benefits for Bangladesh from joining both the TiSA and the EGA. The largest opportunity lies in the GPA while almost no benefits would accrue from joining the ITA-II.

Table 14: Opportunity cost of Bangladesh joining vs. not joining (% point change from baseline growth)

<table>
<thead>
<tr>
<th>GTAP Metrics (% point change from baseline growth)</th>
<th>Bangladesh</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TiSA</td>
</tr>
<tr>
<td>Don't Join</td>
<td>Join</td>
</tr>
<tr>
<td>Real GDP (%) 0.001 ▲ 0.003 ▲ 0.430 ▲ 0.507 ▲ 0.145 ▲ 0.548 ▲ 0.002 ▲ 0.002 ▲</td>
<td></td>
</tr>
<tr>
<td>Investment (%) 0.003 ▲ 0.004 ▲ 1.569 ▲ 1.926 ▲ -0.237 ▼ 2.133 ▲ -0.005 ▼ -0.001 ▲</td>
<td></td>
</tr>
<tr>
<td>EV (US$ millions) 6.9 ▲ 16.2 ▲ 1240 ▲ 2212 ▲ 75.0 ▲ 1098 ▲ -2.4 ▼ -2.9 ▼</td>
<td></td>
</tr>
<tr>
<td>Real national income (%) 0.005 ▲ 0.024 ▲ 0.777 ▲ 0.940 ▲ -0.378 ▼ 2.089 ▲ -0.006 ▼ -0.006 ▼</td>
<td></td>
</tr>
<tr>
<td>Value of imports (%) 0.011 ▲ 0.016 ▲ 0.068 ▲ 0.115 ▲ -0.348 ▼ 2.052 ▲ 0.007 ▲ 0.008 ▲</td>
<td></td>
</tr>
<tr>
<td>Volume of imports (%) 0.027 ▲ 0.038 ▲ 0.196 ▲ 0.335 ▲ -0.141 ▼ 2.522 ▲ 0.000 ▼ 0.001 ▲</td>
<td></td>
</tr>
<tr>
<td>Value of exports (%) 0.016 ▲ 0.024 ▲ -0.165 ▼ -0.236 ▼ -0.078 ▼ 0.464 ▲ 0.006 ▲ 0.006 ▼</td>
<td></td>
</tr>
<tr>
<td>Volume of exports (%) 0.018 ▲ 0.013 ▼ -0.275 ▼ -0.644 ▼ 0.386 ▲ -0.431 ▼ 0.011 ▲ 0.010 ▼</td>
<td></td>
</tr>
</tbody>
</table>
Without strong external guidance and influence (e.g. from the WTO and international development organisations), it is unlikely that Bangladesh will join any of the four plurilateral trade negotiations – at least for the foreseeable future while it still enjoys LDC status. This would hold true for most LDCs which currently benefit from SDT in many foreign markets, resulting in little incentive to negotiate reciprocal agreements. There are indications, however, that the Bangladesh government is becoming increasingly aware of the plurilaterals as they receive more exposure in the media and at global and regional forums. A stumbling block to Bangladesh joining the PTAs is a lack of knowledge and capacity to engage effectively with more developed nations. Also, Bangladeshi officials who were interviewed expressed the view that the plurilaterals are largely developed country initiatives that hold little benefit for LDCs at present. There are also fears that engaging too generously in the plurilaterals could result in LDCs and developing countries losing their leverage to negotiate some of the long outstanding developing country issues that have been caught up in the DDR impasse.

Bangladesh’s impending graduation out of LDC status could complicate its position at the WTO and within the PTAs and would weaken any commitment to participate as all available capacity would be directed towards repositioning the country as a middle-income country.

What may improve the chances of Bangladesh getting involved in plurilaterals, like the TiSA and/or the EGA, is the influence of the private sector. Growing pressure from the private sector in the country could focus the government’s attention on the risks of marginalisation if the country does not engage more fully with the plurilateral process. If the government and private sector collaborate more closely, with external assistance where necessary, they may be able to formulate a negotiation position that strives for workable economic solutions for the country. Government and business leaders in Bangladesh need to exercise strong oversight to ensure greater transparency, integrity and accountability in public-private sector dealings.92

While the government and private sector differed in their views about the value of the plurilaterals, with the private sector expecting more benefits than their government, they were more or less in agreement about the conditions under which Bangladesh may consider joining one or more of the

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92 Various papers and reports by academia and prominent organisations have reported on corruption in Bangladesh, and during the country visit this was raised numerous times by various role players (both private sector representatives and government. For instance, The Global Competitiveness Report 2015–16 of the World Economic Forum (WEF) shows that the number one most problematic factor for doing business in Bangladesh is corruption. Transparency International’s 2016 Corruption Perceptions Index ranks Bangladesh 145th out of the 176 countries and territories assessed, with a score of 26 out of 100, with 0 being highly corrupt and 100 being very clean. Corruption in business and government is of particular importance and already a barrier to trade. According to the International Trade Administration (ITA) of the U.S. Department of Commerce (2016), the public procurement process in Bangladesh is “often highly contentious and widely perceived as subject to manipulation. Delays, reversals and retendering are quite common.”
negotiations, either in the short or long term. The first is that the plurilateral in question would need to eventually be multilateralised within the WTO system so that the principles of inclusiveness, transparency and flexibility (e.g. in terms of transition time and compliance with rules of origin) would be upheld. In this regard, the country would be looking for the negotiations/agreement to be built on existing WTO obligations (e.g. GATS, Trade-Related Aspects of Intellectual Property Rights (TRIPS)); for any country to be allowed to join, with clear and straightforward accession and participation rules; and for SDT to be afforded to participants in acknowledgement of their varying levels of development. Another important condition would be that Bangladesh receives technical assistance and capacity-building support to help it deal with the higher levels of competition and to tackle its many supply-side shortcomings.

2.3.2 Key Message from Chile

The GTAP results for Chile showed only modest gains from joining the four plurilateral agreements with some potential negative impacts from joining the GPA.

Table 15: Opportunity cost of Chile joining vs. not joining (% point change from baseline growth)

<table>
<thead>
<tr>
<th>GTAP Metrics (% point change from baseline growth)</th>
<th>Chile</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EGA</td>
</tr>
<tr>
<td>Real GDP (%)</td>
<td>Don’t join</td>
</tr>
<tr>
<td>Investment (%)</td>
<td>0.008 ▲</td>
</tr>
<tr>
<td>EV (US$ millions)</td>
<td>0.003 ▲</td>
</tr>
<tr>
<td>Real national income (%)</td>
<td>0.052 ▲</td>
</tr>
<tr>
<td>Value of imports (%)</td>
<td>0.046 ▲</td>
</tr>
<tr>
<td>Value of exports (%)</td>
<td>0.056 ▲</td>
</tr>
<tr>
<td>Value of exports (%)</td>
<td>0.064 ▲</td>
</tr>
<tr>
<td>Terms of trade (%)</td>
<td>0.031 ▲</td>
</tr>
<tr>
<td>Factor income (%)</td>
<td>0.041 ▲</td>
</tr>
<tr>
<td>Output (%)</td>
<td>0.056 ▲</td>
</tr>
<tr>
<td>Unskilled employment (%)</td>
<td>0.015 ▲</td>
</tr>
<tr>
<td>Skilled employment (%)</td>
<td>0.017 ▲</td>
</tr>
</tbody>
</table>

Source: GTAP modelling results

The DDR deadlock on trade in agricultural goods has been a source of tension for Chile and many other developing countries.\(^{93}\) Although broadly supportive of the multilateral trade agenda (with Chile having offered to help other developing countries build technical expertise within their WTO

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\(^{93}\) Interview with ECLAC representative, 3 April 2017.
negotiating teams\textsuperscript{94}, these countries have begun pursuing bilateralism and FTAs as a way of achieving gains in terms of development – as evidenced in the growing number of mega-regionals and FTAs in recent years.

There was broad consensus amongst Chilean government officials that the largest hurdle facing developing countries in their efforts to expand their international trade is no longer tariffs but rather NTBs which impede access into developed markets. Consequently, the fact that the plurilateral negotiations are predominantly concerned with tariff reductions means that they are at odds with the need to address NTBs in the international trading system.

At a regional level (notably within the various regional economic communities (RECs)), there is, however, a lack of convergence amongst Latin American countries on issues that affect them.\textsuperscript{95} Unlike African countries, for example, Latin American countries do not have a history of voting together on issues simply because they share common problems or because they come from the same region. This has impacted Chile’s expressed views on multilateralism. As some interviewees noted, Chile and Mexico cannot always be seen as pushing the international agenda regionally, especially when there are still many countries that remain sceptical of multilateralism. Chile therefore needs to strike a balance between engaging with the broader international community and operating in a way that does not create friction or threaten existing economic and trade partnerships in the region. As a result, Chile has walked a fine line between advocating greater transparency and more liberal trade, on the one hand, and maintaining cordial and collaborative relations with its neighbours, on the other.

Few regional discussions take place on issues that are typically debated before the staging of large multilateral forums, and at times there appears to be little appetite for reaching consensus on important topics.\textsuperscript{96} The only exception to this has been the preparation for the WTO’s 11\textsuperscript{th} Ministerial Conference scheduled to take place in Buenos Aires in December 2017, which has prompted the Argentine government to invite neighbouring countries to work together in formulating common positions.\textsuperscript{97}

The Chilean case study showed that simply because issues are not progressing at a multilateral level it does not mean that things are not happening in other forums or that developing countries are poor prospects for PTAs. Countries will participate in negotiations and forums that best represent their key interests. This explains Chile’s participation in the TiSA negotiations and the Trans-Pacific Partnership (TPP). Similarly, boosting its agricultural trade is important for Chile. To this end the country is currently engaged in plurilateral negotiations with the EU, Japan and Switzerland aimed at achieving harmonisation and equivalence in traded organic products.\textsuperscript{98} There is a possibility that the exercise could develop into a formal plurilateral agreement if there is an appetite for more wide-ranging discussions. As an advocate of South-South Cooperation (SSC), Chile is also engaging in

\begin{itemize}
\item \textsuperscript{94} Ibid
\item \textsuperscript{95} Interview with IEI representatives, 5 April 2017.
\item \textsuperscript{96} Interview with ODEPA official, 4 April 2017.
\item \textsuperscript{97} Ibid. Unfortunately, this is a shared problem amongst developing countries across the globe. Therefore, in the absence of acknowledged shared concerns and a willingness to collaborate at an international level, developing countries face the additional hurdle of being unable to contest the way in which issues are raised and are negotiated, particularly as they might choose to pursue agendas based on their domestic interests alone.
\item \textsuperscript{98} Interview with ODEPA official, 4 April 2017.
\end{itemize}
EGS trade with a wide range of countries (including some in Africa) that stand to benefit from such trade.\(^9\)

According to certain government officials, **Chile’s non-participation in the three plurilaterals** (the GPA, the EGA and the ITA-II) **goes beyond vague, official rhetoric. It has much to do with a desire to leverage the respective negotiations to gain concessions in areas of economic importance to Chile.**\(^10\) For example, Chile’s vision for the country’s development could potentially include expansion into the trade in IT services or environmental services, but IT goods and EGs are produced by developed countries. As such, the plurilateral negotiations reflect the interests of developed countries, which are the biggest beneficiaries of these negotiations moving forward.

### 2.3.3 Key Message from Malawi

The GTAP results for Malawi showed only modest gains from joining the four plurilateral agreements with some potentially better impacts from joining the GPA.

**Table 16: Opportunity cost of Malawi joining vs. not joining (% point change from baseline growth)**

<table>
<thead>
<tr>
<th>GTAP Metrics (% point change from baseline growth)</th>
<th>Malawi</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TISA</td>
<td>EGA</td>
</tr>
<tr>
<td></td>
<td>Don’t Join</td>
<td>Join</td>
</tr>
<tr>
<td>Real GDP (%)</td>
<td>0.000 ▼</td>
<td>0.002 ▲</td>
</tr>
<tr>
<td>Investment (%)</td>
<td>0.006 ▲</td>
<td>0.008 ▲</td>
</tr>
<tr>
<td>EV (US$ millions)</td>
<td>0.0 ▼</td>
<td>0.1 ▲</td>
</tr>
<tr>
<td>Real national income (%)</td>
<td>0.000 ▲</td>
<td>0.008 ▲</td>
</tr>
<tr>
<td>Value of imports (%)</td>
<td>-0.003 ▼</td>
<td>0.000 ▲</td>
</tr>
<tr>
<td>Volume of imports (%)</td>
<td>0.001 ▲</td>
<td>0.002 ▲</td>
</tr>
<tr>
<td>Value of exports (%)</td>
<td>-0.005 ▼</td>
<td>-0.002 ▲</td>
</tr>
<tr>
<td>Volume of exports (%)</td>
<td>0.001 ▲</td>
<td>0.001 ▲</td>
</tr>
<tr>
<td>Terms of trade (%)</td>
<td>-0.001 ▼</td>
<td>-0.001 ▲</td>
</tr>
<tr>
<td>Factor income (%)</td>
<td>0.001 ▲</td>
<td>0.008 ▲</td>
</tr>
<tr>
<td>Output (%)</td>
<td>-0.009 ▼</td>
<td>-0.013 ▼</td>
</tr>
<tr>
<td>Unskilled employment (%)</td>
<td>-0.011 ▼</td>
<td>-0.017 ▼</td>
</tr>
<tr>
<td>Skilled employment (%)</td>
<td>-0.009 ▼</td>
<td>-0.012 ▼</td>
</tr>
</tbody>
</table>

**Source: GTAP modelling results**

It is unlikely that Malawi (or any other LDCs) will be part of any of the plurilateral trade negotiations in the near future. Although there is a case for Malawi to get involved in the negotiations, government officials and the private sector have limited awareness of the plurilaterals and their potential benefits. Some Malawi officials, especially within the Ministry of Industry, Trade and Tourism (MITT), believe that the negotiations seem to focus only on the interests and agenda

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\(^9\) Interview with Ministry of Environment official, 3 April 2017.

\(^10\) Interview with IEI representatives, 5 April 2017; see also interview with ODEPA official, 4 April 2017.
of the developed countries which have deliberately not involved developing countries or LDCs. Similarly, the overall consensus by officials interviewed is that LDCs have succumbed to pressure to sign agreements that hold no benefit for them: “in most cases the LDCs have little to offer and end up being exploited”. It is therefore crucial that such sentiments be quantified to ensure evidence-based policy making.

The Malawian government’s focus is mostly on creating a conducive environment for boosting industrialisation and enhancing the productive base as well as engaging in regional negotiations, which the government believes are already straining the country’s limited human and financial resources. As such, there is a lack of awareness and capacity to participate in the plurilateral negotiations. A general lack of financial support, understanding and technical expertise all limit the country’s proactive engagement in plurilaterals as scarce resources are allocated to other perceived priority areas.

In order to create a conversation on plurilaterals at the national level, Malawi needs to first understand the potential costs and benefits of the plurilaterals to the economy under both short- and long-term scenarios. To achieve this Malawi will require:

(i) Effective and sustainable technical and financial support with capacity building for negotiators and an implementation plan, as well as ongoing, tailor-made capacity-building programmes. With the constant movement and attrition of public sector officials these programmes need to be institutionalised and effectively funded for the long term.

(ii) Support in creating alliances with developing countries and other LDCs, particularly in the context of the WTO African Group. This will help Malawi to become part of the rule-making process and to follow the developments in the WTO, which will help to ensure that the WTO remains relevant for the country.

Development partners can play a vital role in supporting awareness campaigns, providing technical assistance and capacity building to Malawi and other LDCs, thereby enabling them to understand the costs and benefits of joining the plurilateral negotiations. Support for the public-private sector national dialogue on trade policy is also critical.

Plurilaterals should not only focus on tariff reductions but should be expansive enough to address the issue of NTBs, which Malawi faces when trying to access developed country markets. While most LDCs already enjoy preferential market access in developed countries in the form of reduced tariffs, addressing NTBs would make a significant, positive impact on the quest to integrate LDCs into global markets.

2.3.4 Insights from the Policy Briefs
The authors of the policy briefs were tasked with giving a political economy analysis of the reasons why their specific countries were or were not engaged in plurilateral negotiations. This was done in

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order to augment the quantitative analysis of the GTAP model but without delving too deeply into the economic analysis as in the three case study countries outlined above. The full policy briefs are found in the Annexes.

All three policy briefs caution against a piecemeal approach to trade liberalisation, which plurilateral agreements represent, making them increasingly unattractive to LDCs. For example, considering that EG trade is generally discussed under the WTO’s NAMA pillar, the EGA is effectively chipping away at the traditional approach to conducting negotiations and forging consensus. If, however, the negotiations on industrial goods at a multilateral level gather steam, participants in the EGA and other plurilateral agreements involving industrial goods could be the new standard setters as it is unlikely that they would be willing to ‘negotiate down’ on their commitments secured under plurilateral arrangements in order to make them more palatable to the wider and more heterogeneous WTO membership. A number of WTO members clearly prefer a negotiation approach that results in benefits being afforded to specific countries without the need to accommodate ‘free riders’. The LDC group, whose collective share of international trade is less than 2%, would find it difficult to meaningfully contribute to such negotiations at this stage as they lack the necessary productive and negotiation capacity to do. Hence they risk being left behind.

If the plurilateral agreements are fully implemented within the WTO system, they would represent a new approach to advancing trade liberalisation and a new way of shaping trade agreements. Of course, the risk of a bi-polar trading system emerging would remain, particularly if some of the major emerging economies opt not to participate in these new-look initiatives. But plurilateral agreements offer scope for countries with narrow sectoral strengths to influence global trade policy in a way that could give their promising sectors a leg up – provided they concentrate on tackling their entrenched institutional and infrastructural weaknesses at a domestic level while also streamlining their policy and regulatory processes.

2.3.4.1 South Africa

The overall take-away message from South Africa is that the government is wary of participating in processes that may end up curtailing its policy space. There is a general perception within government that South Africa’s economy was negatively affected by broad-based liberalisation in the wake of its WTO accession, which has left the country wary of more concessions and commitments at an international level.

For the South African government, a loss of policy space is an overriding concern, particularly when it comes to implementing policies that address the current levels of socio-economic inequalities present in the country. It is especially in the realms of government procurement, where a very large proportion of government spending takes place, that there is a desire to maintain the status quo with respect to policy objectives that have little to do with international trade.

South Africa’s participation in the plurilateral agreements is contingent upon the country being able to ensure that its own efforts to industrialise are not undermined. South Africa’s fears should therefore be allayed in the plurilateral if the country is to participate. It is important to note that in many instances South Africa assumes agency on behalf of African countries and the global South. The country’s participation could therefore lead to more African countries engaging in plurilateral agreements, which is an important consideration in the face of South Africa’s role as a political and economic leader on the continent. The GTAP modelling reflected the following results. The focus on skilled and
unskilled labour here is intentional as this is arguably of highest policy concern to the South African government:

(i) For the TiSA, the results showed that both output and employment of unskilled and skilled labour would be only marginally affected, with most changes concentrated in the services industries and, in particular, in sea transport (this is, however, not at the expense of many manufacturing jobs where the impact is shown to be almost negligible);

(ii) For the EGA, the results showed that both skilled and unskilled labour would benefit more when joining the EGA, with most of these gains concentrated in the metal products, and wearing apparel and leather products sectors;

(iii) For the GPA, the results showed that in some sectors both skilled and unskilled labour would benefit, whereas in others (especially in the primary and mostly manufacturing sectors) both would lose out;

(iv) For the ITA-II, results showed that both skilled and unskilled labour would benefit either by joining or not joining the agreement.

2.3.4.2 Lesotho

Lesotho is a very small country and relies heavily on South Africa not only for all of its imports, exports and part of its national income, but also to some extent for policy direction in international forums. This may be the case for a large number of LDCs which look towards their neighbours or other ideological leaders for direction on issues that are perceived as highly technical, with very little economic benefit to them personally. The GTAP results for Lesotho showed only some moderate positive potential impacts from joining the EGA and the GPA, but provisions within the GPA to take LDC status and context into consideration do not give enough assurance that signing up to the GPA would result in clear, differentiated treatment for LDCs; nor is it clear that LDCs would really benefit.

From Lesotho’s perspective, each of the four plurilateral trade agreements needs to be considered on its own merits and juxtaposed against the country’s development priorities and shortcomings, bearing in mind that Lesotho is unable to take any unilateral decisions or action on trade in goods as it is constrained by its membership of SACU and its obligations under other regional trade arrangements, like SADC. South Africa, as the regional powerhouse within SACU, is not restrained by such concerns.

The GTAP modelling produced the following results for Lesotho:

(i) The GTAP model shows very small impacts for Lesotho, both from joining and not joining the PTAs.

(ii) Lesotho could gain from participating in the GPA: according to simulations, exports would increase by 1.03% while imports would increase by a more moderate 0.6%.

(iii) According to the GTAP simulations, Lesotho shows no significant gain or loss from joining or not joining TiSA.  

2.3.4.3 India

India has a long history of having a closed economy and is only now starting to engage more broadly via preferential and comprehensive trade agreements. Both South Africa and Lesotho were negatively impacted by large-scale tariff liberalisations in the wake of their accession to the WTO, whereas India seemed to manage the process much better, albeit at a very slow pace. Participation in plurilaterals would have mixed results for India, with India’s ability to participate in such negotiations being hindered to some extent by its domestic policies and approaches towards multilateral negotiations.

Even after joining the WTO, India did not seriously entertain the idea of negotiating preferential trade agreements. Instead, the country has traditionally focused on issues arising from the phase-out of domestic quotas and market barriers, such as transitional safeguard measures or antidumping actions. Moreover, like many other developing countries, India’s defensive interests lie mainly in the agricultural sector and the country has often followed a protectionist path in agricultural negotiations. Given that agriculture has become a general stumbling block in the DDA and India’s concerns in particular are perceived to have hampered negotiations, it comes as no surprise that India is not participating in the PTAs as the country’s chief interest are tied up in the WTO negotiations.

In order to enhance its participation in plurilaterals, India would have to remove existing restrictions in a number of sectors and introduce regulatory harmonisation in several areas that are currently unregulated. This is something that India, like other developing countries, is still working towards. For example, one would expect India (as the world’s sixth largest commercial services exporter) to be involved in the TiSA negotiations and to benefit from such involvement. However, the situation is more complicated than that. Despite India’s immense strength in various categories of services, the lack of regulatory regimes and poor coordination between various regulatory and professional agencies have ensured that India is not reaping the benefits of its competitive strength. Moreover, many provisions of the TiSA, such as ratchet provisions, standstill and MFN-forward, may not be suitable for a country like India, which is in the early stages of developing disciplines and regulatory frameworks for some of the commercial services. It would therefore appear that India’s level of development might not yet be at a stage where one would see real gains from the country participating in the plurilateral negotiations.

The GTAP modelling produced the following results for India:

(iv) India ranks at the top in terms of countries that would gain the most from joining the EGA. Specifically, imports could increase if India joined the EGA as opposed to not joining, whereas exports could decline if the country joined the EGA. Projections show that India would experience a positive net effect on revenue by joining the EGA. The new trade flows that would be created as a result of joining are greater than the loss in revenue from the elimination of tariffs on environmental goods. Real wages are also expected to grow under the EGA by 2.1%, and both skilled and unskilled labour would enjoy greater benefits from joining the EGA.

India could gain from participating in the GPA: according to simulations, exports would increase by 1.31% while imports would increase by a more moderate 0.86%. India could also see substantial increases in imports of textiles, food and beverages, and grains and crops by joining the GPA.

According to the GTAP simulations, India is projected to enjoy a moderate aggregate net welfare gain from joining the TiSA. Sectors projected to benefit include communication, air transport, construction, agriculture, and the petroleum and chemicals sector. Skilled labour would also benefit from India joining the TiSA, with some gains concentrated in the manufacturing sectors.

As with trade in services, India should technically be very interested in participating in the ITA-II because of its competitive IT sector. However, the country maintains an applied tariff of 8% on products covered under the ITA-II and is projected to enjoy only a moderate improvement in its aggregate net welfare by joining the ITA-II. Imports are likely to decline from not joining to joining and exports are likely to make significant gains from joining to not joining, while both the manufacturing and construction sectors are likely to see the greatest gains from India’s participation in the ITA-II. Lastly, only skilled labour is likely to gain in the event of India not joining the ITA-II, whereas both skilled and unskilled labour could benefit if India opted to join.

2.4 Overall Insights and Recommendations

2.4.1 Insights

In researching PTAs and their impact on developing countries and LDCs, the team arrived at some important insights on the current PTA landscape where very few developing countries and LDCs participate in the PTA negotiations.

1. The agenda shaping for plurilateral negotiations has happened largely without developing country and LDC participation resulting in developed countries tailoring the contents of the agreements to suit their interests. Developing countries and LDCs now fear having to give up their policy space to adopt agendas set without them and without due attention being given to their interests. This has created the impression that (i) developed countries are not really interested in including developing countries and LDCs in multilateral initiatives from the outset and (ii) developed countries might not be interested in equal partnerships and approach negotiations in a manner that can be detrimental to developing countries. Misunderstandings, therefore, together with different approaches to negotiations and different rankings of important issues, have resulted in developed and developing countries approaching negotiations from fundamentally different vantage points. PTAs have been initiated and are progressing despite reservations being expressed by a number of developing countries regarding the content, scope and direction of these negotiations. Furthermore, LDCs stand outside of the PTA negotiations.

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107 Interview with ODEPA official, 4 April 2017; see also interview with MFA official B, 5 April 2017.
108 Interview with MFA official B, 5 April 2017.
2. The stagnation of the DDR in relation to non-agricultural market access (NAMA) and agricultural goods is an issue of prime concern among developing countries and LDCs alike.\(^{109}\) From a mercantilist perspective, because there has been little progress on agricultural issues at the WTO, some countries might feel that engaging in plurilaterals and opening their markets to sectors that they have no real interest in is unfair. They have chosen not to participate in the negotiations because their interests are not being met.\(^{110}\) The fact that many developed economies continue to provide their farmers with subsidies remains a source of contention amongst developing countries, particularly since agriculture often provides their natural competitive advantage.\(^{111}\) For most LDC officials interviewed during this project, addressing LDC concerns within NAMA is critical for unlocking the entire DDR. Goodwill gestures to continuously work on non-tariff barriers (NTBs) rather than just special and differential treatment (SDT) will also strengthen relationships between the developed and developing world. Seeing as the plurilaterals were born out of the DDR impasse, LDC and developing country participation seems unlikely as they are still holding out hope that the DDR will deliver on their international trade ambitions.

3. **Commitments and measures taken within many developing countries are tied to domestic political cycles.** As such, one of the key difficulties that developing countries face is the ability to implement long-standing national and international policies that are carried through by different political parties.\(^{112}\) This is another contributory factor pointing to why developing countries’ participation in and commitment to multilateral efforts can change under different domestic political regimes, making advancement at an international level that much more difficult.

4. **SDT is insufficient in helping developing countries further their participation at a multilateral level,**\(^{113}\) and sometimes there can be a lack of understanding from developed country peers as to the exact kinds of constraints developing countries face on these fronts.\(^{114}\) It would be useful if developing countries could be provided with longer tariff phase-out provisions for both developing countries that have already joined or those that may consider joining in future.\(^{115}\) There is also the additional problem that SDT can be insufficient to address many of the NTBs that developing countries face. NTBs are the key area of concern for developing countries and LDCs. Consequently, the fact that the plurilateral negotiations are predominantly concerned with tariff reduction also places them at odds with the need to address NTBs present in the international trading system.

### 2.4.2 Recommendations

The report makes seven recommendations based on the findings. A golden thread throughout these recommendations is the need to increase research on the implications for developing countries and to improve communication with and outreach efforts to developing countries and LDCs on the PTAs.

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\(^{109}\) Interview with DIRECON officials, 4 April 2017.

\(^{110}\) Interview with ECLAC representative, 3 April 2017.

\(^{111}\) Interview with Ministry of Environment official, 3 April 2017.

\(^{112}\) Ibid

\(^{113}\) Interview with MFA official A, 6 April 2017.

\(^{114}\) Interview with MFA official B, 5 April 2017.

\(^{115}\) M. Wu, op cit
The provision of focused technical assistance and capacity building aimed at government ministries as well as the private sector will also promote greater understanding and participation.

1. **There should be open and regular dialogue between developed and developing countries and LDCs on PTAs, while progress within the DDR should be promoted.** This should be informed by evidence-based research. Building relationships through regular contact will go a long way towards opening doors to future developing country and LDC participation in PTAs. Moreover, research programmes on multilateralism and the position of LDCs in this context need to be expanded in LDCs and some developing countries.

2. **Developed nations should provide technical and financial assistance specifically focused on the PTAs and how they fit into other multilateral processes and negotiations.** This will provide LDCs and developing countries with the capacity to make informed decisions about their participation in plurilateral negotiations and how this may affect the DDR outcomes.

3. **Development partners should also direct their technical assistance at strengthening the private sector’s engagement with government ministries so that their views are effectively considered, internal learning can take place and a common position can be formulated.**

4. **The WTO’s Aid for Trade programmes should develop mechanisms whereby Ministries of Trade and private sector representative bodies receive regular updates from Geneva via outreach visits or official communication on developments within the PTAs.**

5. **Hosting regular side events to PTA negotiations to disseminate information to developing countries and LDCs, and maintaining an open invitation for LDCs and developing countries to give input on their specific concerns and interests, could act as continuous reminders to participating countries that although LDCs and developing countries are not participating at present, their specific interests should still be considered in the negotiations.**

6. **Ultimately, developed countries should reach a point where they include developing country and LDC positions on the negotiating agenda.** This would be a strong signal that LDC and developing countries concerns and interests are catered for within the PTAs and that they are not only the purview of developed economies. It is important to understand developing countries’ and LDCs’ aspirations and concerns (e.g. the need for inclusiveness, policy space and flexibility) so that the agreements’ scope and modus operandi can – if necessary – be made more accommodating and appealing.

7. **Due consideration needs to be given to provisions within the PTAs that outline their future and how non-signatories will be accommodated if necessary and how PTAs may be multilateralised.** In designing support programmes, development partners need to take potential accession negotiations into account and what the capacity gaps may be if individual developing countries and LDCs take such negotiations on board. These programmes could focus on the following:

   - The accession procedures for the different agreements;
• Future offers/schedules of concessions for tariff reductions/commitments and the implementation of the different plurilaterals;

• The various commitments/obligations of some of the agreements themselves (for instance, the revised GPA clearly sets out that, “no later than three years after the entry into force of the revised GPA and periodically thereafter, the parties shall undertake further negotiations to reduce and eliminate discriminatory measures progressively and to achieve the greatest possible extension of the coverage”); and

• The need for clarity on whether positive or negative list approaches would be taken or whether project approaches would be taken\(^\text{116}\). (For example, in the EGA, developing countries have always opposed the list approach and favoured the project approach. This will influence how they view/approach these agreements.)

\(^{116}\) Under a positive list approach, the list of commitments comprises a national schedule and contains all of the commitments, set out by sector, which a party to a trade agreement has chosen to include. Under a negative list approach, the list that is found in annexes to a trade agreement and that contains all of the measures that do not conform to the core disciplines of the relevant chapters and that governments choose to maintain.
Annexes

A.1 Methodology
The research presented in this report is based on a mixed methodology, namely a quantitative and a qualitative approach.

1.1 Qualitative Analysis
The qualitative analysis focused on a literature review and interviews with a broad spectrum of stakeholders in the six countries included in this study (India, Bangladesh, Chile, Lesotho, South Africa and Malawi). During field trips, the researchers targeted government officials, academia, research organisations, development partners and other institutions. In Geneva, the diplomatic representatives of the six countries were consulted as well as officials at the WTO itself. A broad questionnaire was designed to ensure that the same topics were covered across the six countries and in Geneva. The researchers were probing for:

- Evidence of the costs and benefits of plurilateral agreements;
- Developing country sentiments towards plurilateral agreements (e.g. are they in favour of such agreements?);
- Evident challenges in engaging with multilateral and plurilateral agreements;
- Developing country experiences in engaging with plurilateral processes;
- Whether any institutional constraints within the WTO prevent developing countries’ participation in plurilateral agreements, e.g. lack of access or exclusivity; and
- How plurilateral agreements may be adapted to ensure that poorer developing countries can participate effectively.

1.2 Quantitative Analysis
The quantitative component is the evidence base of this research as it provides objective evidence of the costs and benefits of plurilateral agreements. The quantitative analysis also informed the questions posed by the researchers during their field work.

The analytical framework used for the analysis is the Global Trade Analysis Project (GTAP) model, which is a global multi-region and multi-sector computable general equilibrium (CGE) trade model that has been widely used in regional economic analysis. The model provided an ideal framework for this study. The latest release of the GTAP database (i.e. GTAP-9), features 2004, 2007 and 2011 reference years as well as 140 regions for all 57 GTAP commodities, thereby providing a detailed and consistent representation of the global economy-wide structure of production, demand and international trade at a regionally and sectorally disaggregated level. It also combines comprehensive bilateral trade and protection data reflecting economic linkages among regions with individual country input-output data, which account for inter-sectoral linkages within regions.

A CGE model starts from an assumed equilibrium state in the economy. By introducing policy changes, this equilibrium is distorted, and the different actors in the economy respond to the shifts

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117 See, for example, https://www.gtap.agecon.purdue.edu/databases/v9/default.asp for more detail on the model and database.
in a particular way until the economy eventually returns to a new equilibrium state. By analysing the difference in the initial equilibrium state of the economy and the new equilibrium state, we gain insight into the impact of policy changes (for example, a tariff change).

The CGE approach allows a consistent, integrated predictive evaluation of sectoral production and employment impacts, aggregate income and welfare effects of changes in trade barriers, while taking full account of the macroeconomic repercussions arising, for example, from terms-of-trade effects, tariff revenue changes and inter-sectoral input-output linkages. CGE models also take account of economy-wide resource constraints such as limited productive capital, skilled labour and land, and adhere to all macroeconomic consistency constraints which require, for example, that the balance of aggregate imports and exports matches a country’s net capital inflows, or that aggregate investment matches total savings.\textsuperscript{118}

1.3 Caveats of the CGE Model

A model is a simplified approach to describing an economy. As such, the CGE model has limitations\textsuperscript{119}, of which some include:

- **CGE models are not unconditional predictions:** CGE simulations project what the world would be like if certain policy changes are implemented. Like any model, there will be changes in circumstances in the real world that cannot be predicted by the model.

- **CGE models are essentially theoretical models of the economy:** While CGE models are quantitative, they are not empirical in the sense of econometric modelling. They are theoretical models, with limited possibilities for testing against experience.

- **The model is built more for analysis of merchandise trade than investment or services:** There is no explicit treatment of barriers to services trade or non-tariff measures (NTMs) and TBTs.

- **Assumptions required for non-tariff measures:** NTMs are defined as all non-price and non-quantity restrictions on trade in goods, services and investment. NTMs are difficult to quantify; typically, they are estimated in ad valorem equivalent (AVE) terms. This and the other PTA reports follow Kawasaki (2014)\textsuperscript{120} for data on the AVEs of NTMs.

- **Model sensitivity:** Sensitivity tests of the results to different baselines are conducted. In general, for each of the plurilateral agreements, countries not participating in the various PTAs and most of the smaller participating economies have higher growth rates in the base case. While this could be the most plausible view of the world in future, it is essential to test the robustness of our results to the baseline assumption; for this purpose, we consider two alternative worldviews. The first one entails assuming a faster growing set of economies in the various PTA partners, while the second one involves assuming faster growing non-participating PTA countries. Since we found the results to be broadly in line with the ones shown in this study, we do not indicate them herein.


• **Assumptions about market structure:** The GTAP model assumes constant returns to scale and competitive markets for all sectors.

• **The model does not account for location decisions:** The model does not consider the possible relocation of firms across countries, as the Armington assumption models imperfect substitution between varieties of different origin rather than location decisions.

All these observations imply that the results of this analysis must be combined with a detailed qualitative analysis of each plurilateral agreement to give an accurate account of what could happen in reality. For these reasons, in-depth case studies were conducted on Bangladesh, Chile and Malawi to test the GTAP outcomes and to probe more deeply for political economy reasons that inhibit or push countries towards participation in PTAs.

### 1.4 Scenarios

For all four of the PTAs, two general experiments or scenarios were modelled:

- The first (Scenario A) involved binding each PTA’s specific requirements (i.e. applying the relevant shocks) across all current member states that are party to the negotiations of that PTA.
- The second (Scenario B) involved an expansion of each PTA to cover more ‘developing’ or ‘low-income’ countries – the countries selected to be representative of LDCs are listed in Table A 1.

Such an approach helped to identify both the direct (i.e. those countries included in Experiment B through direct participation in a PTA) and indirect or spill-over benefits (i.e. those excluded in Experiment A) to the selected ‘developing’ or ‘low-income’ countries.

**Table A 1: Countries selected for inclusion in ‘Experiment B’**

<table>
<thead>
<tr>
<th>Selected Developing and Least-Developed Countries (LCDs)</th>
<th>Selected Developing and Least-Developed Countries (LCDs)</th>
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</thead>
<tbody>
<tr>
<td>Algeria (Rest of North Africa: Algeria + Libya + Western Sahara)*</td>
<td>India</td>
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<tr>
<td>Bangladesh</td>
<td>Kenya</td>
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<tr>
<td>Botswana</td>
<td>Laos</td>
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<tr>
<td>Brazil</td>
<td>Lesotho (Rest of SACU: Lesotho + Swaziland)*</td>
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<tr>
<td>Cambodia</td>
<td>Malawi</td>
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<tr>
<td>Chile</td>
<td>Malaysia</td>
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<td>Colombia</td>
<td>Mauritius</td>
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<tr>
<td>Costa Rica</td>
<td>Mexico</td>
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<tr>
<td>DRC (South Central Africa: Angola + the DRO)*</td>
<td>Myanmar (Rest of South-East Asia: Myanmar + Timor-Leste)*</td>
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<tr>
<td>Ethiopia</td>
<td>Nigeria</td>
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<td>Ghana</td>
<td>Pakistan</td>
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*Note: * These countries are only available as part of regional groupings in the GTAP-9 database. The Southern African Customs Union (SACU) countries comprise South Africa, Botswana, Lesotho, Namibia and Swaziland.
The analysis was dynamic, i.e. the economies were projected to 2025 (this year was chosen given that trade forecast data is available for most countries until 2025 from the International Monetary Fund’s (IMF) World Economic Outlook database\(^1\)).

To facilitate the discussions surrounding participation by ‘developing’ or ‘low-income’ countries in PTA negotiations, it was necessary to consider trade-offs. For example, what are countries potentially missing out on in terms of foregone economic, social and welfare gains by not participating in PTAs? The modelling showed that the economic outcomes of the various PTAs for each developing country and LDC hinge crucially on the countries’ existing economic structure and make-up. The results also indicated that the aggregate welfare effects are less pronounced, while structural and distributional impacts are relatively significant.

The modelling exercise provided results, based on various metrics/indicators in the model, on the following broad categories:

- **Macroeconomic effects**: Impact on GDP, household income and wages, trade flows, employment, factor price effects, commodity and service prices, government revenue, consumption, aggregate welfare (real absorption), etc. In the GTAP model, welfare is based on the equivalent variation (EV). EV measures what a consumer would be willing to be compensated to forego the policy change (for example, by not joining a particular PTA). More technically, EV is the difference between the expenditure required to obtain the post-simulation level (e.g. Chile joins the TiSA) of utility at initial prices (e.g. Chile does not accede to the TiSA).
- **Effects on third countries**: The model showed the impact on those countries not participating in the various PTA negotiations.
- **Sectoral effects**: Insight was gained on the expected changes in sectoral growth, employment, wages, output, prices, etc.
- **Social impact**: This can be measured indirectly through changes in economic indicators (changes in wages, sectoral employment [i.e. reallocation of employment], production patterns, consumption, prices, etc.).

1.5 Specific Modelling Approach for each PTA

1.5.1 Trade in Services Agreement (TiSA)

To assess the impact of the TiSA, it is important to start by identifying current services-related measures that affect trade. Two recent sources of data on services policy can be used, i.e. the Organisation for Economic Co-operation and Development’s (OECD) services trade restrictiveness index (STRI) for 40 countries, and a similar index of the World Bank for 103 countries.\(^2\) Both STRIs provide valuable information linking regulation (inherently qualitative) to quantitative market access measures. In both cases, regulatory data is used to assign scores indicating relative degrees of openness. This may include, for example, ownership share restrictions when establishing an affiliate

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\(^2\) Further documentation and the underlying regulatory data are available online: [http://data.worldbank.org/data-catalog/services-trade-restrictions](http://data.worldbank.org/data-catalog/services-trade-restrictions). The OECD data and background documentation are also available online: [http://www.oecd.org/tad/services-trade/services-trade-restrictiveness-index.htm](http://www.oecd.org/tad/services-trade/services-trade-restrictiveness-index.htm).
operation, or limits on the right to provide professional services based on nationality. In the case of the World Bank data, such scoring of regulatory measures is then classified based on modes of services supplies as in the GATS. These scores are then combined to yield STRIs by mode of services supply, and then also overall.\(^{123}\) The OECD indices, on the other hand, are not organised strictly by modes of services supply. Rather, they are grouped by the nature of restrictions: foreign direct investment (FDI) restrictions, mobility of persons restrictions, other discriminatory measures, barriers to competition and regulatory transparency. While the emphasis of the World Bank database is on market access (i.e. discriminatory measures), the OECD data includes not only measures that are discriminatory, but also measures that impact on the performance of domestic and foreign firms alike.\(^{124}\)

In addition to scoring the level of market access commitments in the GATS, the World Bank has produced a separate breakdown of applied policies vs. GATS commitments for the 103 countries in the database\(^{125}\) (which the OECD does not provide). On the basis of the World Bank data, the scope of current GATS commitments and market access in services can be determined and summarised for defining the specific TiSA simulations using GTAP. The trade cost estimates are based on the regulatory survey data used to produce the World Bank index data.

A second important aspect of the TiSA is the pattern of market access commitments in services. From the World Bank data it is clear that, with few exceptions, GATS commitments (the guarantees provided regarding market access) are far less liberal than actual policy. This gap between bound commitments and actual market access is known as the binding overhang. The gap between bound commitments and actual policy can be a source of uncertainty, as governments are free to cut back on market access up to the binding overhang without violating GATS commitments. The TiSA is expected to bind further currently applied policies.

We therefore needed to understand the trade effects relating to policy uncertainty arising from the binding overhang, or the gap between bound commitments and actual applied policy. The binding overhang has been a well-documented challenge to the WTO system for both goods and services (Blackhurst et al., 1996\(^{126}\); Francois & Martin, 2004\(^{127}\); Hoekman, 1996\(^{128}\); Francois & Hoekman, 2010\(^{129}\)). In the case of services, there is a substantial gap in commitments made both in the GATS and in regional agreements compared to actual policy.


\(^{125}\) See footnote 123.


There are good reasons to expect that policy uncertainty may itself suppress general macroeconomic conditions, including levels of trade. With higher uncertainty, there are increased costs for business due to increased risks. Hence greater uncertainty will most likely lead to lower levels of investment trade flows. These gaps are important for most countries and induce risk since the applied rate can eventually go up to the bound rates.

For the purpose of assessing the TiSA, we focused on defining experiments where the GATS commitments are replaced by commitments at current levels of market access, i.e. where the gap between the GATS commitments and actual current market access is closed for the TiSA members by making new binding commitments at current access levels. This means there is no expected change in current market access, but there will be a change in the security afforded by market access. Additional effects from improvements in the regulatory framework as a result of the TiSA were only taken into account as they contribute to binding market access, as it is hard to quantify these gains.

Lastly, modelling the impact on services trade is, however, not as simple as in the case of goods trade. One major shortcoming is a lack of data. With this in mind, the modelling of the TiSA did not include services trade through mode 3 (commercial presence) and mode 4 (movement of natural persons). Instead, we used the overall STRI of the World Bank for our analysis, which covers both modes 3 and 4. The modelling and analysis thus linked overall restrictions (in all modes) with cross-border trade.

1.5.2 Environmental Goods Agreement (EGA)

The EGA aims to eliminate tariffs on a diverse set of green technologies – from air pollution controls and clean and renewable energy, to energy efficiency technology, water treatment technologies and high-end recycling technologies. Accordingly, to understand the potential impacts that tariff elimination due to participation in the EGA can have on the participants’ economies and the environment, a first step was to determine the share of environmental goods content (if any) of each of the 57 GTAP commodities. This was required to ensure that all tariffs and non-tariff barriers (NTBs) that relate to the specific share of environmental goods (i.e. the trade-weighted tariffs on environmental goods) were removed for each of the relevant sectors.

The Asia-Pacific Economic Community (APEC) list of environmental goods paved the way for the launch of plurilateral negotiations in 2014 towards a WTO EGA as part of the multilateral efforts to promote green growth and sustainable development. Based on the product detail of the APEC list of environmental goods, we used concordance tables between the HS and the GTAP-9 classifications to identify those GTAP sectors that would be affected by the EGA.

Green goods (or environmental services) as part of the EGA include products that contribute to environmental and/or climate protection and mainly affect air, land and waste quality, but also contribute to an increase in energy efficiency and research and development of renewable energy, such as solar, hydro and wind. For this purpose, we used the GTAP-E database, an energy-environmental version of the GTAP model. In the GTAP model, a scenario was considered where the

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specified countries reduce tariffs on their bilateral imports of environmental goods to zero. An example of the environmental goods in the GTAP-9 database is shown in Table A.2.

Table A.2: Example environmental goods to GTAP-9 database mapping

<table>
<thead>
<tr>
<th>Product HS code</th>
<th>Description</th>
<th>Environmental goods (EG) category</th>
<th>GTAP-9 database sector</th>
<th>Based on EG list</th>
</tr>
</thead>
<tbody>
<tr>
<td>5801.90</td>
<td>Woven pile and chenille fabrics of other textile materials</td>
<td>Waste water management: Sewage treatment</td>
<td>Textiles (27)</td>
<td>OECD</td>
</tr>
<tr>
<td>8541.40</td>
<td>Photosensitive semiconductor devices, incl. solar cells</td>
<td>Renewable energy: Solar energy</td>
<td>Electrical machinery/electronic equipment (40)</td>
<td>OECD, APEC</td>
</tr>
<tr>
<td>8502.31</td>
<td>Wind-powered electric generating sets</td>
<td>Renewable energy: Wind energy</td>
<td>Other machinery/machinery and equipment n.e.c. (41)</td>
<td>APEC</td>
</tr>
<tr>
<td>8404.10</td>
<td>Auxiliary plant for use with boilers (for example, soot removers)</td>
<td>Air pollution control</td>
<td>Metals and metal products (35-37)</td>
<td>APEC</td>
</tr>
<tr>
<td>3914.00</td>
<td>Ion exchangers/chloride</td>
<td>Water supply: Potable water supply and distribution</td>
<td>Chemicals 1 chemicals, rubber, plastic (33)</td>
<td>OECD</td>
</tr>
<tr>
<td>8539.31</td>
<td>Fluorescent lamps</td>
<td>Cleaner technologies and products: Heat1 energy savings and management</td>
<td>Other machinery/machinery and equipment n.e.c. (41)</td>
<td>OECD</td>
</tr>
</tbody>
</table>

Sources: R. Steenblik (2005); GTAP-9 database sector classification

The changes in the tariff rates, calculated from World Integrated Trade Solution (WITS) data and taking into consideration the respective weights of the environmental goods in the GTAP-9 database sectors, were introduced as shocks in the GTAP model.

1.5.3 Government Procurement Agreement (GPA)

Public procurement is gaining importance on the trade negotiation agenda, both under the aegis of the WTO and at the bilateral level in various preferential trade agreements. These trends reflect the economic importance of public procurement markets in terms of GDP and trade flows, as well as the fact that to date a relatively small proportion of these markets has been committed internationally, both at the bilateral and multilateral level. In GDP terms worldwide, the size of government procurement expenditures as measured in the most recent GTAP-9 database amounts to between 10% and 25% of GDP.

Regarding the impetus from trade policy measures, the potential of committing public procurement markets is deemed important in an environment where tariffs are globally already at a very low level. In this context, liberalisation efforts at the multilateral level led to the signing, in April 2014, of the revised GPA. The revised agreement includes additional commitments in terms of government entities as well as new services and public procurement activities. Currently, 45 WTO members are party to the GPA.

Despite the size and importance of international public procurement markets, there is a lack of economic analysis of the impact stemming from the liberalisation of public procurement markets.

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From an empirical point of view the economic literature by Shingal (2015)\textsuperscript{132}, Kutlina-Dimitrova and Lakatos (2014)\textsuperscript{133}, Rickard and Kono (2014)\textsuperscript{134}, Brühlhart and Trionfetti (2004, 2001)\textsuperscript{135} and Trionfetti (2000)\textsuperscript{137}, etc. provide factual evidence of the presence of ‘home bias’ in government procurement or focus on the identification of possible determinants of cross-border public procurement expenditures. However, a quantitative economic assessment of public procurement liberalisation in a PTA context is not available. Also regarding CGE modelling, there is no inclusion of public procurement liberalisation efforts in the framework of a PTA assessment.

The GTAP framework has recently been extended to enable the analysis of changes in public procurement policies. In terms of data developments, government investment demand data has been estimated for each of the 57 GTAP commodities in the 140 regions of the GTAP-9 database. Also, the origin of imports by end use (i.e. for firms, private consumption, government consumption and investment) has been determined. Another layer of valuation has been introduced, which captures the preferences towards domestic production. There is also a new nest\textsuperscript{138} in the production structure of the GTAP model that allows for different procurement regimes, and the origin of imports by agents’ end use has been incorporated. This new extension can be used to simulate the impact of a reduction in the domestic preference in the GPA. Domestic preference or ‘home bias’ refers to a government showing a preference for local suppliers/service providers when engaging in procurement activities, thereby shielding them from foreign competition. According to the OECD, the estimated size of general government procurement is determined by the sum of intermediate consumption by governments, governments’ gross fixed capital formation, and social transfers in kind via market producers.\textsuperscript{139}

For this project/study, we used the public procurement database developed by the GTAP centre and the public procurement modelling extension of the standard GTAP model (as discussed above). The former is a multi-region input-output (MRIO) database developed for the assessment of public procurement liberalisation efforts. It accounts for the first time for the fact that traditional input-

\textsuperscript{138} In a CGE model, the choice of function under conditions of model calibration favours the use of simpler ‘convenient functional forms’. The drawback, however, is that simpler functional forms (e.g. the Cobb-Douglas utility function) greatly restrict the number of parameters (e.g. own price and cross-price elasticities) within the function, which in turn inhibits the degree of flexibility when characterising producer/consumer behaviour. A common response to this problem is to employ a ‘separable nested’ (or hierarchical) structure, whereby an assumption is made about the partitioning of the elements of the underlying production/utility function into different groups and aggregations. For example, the producer has a choice between different types of skilled labour for use in production. A nested function allows the producer to substitute or choose between these different labour types based on the cost (i.e. wage) of each type of labour to arrive at the cost-minimising factor input combination. Nested structures increase the flexibility of a model, without complicating the computation process.
output (IO) tables do not feature a split of investment uses into public and private investment. Moreover, this database extension allows for identification of the sourcing of imports per agent, i.e. the government, private households and firms, thereby enabling an assessment of the bilateral elimination of domestic preference. The modelling extension follows the database extension and introduces a phantom tax modelling approach whose main notion is that ‘home-biased’ government procurement policies can be modelled through a subsidy accruing to domestic producers and a concurrent tax levied on imports. The exact match in terms of revenue flows ensures that there are no tax revenue gains/losses from a change in domestic preference margins. This is a novel trade cost modelling approach deviating from the AMS/TMS traditional shocks as these are not appropriate for simulating the impact stemming from a reduction in domestic preferences in public procurement markets.

The scenario design for the current study included the elimination of the domestic preference margin for all GPA parties. The precise shock to the margin was computed by considering the difference between the import penetrations of the government sector versus the private sector. In other words, the shock assumed that GPA parties’ governments would import the same share of goods and services from abroad as the private sector. This is in line with the literature mentioned above which measured the presence of ‘home bias’ in government procurement by looking at a persistent difference between government and private sector import penetration.

1.5.4 Information Technology Agreement (ITA-II)

Henn and Mkrtchyan (2015) find in an econometric analysis that membership of the first ITA is not only associated with higher imports, but also with 8% higher exports of final products on the ITA list. Higher imports are what one would expect as ITA members reduce their tariffs and other countries do not. Higher exports, however, should not be expected in the absence of second round effects since exports of non-members benefit from the same tariff reductions as exports of members.

Ezell (2012) confirms this in a survey of other studies. Owing to the strong inter-linkages with other industries, tariffs for information technology (IT) goods are found to be particularly harmful because they raise costs, decrease their usage, and thereby hurt all sectors of the economy by reducing productivity and innovation. Regarding the temptation to judge a trade deal such as the ITA expansion (i.e. ITA-II) by mercantilist logic, the study finds that import substitution strategies supported by tariffs are ineffective because of the global fragmentation of production in which countries with high trade barriers tend to either be bypassed or to attract a high tariff burden on the main inputs for their exports. This is over and above the harm that is caused by a reduced diffusion of IT products to other sectors because of higher prices.

To consider these effects in a quantitative manner, we simulated the ITA-II using the GTAP model. The GTAP model was designed for trade policy analysis of this nature and includes bilateral trade and tariff data necessary to model the impacts of trade and domestic policy changes in the context

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140 TMS is the import tariff policy variable in the GTAP and AMS is the efficiency effect policy variable.
of the ITA-II. GTAP-9 has data for 57 sectors. To specify the model, we used concordance tables between the HS and the GTAP-9 classifications to identify those GTAP sectors that would be affected by the ITA-II. We matched the list of HS6 codes to eight\textsuperscript{143} GTAP sectors. We could then calculate from the UN COMTRADE (via WITS) data the entire monetary value of the tariff reductions and translate that into percentage point cuts in the tariffs (usually the \textit{7MS [tariff]} variable in GTAP) in these eight GTAP-9 sectors for each of the member states that are party to the negotiations affected.

It is important to note that the ITA-II covers very specific products listed in two separate attachments, A and B. All the trade under Attachment B and a part of the trade under Attachment A cannot be perfectly measured in the Harmonized System (HS) classification at the 6-digit level. The concerned product codes in Attachment A are so-called ex-outs\textsuperscript{144}, meaning that not the entire trade covered under an HS6 code will be liberalised by the ITA-II, whereas for Attachment B there is no standard mapping of these specific products to the HS classification across all ITA-II participants, each country having its own national product codes. While including all the HS6 codes identified to cover trade subject to the ITA-II provides an upper bound of the value of liberalised trade, the codes under Attachment A that are not subject to ex-outs provide a lower bound. This is a distinction that is made throughout the final report on the modelling results. Accordingly, we ran an upper and a lower bound scenario. The latter contained only those lines under Attachment A that did not have ex-outs. The upper bound scenario included a rough estimation of the value of trade under Attachment B.\textsuperscript{145} As with the ex-out items under Attachment A, the trade recorded under these subheadings may have overstated the amount of trade liberalised by the ITA-II; however, it gave an idea of the order of magnitude and defined an upper bound of the trade that could be involved.

Also, the content of the proposed agreement specifies that tariff elimination will be implemented on an MFN basis and ITA-II concessions are included in the WTO schedule of concessions. This means that even non-partied countries will eventually benefit from ITA-II tariff elimination and market/trade opportunities.\textsuperscript{146} By taking the 2-experiment approach, as discussed in Table 1 (p. 21), we could measure both the direct benefits (i.e. those countries included in Experiment B) and indirect benefits (i.e. those countries excluded from Experiment A) to selected ‘developing’ or ‘low-income’ countries.

\textbf{1.5.5 Other Considerations}

Other aspects that may be considered include the following:

The reduction in or elimination of trade barriers between PTA participants is important in establishing PTAs. PTAs are expected to be comprehensive; they may cover not only trade liberalisation in certain goods/sectors, but also other topics such as trade facilitation, including the

\textsuperscript{143} Chemical, rubber and plastic products; mineral products not elsewhere classified (n.e.c.); metal products; motor vehicles and parts; transport equipment n.e.c.; electronic equipment, machinery and equipment n.e.c.; manufactures n.e.c.

\textsuperscript{144} Ex-outs in trade jargon refer to the description of a particular product not specifically captured by the World Customs Organization HS tariff classifications. These are expressed in terms of chapters (two-digit code), headings (four-digit code) or subheadings (six-digit code).

\textsuperscript{145} Tariffs for Attachment B are retrieved from the World Integrated Trade Solution (WITS) database.

\textsuperscript{146} See https://www.wto.org/english/tratop_e/inftec_e/itaintro_e.htm accessed on 31 August 2017.
simplification of customs clearance procedures and mutual recognition of standards, and technical assistance to developing countries. The implementation of trade facilitation measures can be formulated in the simulations as a positive ‘import-augmenting technical change’ in the GTAP model. The technical improvements in importing products can lead to improved efficiency. If a PTA covers trade facilitation other than trade liberalisation, such facilitation and coordination will help to improve efficiency in importing products and lower the market price of imported products. The technical improvements can also be interpreted as a reflection of reduced service link costs across borders.

Technical assistance to developing/low-income countries can be formulated in the simulations as an ‘output technical change’. Trade liberalisation in the analysis may assume the partial/complete elimination of import tariffs and export subsidies (taxes) by the countries involved in each PTA.

A.2 Bangladesh Country Case Study

Table A2 1: Basic statistics on Bangladesh's economy

<table>
<thead>
<tr>
<th>Economic status</th>
<th>Least-developed country</th>
<th>Free market economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population size</td>
<td>162.9 million (2016)</td>
<td></td>
</tr>
<tr>
<td>GDP growth rate</td>
<td>6.46% (2011)</td>
<td>7.05% (2016)</td>
</tr>
<tr>
<td>GDP - composition by sector</td>
<td>Agriculture: 16% (2015 est.)</td>
<td>Industry: 30.4% (2015 est.)</td>
</tr>
<tr>
<td></td>
<td>Services: 53.6% (2015 est.)</td>
<td></td>
</tr>
<tr>
<td>Poverty rate (i.e. living on US$ 4 per day or less)</td>
<td>48.9% of the population (2000)</td>
<td>31.5% of the population (2015)</td>
</tr>
<tr>
<td>Human Development Index ranking</td>
<td>2016 Human Development Index score was 0.579 and the country ranked 139th out of 188 countries</td>
<td></td>
</tr>
<tr>
<td>Value of foreign trade</td>
<td>Imports of goods and services: 24.75% of GDP (2016)</td>
<td>Exports of goods and services: 17.34% of GDP (2016)</td>
</tr>
<tr>
<td>Exports</td>
<td>Main export products (2016): woven apparel, knitwear, leather and leather goods, jute products, textiles</td>
<td>Main export markets (2016): United States, Germany, United Kingdom, France, Spain, Netherlands</td>
</tr>
<tr>
<td>Inward investment (FDI reached a record US$ 2.2 billion in 2016)</td>
<td>Main sectors attracting investment: Energy, power, pharmaceuticals,</td>
<td>Main sources of investment: China, South Korea, India, Egypt, the UK, the United Arab Emirates and</td>
</tr>
</tbody>
</table>

information technology, telecommunications and infrastructure sectors, as well as labour-intensive industries such as ready-made garments, household textiles and leather processing.

Malaysia

<table>
<thead>
<tr>
<th>World Economic Forum’s Global Competitiveness Index ranking</th>
<th>106th out of 138 countries (2016)</th>
</tr>
</thead>
</table>

### 2.1 Background
Given its long association with the multilateral trading system, Bangladesh has adopted a cautious stance towards the concept of plurilateral trade agreements. It knows that it would face a number of risks and uncertainties if it were to join one or more plurilateral(s), including having to conform to agendas that could well be better suited to developed countries than to developing countries. As Bangladesh is not involved (even as an observer) in any of the plurilateral negotiations, the approach taken in this case study is to comment on and draw conclusions from both the country’s general activities in the services, information technology, government procurement and environmental goods sectors, and from stakeholders’ expressed opinions and concerns about the plurilaterals. Broad references are also made to the results of the quantitative analysis.

To provide a wider context to the discussion, an overview of Bangladesh’s economic and trade activities and relationships is provided below.

### 2.2 Economic and Trade Performance
Bangladesh is an LDC in South Asia which, despite many economic problems (such as high unemployment and poverty levels, and infrastructural weaknesses), has grown by roughly 6% per year since 1996. The country’s strong growth has largely been driven by the domestic agricultural sector, exports of ready-made garments (RMG) and remittances from Bangladeshis working abroad.

Agriculture’s contribution to GDP has been declining. Yet it remains a very important sector as the majority of rural Bangladeshis make a living from farming, with the main products including rice, jute, wheat, tea and fish. Manufacturing and services have shown strong growth in recent years. Bangladesh’s manufacturing sector is heavily dependent on the labour-intensive RMG sector, while products of its agro-processing sector include baked goods, confectionery items, processed

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fruit and vegetables, cereals and assorted beverages.\textsuperscript{163} Some progress has been made in developing other value-added industrial sectors, such as pharmaceuticals (which satisfy the bulk of domestic demand), leather and jute products, and plastics.

The services sector (notably financial services, telecommunications and construction) makes a significant contribution to GDP and employment in the country. The Bangladesh economy is also heavily reliant on remittances paid by the estimated 10 million Bangladeshis who are living and working in the Middle East, South-East Asia and other regions.\textsuperscript{164}

Bangladesh’s total merchandise exports in 2016 amounted to US$ 38.5 billion, consisting mainly of woven apparel and knitwear, with much more modest contributions made by, for example, leather and leather products, jute and jute products, home textiles, frozen food and chemicals. Bangladesh’s main export markets that year were the European Union and the USA.

Bangladesh’s RMG export sector has seen exponential growth in recent years and today the country is the second largest exporter of RMG in the world, after China. This growth is largely attributable to the trade preferences that Bangladesh enjoys as an LDC, which take the form of duty-free quota-free (DFQF) market access into many developed and some developing countries and preferential market access under regional trade agreements (RTAs) such as the South Asian Free Trade Area (SAFTA) and the Asia-Pacific Trade Agreement (APTA).\textsuperscript{165}

Bangladesh’s total merchandise imports in 2016 amounted to US$ 40.4 billion, with some of the main products imported being cotton, machinery, mineral fuels and mineral oils, animal or vegetable fats and oils, electrical machinery, fertilisers, and iron and steel. The main countries of supply that year were China, India, Singapore, Japan, Hong Kong and Malaysia.\textsuperscript{166} Bangladesh’s merchandise exports grew by about 8% and its imports by about 7% in the period 2011–2015, but the country’s share of global trade stands at only about 0.2%.\textsuperscript{167} Although services make a substantial contribution to the Bangladesh economy, the country’s services trade is comparatively small. For example, in 2015, services exports and imports together amounted to just over US$ 12.3 billion (or 15.8% of total trade).\textsuperscript{168} In 2014, Bangladesh’s services exports mainly comprised government services, followed by IT and software services, other business services, transport and travel. In the same year services imports mainly comprised transportation, financial services, other business services, travel services and government services.\textsuperscript{169}


\textsuperscript{166} TRADE MAP (International Trade Centre (ITC) Trade Statistics Database), \url{http://www.trademap.org/} accessed on 14 April 2017.

\textsuperscript{167} TRADE MAP (International Trade Centre (ITC) Trade Statistics Database), \url{http://www.trademap.org/} accessed on 14 April 2017.

\textsuperscript{168} TRADE MAP (International Trade Centre (ITC) Trade Statistics Database), \url{http://www.trademap.org/} accessed on 15 April 2017.

\textsuperscript{169} TRADE MAP (International Trade Centre (ITC) Trade Statistics Database), \url{http://www.trademap.org/} accessed on 14 April 2017.
2.3 Bangladesh’s Trade Policy

Having operated under a fairly restrictive trade policy for a number of years after the country’s independence in 1971, the Bangladesh government changed course after it joined the WTO in 1995, embarking on a trade liberalisation programme that led to tariff cuts and rationalisation, the liberalisation of the exchange rate and a dramatic reduction in quantitative restrictions.\(^{170}\)

Today Bangladesh is very dependent on international trade, both for employment and economic growth and development purposes. However, there is a growing chorus of concern about the sharp rise in the use of so-called ‘para tariffs’, such as licensing fees and countervailing duties (particularly on imported food), which are aimed at protecting local producers.\(^{171}\) Export diversification is a key goal in Bangladesh’s Export Policy for 2015–2018, with a number of sectors having been designated as ‘high priority sectors’ and ‘special development sectors’ which makes them eligible for special policy support. High priority product categories – such as value-added RMG and garment accessories, home textiles and furnishings, leather products and jute products – are those that have high export potential but for various reasons have not been satisfactorily exploited.\(^{172}\)

In recent years, the Bangladesh government has done a fair amount to liberalise the services sector which has seen a growth spurt in the wake of the expanding middle class consuming more technology-rich services.\(^{173}\) However, services exports are still small in comparison with merchandise exports. Special development sectors in the services arena have been identified as tourism, architectural services, engineering and consultancy.\(^{174}\)

Although the government maintains that the private sector is consulted on substantive business and trade issues, some private sector respondents felt that the political elite and ‘bureaucrats’ have a different policy approach from that of the business community, i.e. ‘wait and see’ vs. ‘act today’.

2.4 Trade Agreements and Arrangements

Over the years, Bangladesh has played an active role in the WTO, urging that priority be given to issues affecting LDCs, such as agricultural subsidies and the erosion of preferences. Given Bangladesh’s heavy reliance on RMG exports, the negotiations on non-agricultural market access (NAMA) are of particular importance to the country. Bangladesh sees the WTO, with its rules-based and inclusive approach, as an important vehicle for driving duty-free and quota-free (DFQF) market access for all products originating in LDCs, supported by flexible rules of origin; for negotiating a realistic transition period for compliance with WTO agreements, such as the Trade Facilitation

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Agreement (TFA); for securing preferential treatment for LDC services and service providers; and for securing capacity-building assistance with a view to tackling supply-side constraints.  

Bangladesh has long taken an interest in the WTO services negotiations – framed within the General Agreement on Trade in Services (GATS) – and has advocated improved market access for LDC services and service providers (particularly under mode 4). As an LDC, Bangladesh is not expected to submit service offers but it has already unilaterally liberalised key services sectors such as banking, financial services and telecommunications, thereby stimulating international competition.  

Bangladesh is party to a number of regional economic and trade cooperation agreements which aim to promote intra-regional trade. Yet despite these links, the countries of South Asia are not well integrated. In fact, intra-regional trade among the members of the South Asian Association for Regional Cooperation (SAARC) – i.e. Bangladesh, India, Pakistan, Afghanistan, Bhutan, Nepal and Sri Lanka – accounts for less than 5% of members’ total trade. One of the main reasons for this is the high levels of competition among the South Asian neighbours. China and India, for example, which are Bangladesh’s largest and second largest regional trade partners, both compete directly with Bangladesh in garment and other manufacturing activities, which creates tension at both a political and commercial level. Furthermore, cross-border trade between Bangladesh and India is constrained by poor road infrastructure, insufficient storage facilities at border posts and onerous customs clearance procedures.  

The members of SAARC decided to deepen their trade ties in 2006 and formed the South Asian Free Trade Area (SAFTA). Bangladesh is also a member of the Asia-Pacific Trade Agreement (APTA), together with China, India, Korea, Sri Lanka, Laos and Mongolia, and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) whose other members are Bhutan, Myanmar, India, Nepal, Sri Lanka and Thailand. A few years ago, Bangladesh also signed two regional services trade agreements, i.e. the Agreement on Trade in Services under the SAARC banner and the Framework Agreement on the Promotion and Liberalisation of Trade in Services under the APTA banner.  

At the bilateral level, Bangladesh has only one formal bilateral FTA, i.e. with Pakistan. The GSP Generalised System of Preferences scheme operated by the EU for LDCs (which goes under the name Everything But Arms (EBA)), and from which Bangladesh benefits, makes provision for duty-free quota-free (DFQF) access into the EU market for all products except arms and ammunition. Bangladesh is also a beneficiary of Canada’s and Japan’s GSP schemes, both of which provide for high levels of DFQF market access and rules of origin that were relaxed some years ago for LDCs.  

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Among developing countries, Chile, China, Korea and India operate DFQF schemes for LDCs, from which Bangladesh benefits.

2.5 Implications of Bangladesh’s Proposed Graduation from LDC to MIC Status

The government of Bangladesh has ambitious plans for the country to be elevated to middle-income country (MIC) status within the next 10 years, once it has met the relevant income, human asset and economic vulnerability index criteria. The graduation process will take place in phases, with Bangladesh’s transitioning out of LDC status by 2024. The country will still enjoy LDC preferential treatment for a further three years, until 2027. The loss of these preferences (three years post graduating from LDC status) will put the country under pressure to bring about the necessary economic and trade reforms to withstand the new competitive reality that it will face. Other benefits that Bangladesh will lose include access to concessional financing from regional and multilateral banks, technical cooperation and other forms of assistance (e.g. training).

It was in respect of Bangladesh’s proposed graduation to MIC status that the researchers encountered very different views during their field work. Government representatives and the policy research fraternity were largely of the opinion that Bangladesh had a fair amount of time to devise and implement transitional arrangements, including addressing supply-side shortcomings. However, business people interviewed viewed the impending change in country status as enormously challenging, and that there was no time to waste in preparing for the loss of preferences, building much-needed supply-side capacity, and forging closer bilateral and regional ties.

2.6 Bangladesh and the Plurilaterals

Bangladesh is not party to any of the four plurilateral trade negotiations and is removed from the practical interactions among the participating countries. However, the researchers elicited an interesting mix of opinions about the perceived value of the plurilaterals to Bangladesh. At this stage the government does not feel particularly compelled to get actively involved and its overall stance is neutral. The private sector, on the other hand, sees value in Bangladesh joining certain plurilaterals sooner rather than later, provided the right terms and conditions can be negotiated.

2.6.1 General Views and Concerns about the Plurilaterals

Bangladesh has reached an interesting crossroads. As an LDC, it has enjoyed trade preferences and other concessions which have shielded it from the kind of competition to which other developing countries have been exposed. However, within a decade Bangladesh may have graduated to MIC status, which will mean fewer privileges and greater exposure to market forces. It is from both of these perspectives that the country’s position vis-à-vis the plurilaterals should be considered.

From their field work, the researchers got the impression that the government, research organisations and academic institutions in Bangladesh see the LDC–MIC crossover as a fairly distant future event and that the country’s LDC status should in the meantime continue to shape trade policy and relations. Despite the Doha negotiations having effectively run aground, these

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stakeholders identify with and value the inclusive and rules-based multilateral approach to trade decision-making and so view the plurilaterals with some circumspection.

On the other hand, the private sector (and organised business in particular), being at the coalface, appeared to be far more concerned about the rapid approach of the change in country status and the need to prepare early for less protected trade. As a result, they showed greater (albeit still cautious) interest in the plurilaterals, regarding them as an opportunity for local producers to build stronger regional and global alliances and tap into other countries’ knowledge, experience and technologies. However, they stressed that the plurilaterals should not operate as a collection of splinter groups that sow divisions between countries. There should still be an overarching multilateral framework that brings order and transparency to global trade relations and practices, and caters to the interests of poor and wealthier countries alike.

The next two sections provide a summary of the reasons why, on the one hand, Bangladesh may consider participating in one or more plurilateral(s) and why, on the other hand, it would be disinclined to do so (at least for now).

2.6.2 Arguments in Favour of Bangladesh Participating in One or More Plurilateral(s)

All WTO members are, to a greater or lesser extent, frustrated by the relative inaction on the multilateral negotiations front. Yet while a number of people interviewed saw the plurilaterals as offering a shorter and swifter passage to more limited, sector-based agreements, the Bangladesh government in particular held the view that the WTO remains the right vehicle to drive the global trade agenda.

The plurilaterals, particularly the TiSA and the GPA, were generally seen as having the potential to boost Bangladesh’s domestic development and export performance by encouraging the importation of goods and services that could fast-track the growth of certain industries with export potential. This in turn could put the country on a firmer path towards the realisation of its development goals. In the face of limited FDI inflows, Bangladesh could also leverage the plurilateral model to acquire foreign expertise and technology. In addition, more open trade and heightened competition could induce greater productivity among local businesses which might have become complacent due to their reliance on various forms of protection. Another benefit of engaging with the plurilateral process is that it would send a positive signal to the investment community, thereby possibly making the distant dream of Bangladesh becoming a regional hub for re-exports from landlocked neighbours a reality.

Some people reported that Bangladesh is under some pressure to participate in one or more plurilateral(s) because by not participating the country could find itself marginalised. If a plurilateral in which Bangladesh had no involvement is ‘multilateralised’, i.e. activated within the WTO system, then Bangladesh would have no choice but to settle for whatever the agreement offered. If competitors like India, Cambodia and Vietnam had opted in to the negotiations, they might have succeeded in extracting favourable terms for themselves, to the ultimate detriment of Bangladesh and other uninvolved parties. Furthermore, if the negotiating parties to a particular plurilateral were using the ‘critical mass’ strategy to bring the agreement within the ambit of the WTO, the interests and priorities of Bangladesh and other LDCs could be overlooked if critical mass was achieved through the involvement of relatively few, but nevertheless economically powerful, WTO members.
2.6.3 Arguments Against Bangladesh Participating in One or More Plurilateral(s)

Despite the obvious potential of plurilaterals, they are not as clear cut as the WTO agreements and are therefore of questionable value in some people’s eyes. It has been suggested in some of the literature that the subject matter of plurilaterals like the TiSA, the EGA and the ITA-II is not of sufficient interest to LDCs, which helps to explain their non-involvement. This is a simplistic generalisation as Bangladesh is either active in or has aspirations for the sectors covered by all four plurilaterals under investigation. The reasons for the country’s non-involvement are complex, are not consistent across different stakeholder groups, and are often linked just as much to the processes surrounding the negotiations as to the subject matter on the table.

There is a common view in Bangladesh that the plurilaterals are developed country initiatives, catering mainly to their OECD-dominated memberships. The fact that China’s request to join the TiSA has not been accepted could support this partiality claim.

Bangladesh’s non-involvement in the plurilaterals also stems from capacity constraints and development challenges. For example, opening its markets to more foreign competition, particularly from large and well-resourced countries, would put pressure on jobs and erode some industries’ growth prospects. Bangladesh’s IT sector, for example, is mainly domestically focused at this stage and so a heavy influx of imported IT goods could harm the growth prospects of this sector. It is possible that the country would also have to incur considerable expense in meeting environmental standards and improving working conditions. While this sort of investment would ultimately be good for the country, in the short term it could erode the competitiveness of the manufacturing sector and lead to job losses.

Plurilateral negotiations are complicated affairs, requiring knowledgeable and experienced individuals to act on behalf of different sectors and interest groups. They must also be intimately acquainted with the political dynamics in the sectors and highly skilled in negotiation techniques. Any new agreement to which Bangladesh became a party would create a heavy administrative burden. With plurilaterals, Bangladesh would not be able to rely on the LDC ‘collective’ for support and guidance. Both the literature and the results of the interviews point to a lack of knowledge and capacity, within government in particular, to seriously engage with the plurilateral process.

Other expressed concerns about plurilaterals were the absence of a formal and transparent dispute settlement process (like that of the WTO) and the risk that, in helping to steer the negotiations towards a satisfactory conclusion and final agreement, developing country and LDC participating members will, in the eyes of the developed countries, have served their purpose and outstanding issues from the Doha Development Round that have long preoccupied the developing countries and LDCs (such as subsidies and agricultural market access) will simply be swept from the negotiating table.

2.6.4 Sectoral Involvement and Reactions to the Four Plurilaterals

Trade in Services Agreement (TiSA)

Over the years, Bangladesh has been active in the DDR services negotiations, especially in relation to LDC matters. The various people whom the researchers interviewed were very conscious of the key role that the services sector plays in Bangladesh’s economy and how it could in time also become a force for regional and global expansion. In a Service Policy Review of Bangladesh that the United
Nations Conference on Trade and Development (UNCTAD) completed in 2016, it emerged that the country had a liberal regulatory framework for the services sector but that persistent challenges included a general lack of services data and insufficient knowledge of the trade potential of specific services sectors.\footnote{UNCTAD, Services Policy Review: Bangladesh 2016, United Nations, \url{http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1568} accessed on 11 April 2017.}

According to certain people interviewed, Bangladesh’s involvement in the DDR negotiations in general and in the services negotiations in particular, has consumed a great deal of time and energy over the years, and the prospect of moving on to a new agreement (TiSA) is far from appealing. There is also a feeling that the TiSA negotiations are not being conducted openly. If Bangladesh were to join the TiSA, it could find itself in an ‘exclusive club’ which it is not in favour of, particularly given its lengthy exposure to WTO inclusiveness and transparency. Nevertheless, the view of the private sector respondents was that Bangladesh could not afford to be left out of the TiSA negotiations as services are too important to the country’s economy and future trade prospects to not have a say in the shaping of the agreement.

**Environmental Goods Agreement (EGA)**


Bangladesh’s environmental goods export basket is dominated by a handful of products destined for a limited number of markets. Jute and jute products (e.g. raw jute, yarn and twine, sacks and bags) make the most substantial contribution to Bangladesh’s environmental goods exports, helped by their ecological sustainability and environmentally-friendly character.

As one of the most natural disaster-prone countries in the world, Bangladesh understands the importance of environmental protection and the growing trend globally of adopting a ‘green economy’ approach – and is keen to play a part in this. Most of the people whom the researchers interviewed were of the opinion that it would be beneficial for Bangladesh to more closely follow and/or join the EGA negotiations. They saw as a key benefit the opportunity for Bangladesh to secure better market access for its environmental goods and to acquire cleaner technologies at more affordable prices.\footnote{M. Araya, ‘Can the Environmental Goods Agreement help advance the Paris Agreement and Sustainable Development Goals?’, 9 December 2016, ICTSD, \url{http://www.ictsd.org/opinion/can-the-environmental-goods-agreement-help-advance-the-paris-agreement-and-sustainable-development-goals} accessed on 15 April 2017.}
It was evident to the researchers, however, that there was a general lack of awareness about the EGA negotiation process. A potential challenge that Bangladesh would face in the EGA negotiations is that the list approach is being used whereas the project approach would be a preferred option. Bangladesh views the project approach (which developing countries generally favour but developed countries seem to oppose) as offering better market access opportunities as it facilitates technology transfer. This, in turn, could strengthen the country’s ability to comply with EGA-prescribed technical and phytosanitary requirements.\footnote{F. Khatun, ‘Liberalization of Environmental Goods and Services South Asian LDC Issues’, South Asia Watch on Trade, Economics & Environment (SAWTEE), Briefing Paper 10, 2009, \url{http://www.sawtee.org/publications/Briefing-Paper-20.pdf}, accessed on 14 April 2017.}

The Asia Pacific Economic Cooperation (APEC) experience has shown that the negotiation and implementation of tariff reductions for lists of environmental goods is very complex.\footnote{R. Vossenaar, ‘Reducing Import Tariffs for Environmental Goods: The APEC Experience’, ICTSD, Issue Paper 22, September 2016, \url{http://www.ictsd.org/sites/default/files/research/reducing_import_tariffs_for_environmental_goods_the_apec_experience.pdf}, accessed on 14 April 2017.} As the EGA is following the APEC approach, Bangladesh would need a great deal of technical assistance if it were to hold its own at the EGA negotiating table. While it is still an LDC, though, Bangladesh would not be obliged to make any tariff reduction commitments.

The EGA is intended to be a ‘living agreement’, which allows the addition of new products in the future. Thus, Bangladesh would, if it were to join the negotiations, have the opportunity to influence the agreement in ways that would help it address its sustainable development shortcomings. The trade in environmental goods is prone to excessive use of NTMs, such as production regulations and standards, eco-labeling and certification requirements, and subsidies, which could constitute costly impediments for Bangladesh and other LDCs.\footnote{F. Khatun (2009), ‘Liberalization of Environmental Goods and Services South Asian LDC Issues’, \url{http://www.sawtee.org/publications/Briefing-Paper-20.pdf}, accessed on 14 April 2017.} Therefore, Bangladesh would need to be particularly vocal about how detrimental the unrestrained usage of NTMs is to LDCs. Furthermore, with SMEs forming the bedrock of Bangladesh’s industrial output yet unable to afford the clean technologies called for under the EGA’s environmental standards, special financial assistance for this sector would be necessary – possibly via Aid for Trade initiatives.

**Government Procurement Agreement (GPA)**

activities of all public agencies and disseminates tender opportunities to potential bidders from Bangladesh and abroad.

According to the US Department of Commerce, the government of Bangladesh is the country’s largest importer of goods and services, spending about US$ 10 billion per year on projects aimed at building and upgrading schools, hospitals, roads, power utilities and other infrastructure. However, among the stumbling blocks to efficient government procurement practices in Bangladesh are frequent political interference and governance issues.

There is no overt discrimination against foreign firms in Bangladesh although the government does tend to promote the interests of local producers through preferential policies and regulations. For example, the government firmly controls approvals for imported medicines that compete with domestically manufactured equivalents.

Most people whom the researchers interviewed held the view that Bangladesh should join the GPA negotiations, especially given the importance of government procurement to the country’s development and the capacity constraints that the domestic supply market often faces – although they differed on the optimal timing of such a move. The interview respondents were aware of the increased competition that Bangladesh suppliers would face but seemed to think that this would be outweighed by the additional capacity and employment opportunities that would be created with greater foreign involvement. Despite these positive signals, there was clearly a lack of knowledge about the GPA, its commitments/schedules, and the requirements and procedures for accession (or becoming an observer). This seemed to point to capacity constraints among the government representatives and a lack of serious involvement on the part of the private sector respondents in debates about the pros and cons of GPA involvement. Very few of those interviewed could comment meaningfully on what would be required to make Bangladesh GPA-ready.

Information Technology Agreement II (ITA-II)

In 2002, the Bangladesh government identified ICT as a ‘thrust sector’ in view of its potential for job creation, industry growth, greater economic inclusiveness and high spill-over effects in other sectors. In collaboration with various industry associations, such as the Bangladesh Computer Council and the Bangladesh Association of Software and Information Services, as well as international trade support institutions, the government has introduced various support measures to assist the development of the IT sector and to boost exports of IT-related products and services. Bangladesh’s IT and IT-enabled services industry is reported to have grown by 40% over the past five years with many new software companies having been registered in the country.

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Despite these efforts, Bangladesh trails well behind many other countries as a user and producer of IT products and services, occupying 112th position out of 139 countries on the World Economic Forum’s Networked Readiness Index in 2016.\textsuperscript{195} Also in 2016, Bangladesh ranked 145th out of 175 countries on the International Telecommunication Union’s ICT Development Index\textsuperscript{196} and 124th out of 193 countries on the Union Nations e-Government Development Index.\textsuperscript{197}

The researchers heard from a number of respondents that although joining ITA-II appears to have merit, the IT sector lacks the capacity at present to exploit opportunities resulting from a more liberal IT trading environment.

Under the original ITA, some countries took the opportunity to ‘free ride’ by keeping their own tariffs on imported IT products high while enjoying tariff-free treatment for their own IT exports. Yet this was often to their detriment. Research shows that countries like Argentina, Brazil and South Africa were, as a result of this practice, side-lined in global value chains.\textsuperscript{198} This needs to be borne in mind when Bangladesh weighs up the pros and cons of maintaining relatively high tariffs on IT imports as a way of encouraging local production vs. liberalising the sector in the interests of (ultimately) heightened competitiveness. Again, it was evident from the interviews that there was limited awareness of the ITA negotiation and implementation process, and how joining the plurilateral would affect Bangladesh’s economic efficiency levels and development prospects in the longer term.

2.7 Overview of GTAP CGE Modelling Results

2.7.1 TiSA

The GTAP CGE modelling revealed that Bangladesh would derive benefits from joining the TiSA, but these benefits would be marginal. Overall, the opportunity cost of joining this plurilateral would exceed that of not joining. Bangladesh would experience an aggregate net welfare gain of US$ 16.2 million if it decided to join the TiSA and an aggregate net welfare gain of US$ 6.9 million if it decided not to join. For Bangladesh, accession to the TiSA is likely to have a positive effect on real GDP growth, investment, real national income, import volumes and value, export value and real wages. For example, investment in Bangladesh is projected to increase over the baseline when joining the TiSA (Scenario B), with a slight increase in investment from 0.003 (in Scenario A) to 0.004 (in Scenario B) percentage points relative to the baseline.

The countries that are estimated to gain the most from joining the TiSA are those for which the services sectors are relatively more important. Also, countries are expected to benefit from higher real national income increases if their services sectors’ exports share in GDP is higher. The small gains for Bangladesh (i.e. real national income gains of 0.02 percentage points from joining the TiSA) are therefore explained given the country’s relatively small services exports’ share of GDP (2%) and


given that the average trade cost savings equivalent to eliminating the binding overhang are only around 1.4%. The strongest sectoral effect of joining the TiSA is projected for the maritime transport industry with an increase in output of +0.14 percentage points relative to the baseline in response to joining the TiSA.

2.7.2 EGA
The modelling revealed that Bangladesh would benefit from joining the EGA, but these benefits would be marginal. Overall, the opportunity cost of joining the plurilateral would exceed that of not joining. Bangladesh would experience an aggregate net welfare gain of US$ 2211.8 million if it decided to join the EGA and an aggregate net welfare gain of US$ 1239.6 million if it decided not to join. Accession to the EGA for Bangladesh is likely to have a positive effect on real GDP growth, investment, real national income, import volumes and value, and real wages. The only macroeconomic indicators that would show negative growth are export volumes and value, and the negative growth would be realised in both scenarios (joining and not joining). For example, the value of exports (percentage points relative to the baseline) would decrease from -0.1652 under Scenario A (if Bangladesh decided not to join) to -0.2358 under Scenario B (if Bangladesh decided to join). Similarly, the volume of exports would decrease from -0.2754 under Scenario A (if Bangladesh decided not to join) to -0.6440 under Scenario B (if Bangladesh decided to join). The strongest sectoral effect of joining the EGA is projected for the EGA-related sectors, and the transport, communication and public services sectors. There would also be some positive gains in the manufacturing sector.

2.7.3 GPA
The modelling revealed that Bangladesh would experience significant economic gains from liberalising its government procurement practices and joining the GPA, and that the opportunity cost of not joining would exceed that of joining. Bangladesh would experience an aggregate net welfare gain of US$ 1097.6 million if it decided to join the GPA and an aggregate net welfare gain of US$ 75 million if it decided not to join. Of the four plurilaterals, Bangladesh would benefit the most from joining the GPA because the difference in welfare is the greatest when the two scenarios (joining and not joining) are compared with each other. The only macroeconomic indicators that would not register a benefit (should Bangladesh decide to join the agreement) are export volumes, output and employment (both skilled and unskilled); all other indicators revealed positive growth rates. This makes sense in view of Bangladesh’s domestic supply-side constraints and the fact that because of trade (and the value of imports exceeding that of exports) there would be little effect on domestic employment. Bangladesh stands to gain a great deal in terms of an increase in investment if it joined the GPA. Investment is projected to increase from 0.2365 (Scenario A) to 2.1331 (Scenario B) percentage points relative to the baseline. The strongest sectoral effect of joining the GPA is projected for the services (notably construction) and some primary and manufacturing sectors.

2.7.4 ITA-II
The modelling revealed that, depending on the measure used, Bangladesh would either be better off or worse off if it joined the ITA-II. For example, in terms of GDP and investment benefits, the opportunity cost of joining the plurilateral would exceed that of not joining because of the cross-sectoral effect, meaning that the country would be better off by joining. Bangladesh would also experience an aggregate net welfare loss of -US$ 2.9 million if it decided to join the ITA-II (upper bound Scenario B) and an aggregate net welfare loss of -US$ 2.4 million if it decided not to join the
ITA-II (upper bound Scenario A). Of all four plurilaterals, Bangladesh stands to gain the least (in net welfare terms) from joining the ITA-II. Those macroeconomic indicators that would show a positive effect from joining the ITA-II include real GDP growth, investment, and import volumes and value. If Bangladesh does not join, there would be positive growth in GDP, import value (although import volumes would decline), export volumes and value, and skilled employment. All other macroeconomic indicators would experience negative growth rates for both scenarios (joining and not joining. The strongest sectoral effect of joining the ITA-II is projected for the ITA-II-related sectors, construction and some primary sectors. Some positive gains would also be made in manufacturing. Of the four plurilaterals, the ITA-II would offer the least benefits to Bangladesh.

A.3 Chile Country Case Study

Table A3.1: Basic statistics on Chile’s economy

<table>
<thead>
<tr>
<th>Economic status</th>
<th>Upper middle-income country</th>
<th>Open market economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population size</td>
<td>17.9 million in 2016</td>
<td>1.6% (2016) owing to declining copper prices</td>
</tr>
<tr>
<td>GDP growth rate</td>
<td>6.1% (2011)</td>
<td>200</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>US$ 23 046 (2014)</td>
<td>201</td>
</tr>
<tr>
<td>Goods and services as a percentage of GDP</td>
<td>38.96% (2010)</td>
<td>202</td>
</tr>
<tr>
<td>Poverty rate (i.e. living on US$ 4 per day or less)</td>
<td>26% of the population (2000)</td>
<td>7.9% of the population (2015)</td>
</tr>
<tr>
<td>Human Development Index ranking</td>
<td>2016 Human Development Index score was 0.847 and the country ranked 38th out of 188 countries</td>
<td>203</td>
</tr>
<tr>
<td>Trade as a percentage of GDP</td>
<td>50.08% of GDP for 2016</td>
<td>204</td>
</tr>
<tr>
<td>Exports</td>
<td>Main export product (2015) (little value-added production): Natural commodities (copper) and other raw products (forestry, fisheries and agricultural produce)</td>
<td>205</td>
</tr>
<tr>
<td>Inward investment</td>
<td>Mineral exports comprise 11% of GDP and are the main destination for FDI</td>
<td>206</td>
</tr>
<tr>
<td>World Economic Forum’s 2016 Global Competitiveness Index ranking</td>
<td>33rd out of 183 countries</td>
<td>Top performing country in Latin America for 2016</td>
</tr>
</tbody>
</table>

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200 World Bank, op cit.
201 OECD, Chile data, [URL](https://data.oecd.org/chile.htm) accessed on 5 May 2017.
206 R. Pizarro, op cit.
208 WTO, WT/TPR/G/315
209 WTO, WT/TPR/G/315
3.1 Chile’s Economic Development and Pursuit of Trade Liberalisation

Chile is considered a socio-economic development success story in Latin America. Since transitioning to democracy in 1989, the country has experienced positive growth and attained middle-income country status. Liberal economic programmes coupled with progressive political and social policies have helped to reduce poverty and improve socio-economic conditions for all Chileans. Chile has prioritised regional economic integration which it has set out to achieve in three ways: (i) unilateral and non-discriminatory opening of its markets to international trade via tariff reductions; (ii) bilateral and regional strategies based on FTAs; and (iii) active participation in different regional bodies and at a multilateral level.\footnote{R. Pizarro (2006) The Free Trade Agreement between the USA and Chile: An Instrument of US Commercial Interests IDEAs Working Paper Series, Paper No. 02/2006R.}

In the past, neoliberal economic reforms resulted in an erratic growth strategy in the country (which eventually collapsed) which saw tariffs rise to over 35%,\footnote{R. Pizarro, op cit} causing a severe debt crisis in the period 1982–1985.\footnote{S. Saez (2005) Implementing Trade Policy in Latin America: the case of Chile and Mexico. UN Economic Commission for Latin America and the Caribbean.} To avert further crises, Chile introduced (in the early 1990s) a new process of privatisation of state enterprises as well as instruments to promote exports.\footnote{S. Saez, op cit} These boosted economic growth and prosperity, and the government has continued with the same economic policies to this day. The country has maintained a stable unilateral tariff rate of 6% since 2003, which amounts to an applied tariff rate of 0%–1% on imported goods.\footnote{Interview with ECLAC representative, 3 April 2017, \textit{et al.}; see also: WTO, WT/TPR/G/315} Chile’s engagements at a multilateral level are to some extent informed by whether concessions discussed during trade negotiations would violate its 6% flat-rate tariff, particularly where it has to ex-ante liberalise a group of products.\footnote{Interview with Bureau of Agricultural Studies and Policies (ODEPA) official, 4 April 2017; see also interview with Ministry of Foreign Affairs (MFA) official A, 6 April 2017.}

Chile has a long-standing investment and trade strategy that promotes both public-private partnerships and initiatives by government agencies such as the Foreign Investment Committee and ProChile (the country’s trade and investment promotional body) to attract private and public FDI.\footnote{L. White, op cit} A series of regulatory reforms in Chile’s public services and financial services sectors have created new opportunities for FDI,\footnote{L. White, op cit} which are giving momentum to the country’s economic diversification drive. In 2013 FDI inflows amounted to US$ 20.3 billion, representing a fall of 29% from 2012. However, in 2014 FDI inflows grew by 14%.\footnote{USA Department of State, op cit} These fluctuations are predominantly due to the ongoing instability in global commodity markets.

A side effect of Chile’s early trade liberalisation (including tariff reduction) programme was the virtual demise of the country’s non-competitive manufacturing sector, which received government support in the form of import substitution policies and various subsidies until 1973. While the country lacks a domestic manufacturing hub of its own, Chilean citizens have for several decades been able to access cheap and competitively priced imported products, notably information technology (IT) and other manufactured goods.
The outcome of Chile’s diminished manufacturing base has been an aggressive drive to position services trade as a core component of the country’s economic development strategy and to leapfrog the (re)development of a manufacturing sector. Many believe that building expertise in high-level services will afford Chile the impetus it needs to diversify and strengthen its economy.\(^{220}\) Contributing 63% to Chile’s GDP,\(^ {221}\) the services sector is the largest employer of all the economic sectors in the country, with special emphasis being given to infrastructure and technology.\(^ {222}\) Given the strategic focus on trade in services within Latin America and even in Chile’s various other alliances, including at the multilateral level via the WTO, it is clear that services trade will remain one of the cornerstones of Chile’s economic development strategy in the years ahead.

DIRECON, the country’s Trade Ministry, is housed within the Ministry of Foreign Affairs (MFA) and is responsible for managing a large trade portfolio, ranging from relations with the OECD and WTO, to negotiating Chile’s various bilateral agreements and FTAs.\(^ {223}\) DIRECON usually coordinates issues under the banner of trade policy instead of following a sectoral approach, and other government ministries are actively involved in the negotiation processes.\(^ {224}\)

There appears to be general recognition of the value of DIRECON’s current approach to trade liberalisation. For example, the growth of Chile’s trade in services is actively encouraged and viewed as a positive development by both government and the private sector, while Chile’s approach to sustainable development and the green economy and further liberalisation of trade in environmental goods is also supported by the Ministry of Environment.

### 3.2 Chile’s Attitude towards Multilateral, Regional and Bilateral Trade Relations

Chile is undoubtedly Latin America’s most ardent supporter of free trade and multilateralism, with the country demonstrating its support for a rules-based international trading system that provides opportunities for growth and inclusivity. In this context the WTO’s dispute settlement mechanism has proved to be particularly beneficial.\(^ {225}\) Chile also leverages its bilateral and regional trade ties in pursuing its economic development goals.\(^ {226}\)

For more than two decades Chile has been negotiating FTAs with various countries to further its trade interests\(^ {227}\) and today has amongst the highest number of FTAs in the world.\(^ {228}\) In recent years its efforts in this regard have been motivated by the slow pace of the DDR deliberations\(^ {229}\) which has resulted in many countries opting for FTAs to realise gains on the economic development and trade fronts. FTAs have enabled Chile to respond to the needs of its domestic sectors through market diversification and clear and transparent rules.\(^ {230}\) They have also given a boost to the country’s SME

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\(^{220}\) Interview with ECLAC representative, 3 April 2017.


\(^{222}\) L. White, op cit

\(^{223}\) Interview with ODEPA official, 4 April 2017. See also interview with Ministry of Environment official, 3 April 2017.

\(^{224}\) Interview with Ministry of Environment official, 3 April 2017.

\(^{225}\) Michelle Bachelet Jeria address to the WTO, op cit

\(^{226}\) S. Saez, op cit

\(^{227}\) Interview with ECLAC representative, 3 April 2017.


\(^{229}\) Interview with DIRECON officials, 4 April 2017; see also interview with MFA official B, 6 April 2017; see also L. Wehner (2011) *Chile’s Rush to Free Trade Agreements*. Revista de Ciencia Política, Vol. 31.2.

\(^{230}\) L. Wehner, op cit
sector by opening up markets to value-added exports and have helped to cement Chile’s position as a trade hub in Latin America.\textsuperscript{231} To this end, Chile views itself as “a port and a bridge between Latin America and the Asia Pacific”.\textsuperscript{232}

Interestingly, Chile’s liberal trade policies have resulted in the country not belonging to any Latin American REC, such as the Andean Community or MERCOSUR, although it does have associate membership of MERCOSUR (a customs union). Part of the reason for this lies in MERCOSUR’s and the Andean Community’s views on trade, which contrast with Chile’s advocacy of trade liberalisation and low tariffs. For example, MERCOSUR has traditionally pursued protectionist trade policies.\textsuperscript{233} Nevertheless, traditionally protectionist countries in the region appear to be moving towards greater trade liberalisation, reflecting changes to the status quo: until 2016, MERCOSUR member countries were only allowed to negotiate as a customs bloc and could therefore not negotiate bilateral FTAs independently from each other.\textsuperscript{234}

Chile has also participated in mega-regional FTAs, one of which is the TPP (which, though, is facing an uncertain future given the withdrawal of the United States from the agreement). Engaging within the TPP proceedings has provided Chile with the opportunity to strengthen and deepen its trade relations with the Asia-Pacific economies\textsuperscript{235} (thereby helping the country realise its export diversification and trade liberalisation goals) and to make specific gains in difficult markets (for example, access for Chilean agricultural exports into the Japanese market).\textsuperscript{236} The TPP offers Chile modern provisions and disciplines, such as enhanced innovation, labour and environmental protection laws and the lowering of NTBs, and addresses some of the ongoing challenges in the international trade system in ways that consensus-driven multilateralism has been unable to do.

Despite Chile’s support for trade liberalisation, the country is increasingly circumspect when it comes to various aspects of trade policy. For example, draft trade agreements are now met with greater scrutiny by Chile’s Congress and there is also growing civil society involvement in trade-related decisions.\textsuperscript{237} Nevertheless, there is no real dissent where trade liberalisation policies are concerned, mainly because social movements and non-governmental organisations have never been able to exert much influence over trade negotiations.\textsuperscript{238}

3.3 The Pacific Alliance, APEC and the Cairns Group: Alliances for Better Engagement?
Over and above its membership of the OECD and WTO, Chile is also party to two key regional forums: the Pacific Alliance and the Asia-Pacific Economic Cooperation (APEC) group. Engaging bilaterally/regionally with these country groupings provides Chile with the opportunity to develop harmonised standards, secure market access for its goods and services, and implement best practices in a number of areas.\textsuperscript{239}

\begin{thebibliography}{99}
\bibitem{L. Wehner, op cit} L. Wehner, op cit
\bibitem{Interview with ECLAC representative, 3 April 2017.} Interview with ECLAC representative, 3 April 2017.
\bibitem{Interview with MFA official B, 5 April 2017.} Interview with MFA official B, 5 April 2017.
\bibitem{Interview with MFA official A, 6 April 2017.} Interview with MFA official A, 6 April 2017.
\bibitem{Interview with MFA official B, 5 April 2017.} Interview with MFA official B, 5 April 2017.
\bibitem{Interview with ODEPA official, 4 April 2017.} Interview with ODEPA official, 4 April 2017.
\bibitem{S. Saez, op cit} S. Saez, op cit
\bibitem{Interview with IEI representatives, 5 April 2017.} Interview with IEI representatives, 5 April 2017.
\end{thebibliography}
Launched in 2010, the Pacific Alliance is regarded as an ambitious project with a growing agenda that extends beyond WTO issues to include education, labour and the environment.\textsuperscript{240} However, unlike APEC, the Pacific Alliance also constitutes an FTA between its four member states (Chile, Colombia, Mexico and Peru), which entered into force in 2016.\textsuperscript{241} One of the reasons for the Pacific Alliance’s success to date is that its members face similar trade issues and export similar products. This has encouraged collaboration amongst the four countries, particularly in the harmonisation of existing commitments and the development of regional trade in services.\textsuperscript{242} To its credit the Pacific Alliance also promotes green growth and the further liberalisation of trade in environmental goods and services, including emissions trading.\textsuperscript{243}

Established in 1989, APEC is essentially a forum of like-minded countries. As its deliberations do not carry the same binding weight as negotiations conducted under the WTO, APEC allows Chile to engage in plurilateral-like negotiations in a flexible environment.\textsuperscript{244} Members exchange views and sign new agreements that constitute accessories to existing FTAs. APEC also affords Chile the opportunity to pursue bilateral trade relations with some of the largest and most powerful economies in Asia, thereby expanding its existing export markets for goods and services.\textsuperscript{245} Despite only a small governmental team working on APEC issues, Chile is leading the APEC services working group while also actively participating in the mining and transport working groups.\textsuperscript{246}

The importance of APEC to Chile’s participation in plurilateral agreements centres specifically on the WTO-like environmental goods negotiations currently under way within APEC. Although these negotiations suggest a political motive, APEC has made some significant gains which the EGA plurilateral negotiations have been unable to:\textsuperscript{247}

(i) APEC’s EGA-like commitments involve an undertaking to reduce tariffs on environmental goods (EGs) to 5%, which is very close to Chile’s 6% flat-rate tariff: in April 2012, APEC members announced that they had reached an agreement on a list of 54 goods in respect of which they were committed to lowering applied tariffs to 5% or less by 2015.\textsuperscript{248} As such, Chile does not have to extend itself beyond its domestic policies or make commitments/concessions beyond those that it is already making in its existing FTAs.

(ii) The EGA-like processes within APEC have been ongoing for longer than the current EGA plurilateral negotiations and are at a more advanced stage.

(iii) APEC’s EGA-like initiative enjoys broad buy-in from its member states,\textsuperscript{249} which is an indication that there could have been persuasion or political pressure on Chile to participate in the APEC initiative.

\textsuperscript{240} Interview with DIRECON officials, 4 April 2017.
\textsuperscript{241} http://www.sice.oas.org/ctyindex/CHL/CHLagreements_e.asp accessed on 23 April 2017.
\textsuperscript{242} Interview with ODEPA official, 4 April 2017.
\textsuperscript{243} Interview with Ministry of Environment official, 3 April 2017.
\textsuperscript{244} Interview with ODEPA official, 4 April 2017; see also interview with MFA official B, 5 April 2017.
\textsuperscript{245} Interview with IEI representatives, 5 April 2017; see also interview with MFA official B, 5 April 2017.
\textsuperscript{246} Interview with IEI representatives, 5 April 2017.
\textsuperscript{247} Interview with DIRECON officials, 4 April 2017.
\textsuperscript{249} Interview with MFA official A, 6 April 2017.
(iv) APEC has a working and accepted definition of EGs, which is something that countries party to the EGA plurilateral negotiations have yet to achieve.

(v) Within APEC there is also a focus on EGs that contribute to green growth and sustainable development, creating the impression that APEC’s initiative extends beyond tariff cutting which is the current focus of the plurilateral EGA discussions.

The desire to bring about an APEC FTA is an initiative spearheaded by China, although it is still in its infancy.

Lastly, Chile is party to the Cairns Group, which is a negotiating bloc within the WTO comprising 19 developing member states. Formed in 1986, the Cairns Group focuses exclusively on achieving agricultural trade reforms within the WTO system, particularly in the context of the DDR deadlock, and is also engaged in building support for agricultural reforms amongst other developing countries. Moreover, the Cairns Group is opposed to export subsidies and the provision of agricultural subsidies by developed economies to their farmers – both of which are points of contention for Chile in its relations with its developed trading partners since it does not subsidise its own farmers. The Cairns Group was particularly vocal at the 10th Ministerial Conference in Nairobi in 2015, when developed member states committed to eliminate export subsidies with immediate effect, while developing countries agreed to phase out their use of unscheduled export subsidies by 2023.

3.4 Chile’s Participation in Plurilateral Negotiations

Of the four PTAs, Chile is engaged in the TiSA negotiations and is also being courted by EGA members to join their negotiations. The official reasons given for Chile’s selective participation in plurilateral negotiations centre on the country’s desire not to favour one sector over another and also not to distort the flat-rate tariff of 6%.

3.4.1 Trade in Services Agreement (TiSA)

Chile’s primary objective in growing and expanding its economy is undoubtedly to enhance its trade in services sector, which has grown by 250% since 1995. To this end, for example, Chile is setting out to grow its IT services sector by providing attractive incentives to recruit skilled foreigners. A new worker visa, which will take only 15 days to process, will enable companies to bring in IT specialist personnel. Meanwhile, the country’s new tech visa targets founders and investors that

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250 Interview with DIRECON officials, 4 April 2017.
251 Ibid
252 Argentina, Australia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, the Philippines, South Africa, Thailand, Uruguay and Vietnam. Hungary and Fiji were founding members of the Cairns Group, but have since withdrawn.
254 WTO, WT/TPR/G/315
255 The Cairns Group, op cit
256 Interview with ECLAC representative, 3 April 2017; see also interview with ODEPA official, 4 April 2017.
257 WTO, WT/TPR/G/315
258 Interview with SOFOFA representative A, 5 April 2017.
are already based in, or are looking to establish tech businesses in, Chile in association with science and IT professionals working in the country.\textsuperscript{259}

Chile’s participation in the TiSA is endorsed by DIRECON because it is of strategic economic interest to the country, especially in the wake of the lack of progress in the DDR.\textsuperscript{260} Participation in the TiSA negotiations also signals Chile’s commitment to bring its multilateral commitments under the GATS into line with its services commitments under its various FTAs (which are in fact stronger than its GATS commitments).\textsuperscript{261}

The expansion of Chile’s services trade is widely endorsed within government and the private sector, with the Association of Industries (SOFOFA) having played a key role over the years in informing the government about Chile’s various industry positions relating to trade in services. Founded in 1883, SOFOFA is a private, non-profit trade association and is Chile’s largest (and arguably most influential) federation of industries.\textsuperscript{262} SOFOFA has acted as the private sector counterpart to the Chilean government in all FTA negotiations, working closely with DIRECON as well as the Finance Ministry.\textsuperscript{263} As the apex private sector representative body in Chile, SOFOFA has a crucial role to play in informing the government’s negotiating position on the TiSA front.\textsuperscript{264}

SOFOFA is also involved in regional efforts in terms of trade in services, including participating in and leading the Pacific Alliance’s business council.\textsuperscript{265} SOFOFA stands to gain from Chile’s participation in the TiSA negotiations as it will help to establish rules to regularise trade in services amongst the interested TiSA member states and also lend weight to Chile’s efforts to liberalise services trade in its FTAs.\textsuperscript{266}

### 3.4.2 Government Procurement Agreement (GPA)

Chile is not a party to the GPA, and there appears to be widespread consensus that Chile would not experience any real gains from joining the GPA: the view is that GPA’s commitments are piecemeal and very selective in terms of which sectors are liberalised.\textsuperscript{267} Even though the 2014 GPA is more ambitious and transparent in its approach (good governance and anti-corruption are explicit objectives) than the original agreement,\textsuperscript{268} the GPA still lags behind Chile’s ambitious government procurement provisions across its various FTAs, which already promote transparency and open procurement, thus clearing the way for SMEs, foreign companies and others to tender for the supply of public goods and services.\textsuperscript{269} Introduced in 2003, the Chilean government’s procurement system has reportedly generated considerable savings for the state, while also being based on best practice mechanisms.\textsuperscript{270}


\textsuperscript{260} Interview with DIRECON officials, 4 April 2017.

\textsuperscript{261} Interview with MFA officials A and B.


\textsuperscript{263} Interview with SOFOFA representative A, 5 April 2017.

\textsuperscript{264} Interview with SOFOFA representative B, 5 April 2017.

\textsuperscript{265} Interview with SOFOFA representative A, 5 April 2017.

\textsuperscript{266} Interview with SOFOFA representative B, 5 April 2017.

\textsuperscript{267} Interview with SOFOFA representative A, 5 April 2017.

\textsuperscript{268} Interview with SOFOFA representative B, 5 April 2017.

\textsuperscript{269} Interview with ECLAC representative, 3 April 2017.

\textsuperscript{270} WTO, WT/TPR/S/315
The primary reason, therefore, for Chile’s non-involvement in the GPA can be traced to the gains that the country has made through its various FTAs and bilateral negotiations which have afforded Chile levels of access beyond the current government procurement thresholds offered under the GPA.271 However, Chile remains an observer in the GPA processes and if the GPA’s mandate grows, Chile may reconsider its stance.

3.4.3 Environmental Goods Agreement (EGA)
Chile is not engaged in the EGA negotiations, although it is a target of the outreach initiative by the negotiating countries (known as the Friends of Environmental Goods) which together account for approximately 86% of global trade in EGs.272, 273

According to DIRECON there are few gains to be had from participating in the EGA plurilateral negotiations (other than to signal Chile’s commitment to tackle environmental challenges) because the EGA is a tariff-reduction agreement and Chile’s environmental interests extend beyond tariffs.274 Already Chile’s bilateral trading arrangements provide the country with access to EGs from its trading partners at an almost zero-tariff rate.275 In addition, despite Chile’s support for the Paris Climate Accord, there is some domestic resistance to Chile participating in the EGA negotiations, the reasons for which are unclear.276 Those interviewed during the field work could not explain Chile’s reluctance to enter the EGA negotiations; however, it could have something to do with the government wishing to use its non-EGA participation as a bargaining tool in other, multilateral negotiations. Nevertheless, there is general consensus in government that if the EGA negotiations move beyond tariffs and include EGs, there could be greater interest from Chile in participating in the talks.277

Moreover, negotiating countries in the EGA plurilateral talks are still debating how the agreement should define EGs and how liberalisation should proceed.278 This offers a potential reason for developing countries’ reluctance to engage in the EGA discussions – a lack of knowledge about something as basic as the definition of an EG has resulted in unclear parameters for the themes and content of the negotiations. Consideration should also be given to the importance of sometimes ‘toeing the line’: unless there are clear gains to be had for a particular sector, sometimes it is best not to push specific issues that could create tensions with Chile’s neighbours.

Notwithstanding Chile’s non-participation in the EGA negotiations, the country is developing forward-looking policies aimed at liberalising the country’s markets for EGs. These policies are supported by the Ministry of Environment, a relatively new department established in 2010.279 Chile’s orientation in this regard also makes provision for a progression from the green economy and biodiversity towards the grey agenda which is focused on EGs, waste and contamination.280

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271 Interview with DIRECON officials, 4 April 2017. See also interview with ODEPA official, 4 April 2017.
274 Interview with DIRECON officials, 4 April 2017.
275 Ibid
276 Interview with MFA official B, 5 April 2017.
277 Interview with DIRECON official, 4 April 2017; see also interview with IEI representatives, 5 April 2017.
278 See interviews with ODEPA and MFA officials et al.
279 Interview with Ministry of Environment official, 3 April 2017.
280 Ibid
Ministry of Environment aims to develop the country’s involvement in issues relating to the trade in EGs by (i) ensuring that increased EGs trade and growth are sustainable; (ii) garnering support for harmonised trade rules for EGs; and (iii) promoting trade that covers EGs in both an environmental sense (e.g. emissions) and a trading sense (e.g. actual goods). For the latter to be possible, however, there has to be a clear definition of what an environmental good actually is; here Chile has begun categorising applicable products as EGs.

In recent years, Chile has also begun implementing a number of domestic policies and related pieces of legislation geared at the further liberalisation of the country’s trade in EGs. Domestic taxes on emissions and waste production management systems have been introduced, while the private sector has proposed that government consider establishing laboratories that certify emissions monitoring and evaluation mechanisms that track emission rates from industry. This shows that although Chile is not participating in the EGA negotiations, domestically it is achieving more than simple tariff reductions for EGs with its efforts towards sustainable development in particular extending far beyond the scope of the EGA negotiations.

Although Chile’s policy framework for trade in EGs is still at a developmental stage, with sufficient financial and technical investment there is potential for the country to expand its services trade to include the export of environmental services. There are hopes that Chile will become competitive in this arena in the near future, the gains from which could be utilised for further development of the country’s grey agenda. From discussions with stakeholders the general view emerged that Chile’s ability to advance its strategy to grow the country’s EGs sector is best served through domestic policies and bilateral relations, rather than at the multilateral level.

3.4.4 Information Technology Agreement (ITA-II)
In line with Chile’s reasons for not joining the GPA and the EGA, many in the Chilean government believe that there would be little to gain from participating in the ITA-II negotiations. Given Chile’s liberalised trade policies and lack of a local manufacturing base, many of the IT goods entering the country already do so at a tariff rate of close to 0%, which makes such goods affordable for Chilean consumers. Moreover, the ITA-II is still a tariff-cutting agreement which does not address IT services, non-tariff barriers (NTBs) or other issues currently facing WTO members when trading in IT services and goods. However, if the ITA-II negotiations move into a second stage which tables these issues for discussion, Chile would be more interested in participating.

3.5 Overview of GTAP CGE Modelling Results
The GTAP modelling revealed, overall, very small gains for Chile if it were to participate in the plurilateral negotiations. There also appeared to be some corroboration between the findings from the GTAP modeling exercise and the Chilean government’s trade interests discussed above.

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281 Ibid
282 Interview with Ministry of Environment official, 3 April 2017.
283 Ibid
284 Interview with MFA official B, 5 April 2017 et al.
285 Interview with DIRECON officials, 4 April 2017; see also interview with IEI representatives, 5 April 2017.
286 Interview with DIRECON officials, 4 April 2017.
3.5.1 EGA
Chile is projected to enjoy welfare gains of 0.52% by not joining the EGA negotiations compared to a minor decline in welfare of 0.22% when joining the EGA. Similarly, the value of Chile’s imports would increase by 0.21% when not joining the EGA compared to 0.06% when joining the EGA, whereas export values would increase by 0.95% when not joining the EGA and by 0.62% when joining the EGA. The GTAP modelling showed that a potential reason for Chile’s gains from not participating in the EGA is that it would have access to cheaper EGs due to other countries’ reduced tariffs and NTBs, whilst its own tariffs would still be in place. However, the simulations showed that if Chile joined the EGA and removed tariffs on its EGs, the country might battle to compete with cheaper products, resulting in a noticeable net impact on output and employment in Chile.287

The simulations also showed that the metals and mining sector in Chile would not benefit if the country joined the EGA – an important consideration for Chile, which has a large natural resources and extractive mining sector. That said, the EGs sectors that would gain from increased trade include leather products and petroleum, although the prominence of these industries as meaningful contributors to the country’s GDP (apart from retail trade) remains questionable.288

3.5.2 GPA
Chile has a very liberal approach to government procurement and as a result does not display much of a home bias. The GPA offers potential gains in the transport, construction and other services sectors (where home bias has been curtailed). Skilled and unskilled employment in these sectors would make gains if the country joined the GPA but in most other sectors skilled and unskilled employment would experience a notable decline.289

Chile is projected to experience a very small welfare gain of 0.92% by joining the GPA negotiations and a decrease in welfare of 0.28% by not joining the GPA. The value and volume of Chile’s imports would be higher at 0.34% and 0.87%, compared to -0.45% and -0.12% when not joining the GPA. The value and volume of exports, in turn, would increase by 0.21% and 0.14% when joining the GPA, while the value of exports would decrease by -0.3% and the volume of exports would increase by 0.11% when not joining the GPA.290 Furthermore, growth in real GDP is set to increase only slightly from 0.09% to 0.53%.291

The modelling showed that overall, Chile would not experience any significant real gains by participating in the GPA, because the net effect of joining is very small. This support the country’s current stance of non-involvement.

3.5.3 ITA-II
Unlike many other countries, Chile would not experience a positive net effect from joining the ITA-II. While the country would experience gains in trade flows, these would not be enough to compensate

287 Ibid
288 Ibid
289 Ibid
290 Ibid
291 Ibid
for the loss of revenue from reduced tariffs: for example, the total net loss\textsuperscript{292} for Chile based on 2015 trade and tariff data would be US$ 680 000 for the lower bound scenario and US$ 776 000 for the upper bound scenario.\textsuperscript{293}

Specifically, Chile would experience an overall neutral effect of welfare under Scenario A for both upper and lower bound and a minuscule gain (+0.001 percentage points for both the lower and upper bound) under Scenario B. The value of both imports (+0.001 percentage points for lower and upper bound) and exports (+0.03 percentage points for lower and upper bound) would increase slightly, regardless of whether or not Chile participated in the ITA-II. When joining the ITA-II, the manufacturing sector is projected to show positive growth, while the removal of tariffs on ITA-II-related products would have a noticeable (positive) impact on output in Chile. However, given that the manufacturing sector is not an integral part of the economy and that existing tariffs for information technology goods are already quite low, Chile has questioned the benefits of joining the ITA-II negotiations. In terms of employment, both unskilled and skilled labour benefit marginally when both not joining and joining the ITA-II, with most gains concentrated in the mining, textiles and the services sectors.\textsuperscript{294} Depending on Chile’s skilled/unskilled labour makeup for these sectors, there could be few gains to be had from joining the ITA-II.

### 3.5.4 TiSA

Lastly, Chile is party to the TiSA negotiations, which are designed to bind existing levels of liberalisation and improve the overall regulatory framework for trade in services.

The GTAP modelling revealed that while all TiSA participant countries are likely to derive some benefit from the agreement, the analysis showed only a small increase in their real national income – for Chile this increase was from 0.052% to 0.067%.\textsuperscript{295} Chile is projected to enjoy a small aggregate net welfare gain (+0.008 percentage points) when not joining, and a more significant gain (+0.02 percentage points) when joining the TiSA. The volume of exports would rise slightly (+0.031 and +0.033 percentage points when not joining TiSA). Chile’s export values as well as both import values and volumes would contract by between -0.04 and -0.06 percentage points when not joining the TiSA.

A significant proportion of the gains in export volumes for Chile when joining the TiSA could be attributed to the removal of the binding overhang on services trade with TiSA partners. However, removal of the binding overhang, would have no noticeable net impact on production and employment in Chile (with most changes being marginally small) for two main reasons. Firstly, the initial share of services exports globally is already quite small: all services sectors, except air transport, and the oil, gas, mining and quarrying sector show positive growth under both scenarios A and B. Manufacturing output contracts when either joining or not joining the TiSA. Secondly, the marginal losses in domestic market share due to increased competition from services imports would be matched by rising services exports to TiSA partners.\textsuperscript{296} The GTAP results also show that both

\textsuperscript{292} This refers to the PE model results where we say that the loss in tariff revenue (from joining the ITA-II) is greater than the gains in terms of increased trade (measured using the ‘trade creation’ metric in SMART) and welfare gains/losses.

\textsuperscript{293} Ibid

\textsuperscript{294} Ibid

\textsuperscript{295} Ibid

\textsuperscript{296} Ibid
skilled and unskilled labour would benefit from TiSA participation (albeit marginally), compared with the manufacturing sectors which would be negatively impacted. Specifically, all services sectors, except air transport and the oil, gas, mining and quarrying sector, would experience positive growth under both policy scenarios. These findings correlate with Chile’s desire to grow its trade in services, while leveraging its already liberalised approach to trade and using its participation in the TiSA to align its commitments at a multilateral level with those in place in its various FTAs and regional alliances.

A.4 Malawi Country Case Study

Table A4.1: Basic statistics on Malawi’s economy

<table>
<thead>
<tr>
<th>Economic status</th>
<th>Least-developed country</th>
<th>Open market economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population size</td>
<td>18.09 million297 in 2015(</td>
<td></td>
</tr>
<tr>
<td>GDP growth rate</td>
<td>2.8% (2015)</td>
<td>2.6% (2016)298</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>US$ 300.79 in 2016</td>
<td></td>
</tr>
<tr>
<td>Poverty rate (i.e. living on US$1.90 a day or less)</td>
<td>70.9% of the population299 (most recent data)</td>
<td></td>
</tr>
<tr>
<td>Human Development Index ranking</td>
<td>2016 Human Development Index score was 0.476and the country ranked 170th out of 188 countries300</td>
<td></td>
</tr>
<tr>
<td>Exports (46% of GDP in 2014)</td>
<td>Main export products (2014)(little value-added production): Tobacco, mining products, sugar, coffee and tea, and oil seeds301</td>
<td>Main export markets (2014): Europe (mainly Belgium, the UK, Netherlands, Germany); Africa (Mozambique, South Africa, Zimbabwe). 302</td>
</tr>
<tr>
<td>Inward investment (FDI was valued at US$1.239 billion in 2014 or 30% of GDP)</td>
<td>Main sectors attracting investment: Mining, agro-processing, energy and railway construction</td>
<td>Main sources of investment: Switzerland, South Africa, the UK, Kuwait, Mauritius, and France. 303</td>
</tr>
<tr>
<td>World Economic Forum’s 2016 Global Competitiveness Index ranking</td>
<td>135th out of 138 countries304</td>
<td></td>
</tr>
</tbody>
</table>

4.1 Introduction

This case study analyses Malawi’s position vis-à-vis the current negotiations underpinning the four plurilateral agreements discussed in this report. It explores issues surrounding the negotiations that are pertinent to Malawi and provides recommendations on the way forward to increase Malawi’s (and other LDCs') participation in the plurilaterals. The information is based on a literature review and interviews with government, sector regulators and private sector representatives in Malawi. An overview of Malawi’s economic and trade environment is first provided for context.

298 World Bank, Ibid
302 Ibid
303 Ibid
4.2 Malawi’s Economic and Trade Environment

Malawi is a land-locked least-developed country situated in Southern Africa. It is bordered by Mozambique in the south-east, Tanzania in the north-east and Zambia in the west. Malawi’s economy is categorised as ailing, with a high poverty prevalence and macroeconomic instability, high interest and inflation rates, slow growth, and a large and unsustainable trade deficit of over US$ 1 billion.

To address its numerous economic challenges the government of Malawi has in recent years formulated a number of policies and strategies, including: the Private Sector Development Policy; National Export Strategy; Malawi Trade Policy; National Industrial Policy; and Best Buy Malawi Strategy. Owing to critical fiscal and capacity constraints, however, the implementation of these policies and strategies has been limited and ad hoc.

One of Malawi’s biggest challenges is an undiversified export base which creates volatility in export earnings. Tobacco dominates Malawi’s export basket, with the country relying heavily on imported goods, particularly fuel, fertiliser and most manufactured goods. The country’s narrow productive base, weak domestic and international trade linkages and systems, and controlled exchange rate have given rise to an unsustainable trade deficit. Malawi’s poor external performance has also contributed to slow economic growth relative to the population growth rate. Malawi’s GDP per capita is increasingly falling behind that of other Sub-Saharan African countries.305 While a low-income country such as Malawi, with its low level of savings and high investment needs, would naturally be expected to import more than it exports, the country’s persistent trade deficit is not sustainable without the expansion and strengthening of the export sector.306

Malawi also faces high costs of doing business due to challenges relating to transport, communication and energy, as well as administrative barriers.307 This has negatively impacted domestic and export competitiveness and deterred meaningful FDI. In 2015 the economy ranked 141st out of 189 countries and 135th out of 140 countries on the *Ease of Doing Business*308 and *Global Competitiveness*309 Indexes, respectively. The Malawian government has acknowledged that factors contributing to this state of affairs include the weakening of the local currency and high inflation rates, low levels of investment, the high cost of market entry for small-scale producers and traders, the lack of a conducive business environment and restrictive non-tariff measures.310

The Malawi Development and Growth Strategy (MDGS II), which is the overarching medium-term development strategy, has as its main objective a reduction in poverty through sustainable, private sector-driven economic growth and infrastructure development. One of the key pillars of the MDGS II is a focus on ‘private sector development, industry and trade, recognising that the Malawi government should take deliberate and concrete steps to increase industrial activities that are

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critical for generating employment opportunities, [an] expanded manufacturing base, enhancing value addition and diversifying exports’. 311

In line with the MDGS II, the Malawi National Export Strategy 2013–2018 (NES) notes that the strategic imperative and goal for Malawi should be to build productive capacity such that exports match imports in the long term. This is central to the country’s national development agenda. The NES provides a prioritised road map, based on identified competitive advantages, for building the productive base which will generate sufficient exports to offset the upward pressure on imports.

The NES is also central to achieving the desired goal of moving into the export of high-value goods and services and reducing reliance on the export of raw or semi-raw commodities. This reliance has left Malawi exposed to commodity price fluctuations, and the negative fall-out from crop failures, aid shocks and climate change. 312

4.3 Malawi’s Participation in WTO and Regional Integration Initiatives

4.3.1 WTO Issues
Malawi used to be a contracting party to the GATT 1947 and has been a member of the WTO since its launch in 1995. Since the Uruguay Round Agreements came into force, Malawi – like other LDCs – has struggled with the implementation of these agreements, which entails modifications to national legislative and institutional structures. The Geneva Ministerial Declaration313 duly recognised the plight and marginalisation of the LDCs and small economies in this regard. However, the effective implementation of the WTO commitments by LDCs continues to be hampered by a lack of adequate financial, institutional, technological and technical support.

Malawi participates in the WTO as part of a number of regional groupings, namely the African Group, the African Caribbean and Pacific (ACP) Group and the LDC Group. The country participates in regional integration initiatives focusing on market access and other trade-related issues mainly through regional groupings like the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), the COMESA-EAC-SADC Tripartite Free Trade Area (TFTA) and, most recently, the African Union Continental Free Trade Area (CFTA). In these various groupings, Malawi has been advocating a meaningful developmental outcome from the DDR negotiations, including SDT, preferential rules of origin, the operationalisation of the Services Waiver for the LDCs, duty-free and quota-free market access for LDCs, and the elimination of trade-distorting domestic support and export subsidies.

Malawi’s active participation in WTO issues has been hampered by limited human and financial resources at the level of the Ministry of Industry, Trade and Tourism (MITT). As a result, the country has limited influence within the broader WTO membership.314

312 Ibid p. 6.
314 Interview with Mr Ulemu Malindi, Malawi Permanent Mission to Geneva.
4.3.2 Regional Arrangements

Despite Malawi’s membership of regional trading blocs, the country’s participation in intra-regional trade has not been strong. This is mainly due to Malawian exporters being unable to fully benefit from preferential market access because of the lack of productive capacity to produce goods and services of the right quantity, quality and price.

Southern African Development Community (SADC)

The SADC Trade Protocol, which was signed in 1996 to promote intra-regional trade\(^{315}\), provides for the progressive elimination of obstacles to the free movement of goods, services, capital and labour. The SADC tariff reduction negotiations were aimed at establishing an FTA by 2008. By 2016, Malawi had liberalised 70% of its trade with other SADC members – which was below the minimum threshold of 85% trade liberalisation under the SADC Free Trade Area.\(^{316}\) As such Malawi participates in the SADC Free Trade Area but maintains an exclusion list while working to remove tariffs on the remaining products. Malawi’s budget deficit and significant fall off in development aid have been impediments to the country being able to reduce tariffs on high revenue-generating imports.

According to the Malawi Revenue Authority (MRA), the following are some of the benefits of participating in the SADC Trade Protocol:

- More than 85% of the Harmonized System tariff lines now being at zero;
- Reduced waiting time for commercial traffic due to a reduction in the number of documents required for imports and exports, and a one-stop border post so that shipments do not have to pass through two inspections at the same location;
- Simplified and harmonised transit documents to reduce the paperwork burden on regional shippers;
- Reduced import tariffs and therefore a more conducive climate for promoting international trade;
- The elimination of non-tariff barriers (NTBs), i.e. import quotas, exchange control, customs delays; and
- National treatment of goods, i.e. the same conditions applying to both imported and domestic goods. There is no arbitrary discrimination.

In 2012, as a step towards achieving a free trade area in services, SADC adopted a Protocol on Trade in Services, which sets out a mandate for the progressive removal of barriers without stipulating specific liberalisation obligations. The Protocol does, though, prescribe general obligations for all MS with regard to the treatment of services and service suppliers from other member states. SADC MS agreed to prioritise six sectors, namely communication, construction, energy-related services, financial services, tourism and transport services. Negotiations are ongoing and expected to result in market access commitments that will provide a more predictable legal environment for trade and investment in the various sectors.

\(^{315}\) SADC comprises 15 member states, namely Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

There are also other key areas of cooperation, such as industrial policy, that constitute key pillars for improving the competitiveness of the region and diversifying individual SADC economies. Cooperation also takes place in respect of investment and labour policy issues.

**Common Market for Eastern and Southern Africa (COMESA)**

Malawi is also a member of COMESA and has participated in the COMESA free trade area since 2000. When launched, COMESA was designed to facilitate the removal of structural and institutional weaknesses in MS, with a key objective being to establish a fully integrated and internationally competitive regional economic community. To this end the primary focus of COMESA was to establish a customs union that would adopt a common tariff nomenclature, maintain a common external tariff (CET), and approve common customs legislation and procedures. These include measures relating to the valuation of imports and clearance procedures for imports, and the definition of circumstances warranting duty exemption. The COMESA Customs Union was launched in 2009. Malawi is in the process of migrating to the COMESA CET and the common tariff nomenclature, and remains engaged in negotiations on sensitive products that would require a longer transition period for rate alignment. Malawi grants duty-free market access to products originating from other COMESA members on a reciprocal basis as long as they satisfy the prescribed COMESA rules of origin.

Malawi also participates in several COMESA initiatives aimed at facilitating trade flows among MS, such as the Regional Customs Bond Guarantee Scheme, the COMESA Simplified Trade Regime and the COMESA Yellow Card Scheme for motor vehicle insurance. Key issues being negotiated within COMESA include the harmonisation of customs procedures and standards, and the mutual recognition of standards.

In June 2009, COMESA adopted the framework for liberalisation of trade in services. COMESA members agreed on seven priority services sectors, with negotiations to be conducted in two phases, to ensure more than 50% coverage of the services sectoral classification list (W/120) under the GATS. Negotiations have been concluded in respect of four services sectors, namely communication, financial services, tourism and transport. Negotiations on three additional sectors – in business, construction and related engineering and energy – will commence in due course.

**COMESA-EAC-SADC Tripartite Free Trade Area**

In June 2011, COMESA, SADC and the East African Community (EAC) launched negotiations on a Tripartite Free Trade Area (TFTA), with a view to rationalising the integration processes of 26 countries in the Southern and Eastern African region, in line with the African Union Action Plan for the harmonisation of regional economic communities throughout the continent. The TFTA has three pillars, namely market integration, industrial development and infrastructure development. The initiative foresees the alignment of trade and transport facilitation policies and measures among the three regional blocs. Movement of business persons is also being negotiated under a parallel and separate track.

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317 Other COMESA member states are: Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Seychelles, Madagascar, Mauritius, Rwanda, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe.
The TFTA was signed on 10 June 2015, although some components of the phase one negotiations (e.g. tariff liberalisation schedules and rules of origin) are still under negotiation, as are various aspects of the industrial and infrastructure pillars. Trade-related issues (such as trade in services, competition policy, export trade development, intellectual property rights and cross-border investment) will be negotiated in phase two. The TFTA requires 14 ratifications to enter into force; so far, no country has ratified the agreement.318

Other Preferential Arrangements
Malawi has bilateral trade agreements with China, Mozambique, South Africa and Zimbabwe, and a customs agreement with Botswana that dates back to the colonial period.319 While preferences under the bilateral and regional trade agreements to which Malawi is a party mostly overlap, the former remain of practical relevance in light of differences in rules of origin.

Malawi benefits from preferential access to the EU market under the Everything But Arms (EBA) initiative. EBA grants duty-free access to imports of all products from LDCs, except arms and ammunition, without any quantitative restrictions. However, Malawi is negotiating an Economic Partnership Agreement (EPA) with the EU, under the Eastern and Southern African region. These negotiations have been slow and have stalled on several occasions.

Malawi also receives Generalised System of Preferences treatment from Australia, Canada, the Eurasian Economic Union, Iceland, Japan, New Zealand, Norway, Switzerland, Turkey and the United States. In addition, as an LDC, it is eligible for preferential market access into Chile, India, Morocco, the Republic of Korea and Thailand.320

Malawian exports of certain agricultural and textile products (except apparel) are also eligible, until 2025, for duty-free and quota-free access into the US market under the African Growth and Opportunity Act (AGOA), an economic partnership between the US and Sub-Saharan Africa which is designed to open up new avenues for trade, investment and the transfer of technology.321 Under AGOA, Malawi has benefitted from the export of agricultural products, and textiles and apparel. Agricultural products generated between US$ 42 million in 2011 and US$ 32 million of export sales in 2014, while textiles and apparel generated between US$ 13.5 million and US$ 2.8 million over the same period. Malawi’s exports under AGOA declined by about 39% from 2011 to 2014, decreasing on average by 14% annually.322

4.4 Interaction Between the Government and the Private Sector
The MDGS II recognises the private sector as being key to achieving and sustaining growth in Malawi. The focus is therefore to ‘create a conducive environment in which the private sector can perform efficiently without excessive interference.’323 The National Working Group on Trade Policy (NWGTP) was set up in November 1996. Over time, the NWGTP has taken on the broad role of formulating

320 Ibid
321 https://agoa.info/profiles/malawi.html accessed on 31 August 2017
322 Ibid
323 MDGS II op cit.
trade policy, conducting negotiations and implementing trade agreements. It also facilitates consultation and cooperation among private and public sector stakeholders to promote trade. The NWGTP includes representatives from the Ministries of Industry, Trade and Tourism, Justice, Foreign Affairs and Agriculture; the Reserve Bank of Malawi; the Malawi Revenue Authority; the Malawi Trade and Investment Centre; and the Malawi Bureau of Standards. Private sector representatives include those from the Malawi Confederation of Chambers of Commerce and Industry (MCCI); the Exporters Association of Malawi; the Textiles and Garment Manufacturers Association of Malawi; and the University of Malawi. Various ministries provide trade-related inputs pertaining to their sectors.

For many years the NWGTP has been co-chaired by a senior private sector representative and Permanent Secretary of the MITT. Private sector representatives have participated in major trade negotiations and some of the WTO ministerial meetings as key members of the core negotiating team. However, this has diminished since 2008, weakening the voice of the private sector.

4.5 Malawi and the Plurilateral Trade Agreements

Malawi is not involved in any of the four plurilateral negotiations. However, from the interviews conducted with stakeholders, there were mixed feelings about whether Malawi should be party to the agreements. Some government officials were of the view that, despite the challenges Malawi faces, there would be merit in Malawi participating in certain plurilaterals. It is believed that the TiSA and the ITA-II generally have the potential to boost Malawi’s development and competitiveness by encouraging the importation of goods and services that could drive the industrialisation process and grow exports. This in turn could put the country on a firmer path towards the realisation of its MDGS II, which would assist in promoting the transfer of key technologies to enhance value addition. There is consensus that it is important that the members of the LDC Group, including Malawi, are part of the plurilaterals to ensure that they contribute to the rule-making process and that the LDCs’ interests are safeguarded. A deepening of the government’s engagement with the private sector will also be critical for achieving meaningful positions in the plurilateral negotiations.

In addition, Malawi is involved in a multiplicity of negotiations, both at the regional and multilateral levels, aimed at seeking greater market access and therefore does not have the capacity to broaden its trade agenda; thus, Malawi has to prioritise according to its limited resources. Malawi’s productive base is too underdeveloped and under-resourced to produce products that could take advantage of the market access opportunities in the various plurilateral agreements. Despite the potential benefits of opening up the domestic market to foreign competition under the plurilaterals, potential growth in some industries (particularly the nascent ICT sector) would be negatively impacted.

Furthermore, Malawi’s major trading partners are active in Malawi’s regional markets. Several officials were of the view that Malawi should consolidate and fully utilise the regional markets created by COMESA and SADC where it is already actively engaged in setting up rules of engagement, before expanding its trade agenda. Malawi should utilise its limited resources to focus on a prioritised trade negotiations agenda that has immediate benefits for the country.

There was a general lack of knowledge in the private sector about what plurilateral agreements are. The government has not yet publicised the plurilateral agreements, and the researchers have not found evidence of government discussions with the private sector on the possibility of Malawi
participating in such agreements. The private sector is of the view that the plurilaterals cater for the needs of industrialised countries. There is a belief that Malawi needs to first implement its many policies and strategies, which have been developed to enhance the productivity and competitiveness of the economy, to take better advantage of the existing market access opportunities and unilateral preferences it enjoys under its existing bilateral and regional agreements, before adding to its trade agenda.

4.5.1 Trade in Services Agreement (TiSA)
Services are an important component of Malawi’s economy, contributing around 50% of GDP, with wholesale and retail trade being the dominant activity, followed by financial services. Malawi exports various services, including those linked to transportation and tourism. Under the WTO GATS, Malawi made commitments in respect of services such as accountancy, banking, construction, health, tourism and various ‘other business services’, including technical testing and analysis. In addition, Malawi participates in services liberalisation negotiations at the regional level, focusing on, for example, communication, financial services, transport and tourism.

During the fieldwork, a Ministry of Industry, Trade and Tourism official remarked that “the national strategy for services is driven by domestic priorities and grounded in the services export activity already taking place.” Growth has been registered in financial and professional services, distribution and transport and communications, particularly in the ICT sector due to the opening up of the market to foreign competition. However, the development of the services sector is generally impeded by a weak regulatory framework. There is limited data on trade in services in Malawi – which is typical of most LDCs – and this makes it difficult to introduce deliberate policy interventions in the services sector. Although Malawi recognises the important contribution that services trade should be making to the country’s economic transformation, MITT officials remarked that there is insufficient understanding within government and the business community of how the one supports the other. Attempts have been made, though, to sensitise stakeholders to the concept of ‘servicification’, i.e. the role of services in industrialisation, and this has given impetus to the idea of developing a separate services trade policy.

From the interviews conducted with officials at the MITT, it is clear that Malawi faces serious financial and human capacity constraints which would stand in the way of the country effectively negotiating trade in services provisions. If Malawi were to participate in the TiSA, it would require substantial human and technical investment in order to build a diversified economic and negotiating unit for the services sector that is underpinned by national strategies and policies (legal and policy frameworks, competitiveness, investment and export strategies) and has political championship at the highest level. To achieve this, the government needs to also strengthen alliances with other LDCs.

325 Interview with Acting Director of Cooperatives and SMEs, Ministry of Industry, Trade and Tourism.
327 Ibid.
4.5.2 Government Procurement Agreement (GPA)

Malawi’s public procurement applies to purchases by any ministry, department or other division of the government, commercially-oriented state-owned enterprises (SOEs), statutory bodies, and any local authority.\footnote{328}{Public Procurement Act No 8 of 2003.} The legal framework as provided under the Public Procurement Act (PPA) is quite recent. The Office of the Director of Public Procurement (ODPP) was established in 2004 to regulate, monitor and oversee procurement proceedings conducted by procuring entities but it does not procure on behalf of such entities. Procurement is the responsibility of Internal Procurement Committees (IPCs) established in all procuring entities.

The public procurement regime in Malawi is fairly open to both local and international suppliers. However, it is subject to thresholds that are based on the procurement value. Any procurement of goods above MK (Malawi Kwacha) 500 million and procurement of services above MK 2 billion is eligible for international competitive bidding.\footnote{329}{At the time of the study, 1 US Dollar was equivalent to 750 Malawi Kwachas.} The PPA provides for the granting of the following preference margins: 20% of the offer price for the supply of goods with at least 30% local content (labour, raw materials and components); and 10% of the offer price for bidders of public works with at least 50% local ownership.

In a bid to support SMEs, the PPA recognises the policy of the government to provide opportunities for these domestic enterprises to participate as suppliers, contractors, consultants and subcontractors in public procurement. In this regard, procuring entities are responsible for effectively implementing SME enterprise promotion programmes, including achieving programme goals and ensuring that procurement personnel understand SME enterprise promotion programme requirements and take all reasonable steps to increase these enterprises’ participation in procurement activities.\footnote{330}{Section 28 of the Public Procurement Act.}

Malawi participates in COMESA where there is ongoing work on harmonisation of public procurement laws to facilitate freer regional trade. COMESA has adopted model Public Procurement Regulations to be used by MS in developing their national laws on public procurement.

From the interviews conducted, it is evident that officials from the ODPP are not aware of the negotiations on the GPA. The officials indicated that the MITT has not involved them in the discussions on Malawi’s interests in the WTO, particularly government procurement. Generally, it was pointed out that there is limited consultation between the government ministries and departments on Malawi’s interests when it comes to the negotiations. This is compounded by a limited understanding amongst government and various other stakeholders of the GPA agenda.

In addition to insufficient knowledge, the limited financial and technical capacity of most local suppliers means that they only manage to bid for small contracts. In this regard, officials were of the view that the GPA could potentially be beneficial to Malawi as it would help to increase capacity through foreign participation. Moreover, through the GPA Malawi could also negotiate for technical support to improve its public procurement system with a view to meeting international standards.
4.5.3 Information Technology Agreement (ITA-II)

Malawi recognises the important role of ICT in transforming the country into a knowledge-based and information-rich society. Efforts have been made to modernise various sectors of the economy using ICT. With an ICT-led nation in mind, the government developed the National ICT Policy in 2013, building upon existing policies such as the 1998 Communications Sector Policy, Digital Broadcasting Policy of 2013 and the Science and Technology Policy.

Malawi is faced with a number of ICT-related challenges, including inadequate ICT infrastructure, and low capacity in research and development in ICT. No patented ICT-based innovation has been recorded in the country. The country imports almost all of its ICT products and services. Moreover, Malawi has inadequate numbers of specialised ICT professionals and institutional capacity, and continues to depend on international experts and international institutions for capacity development and for implementing and managing complex ICT initiatives. Linked to this is the fact that experts for constructing the infrastructure have to be imported. The investment costs of ICT infrastructure are substantial and heavily dependent on imported material. These challenges impact negatively on the country’s economic growth, and so a catalyst like public sector and development investment in the rural areas is required if the ICT sector is to be stimulated. Tellingly, the e-Government Development Index of 2016 ranks Malawi in 166th place out of 190 countries surveyed.

The interviews with officials from the Ministry of Information and Communications Technology (MICT) revealed that, though there is limited awareness of the negotiations surrounding the ITA-II, they believe the ICT sector in Malawi will benefit a great deal from more open global trade in ICT products. They believe that lowering the cost of ICTs will afford Malawi access to new ICTs that are critical inputs for boosting productivity and making the economy more competitive. They also assert that accessing ICTs at a lower cost may foster innovation and thus play a major role in spurring employment and economic growth. However, they think that there will be a need for SDT for Malawi to cope with a transitional implementation period of liberalisation obligations.

Following a recent dialogue between Malawi’s Ministry of Finance and development partners, ICT has been identified as one of five key priorities. It is considered essential that Malawi participates in and contributes to the ITA-II negotiations as the country undertakes some of its key ICT projects, such as the Fibre Backbone Project and the Digital Malawi Project, with both projects aimed at increasing the availability of low-cost broadband services. There is a conviction that engaging with the ITA-I and ITA-II processes could help to foster technology sharing among member countries.

331 MDGS II op cit
332 As of 2012, there were a total of only 2,112 kilometres of fibre optic cable in the country, concentrated in urban areas. Approximately 85% of Malawi’s population live in rural areas. See http://data.un.org/CountryProfile.aspx?crName=malawi accessed on 10 May 2017.
334 Interview with officials from Ministry of Information and Communication Technology.
336 Interview with officials from Ministry of Information and Communication Technology.
337 Initially Malawi had nine priorities that had to be reduced to five, with ICT still remaining relevant on the list.
4.5.4 Environmental Goods Agreement (EGA)

Malawi is becoming increasingly concerned about the deterioration of the country’s natural resources and about the environment. The biggest environmental and developmental challenge is how to narrow the gap between the degradation of the natural resources and the environment, on the one hand, and sustainable production and economic growth, on the other.

With the agricultural sector facing diminishing productivity in the face of climate change, Malawi has adopted a number of policies to enhance environmental protection. These are in line with the global trend of embracing ‘green economy’ principles. For example, in 2004 Malawi adopted the National Environment Policy geared towards the ‘promotion of sustainable social and economic development through the sound management of the environment and natural resources.’ It also adopted the National Climate Change Policy in 2016 to create a policy and legal framework for a more coordinated and harmonised approach to climate change management.

Despite these promising initiatives, however, financial resources to implement a broad-based climate change research agenda in the country and to create an enabling environment for science and technology endeavours are inadequate. Also, given Malawi’s heavy reliance on imports, the country has not built up the knowledge or capacity to produce the environmental goods described in the EGA. Nevertheless, from the interviews conducted with officials, it was deduced that even though there is limited knowledge about the EGA negotiations, the country could benefit from reduced tariffs on environmental goods which in turn would help to address pressing environmental and climate change challenges. Thus Malawi needs to closely follow the EGA negotiations given the potential for the country to acquire cleaner technologies at more affordable prices.

4.6 Overview of GTAP CGE Modelling Results

The GTAP modelling exercise revealed that overall there would be no or very small gains for Malawi if it participated in the plurilateral negotiations. This finding, however, was contrary to the views expressed by the officials interviewed who believed that there could be some gains from Malawi participating in the TiSA and the ITA-II.

Trade in Services Agreement (TiSA)

In terms of the TiSA, Malawi is projected to experience a small aggregate net welfare loss (-0.1%) under Scenario A and a slight welfare gain (+0.2%) under Scenario B. Because the binding overhang is relatively small compared with, for instance, that of Chile, there would be only a small increase in Malawi’s aggregate import volume in Scenario B, while the volume of the country’s exports to the TiSA members is projected to be close to zero. There would also be no noticeable difference in export gains between joining and not joining the TiSA. At the sectoral level small structural changes would occur, with mostly negative effects on the country’s manufacturing sector. In terms

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341 Malawi National Climate Change Policy (2016), p. 11
of employment, there would be almost negligible growth in job creation among both unskilled and skilled labour.\textsuperscript{343}

\textit{Information Technology Agreement (ITA-II)}

Malawi is projected to experience a tiny aggregate net welfare gain (+0.3\%) for both the lower and upper bound under both Scenario A (binding the ITA-II-specific requirements) and Scenario B (the ITA-II’s coverage extended to other developing countries and LDCs). Given the relatively small base of ITA-II-related products in Malawi, the expected gains would be relatively small but positive. Accordingly, Malawi’s aggregate imports would decrease by between -0.1\% and 0.2\% when joining and increase by between 0.1\% and 0.2\% when not joining the ITA-II. These increases would mainly be concentrated in the primary sectors, while the country’s exports to WTO members are projected to increase by 0.5\% when not joining and by between 1.2\% and 1.3\% when joining the ITA-II.\textsuperscript{344} At the sectoral level there would be notable structural changes occurring, with mostly negative effects for the country in the non-ITA-II-related sectors. In terms of employment, both unskilled and skilled labour would benefit when not joining, with only unskilled benefitting when joining the agreement.\textsuperscript{345}

\textit{Environmental Goods Agreement (EGA)}

In respect of the EGA, Malawi is projected to experience a tiny aggregate net welfare loss of 0.2\% when both joining and not joining the EGA. Given the relatively small base of EGA-related products in Malawi, the expected gains would be relatively small or non-existent. Accordingly, Malawi’s aggregate imports would decrease by 0.34\% when not joining and 0.32\% when joining the EGA. These changes would be mainly concentrated in the mining and extractive sectors, while the country’s exports to WTO members are projected to increase by 0.78\% when not joining and by 0.21\% when joining the EGA. There would thus be a noticeable difference in export gains between joining and not joining the EGA. There would be some notable structural changes occurring, with mostly negative effects for the country in the non-EGA-related sectors. In terms of employment, both unskilled and skilled labour would benefit when joining and not joining the EGA, but would benefit more when not joining the agreement.\textsuperscript{346}

\textit{Government Procurement Agreement (GPA)}

In terms of the GPA, Malawi is projected to experience a positive aggregate net welfare gain of 0.3\% when not joining and a much larger gain of 1.3\% when joining the GPA. Malawi’s aggregate imports would increase by 0.8\% when joining compared with 0.2\% when not joining the GPA. These changes would be spread across most sectors in the economy, while the country’s exports to GPA members are projected to decrease from -0.12\% to -1.03\% when joining the GPA. There would thus be a notable difference in export losses between joining and not joining the GPA. There would also be

\textsuperscript{343} Ibid p. 41.
\textsuperscript{345} Ibid
some notable structural changes occurring, with mostly negative effects for the country in the agricultural sector.\textsuperscript{347}

\textbf{A.5 Policy Brief South Africa}

\textbf{5.1 Introduction}

South Africa is a founding member of the General Agreement on Tariffs and Trade (GATT) of 1947, which gave birth to the WTO. The country joined as a developed country (its status at the time). In 1995, South Africa joined the WTO and initiated a programme of drastically lowering its tariff levels, and has since been an active member of the multilateral institution and a proponent of its various processes. Underpinning South Africa’s foreign economic relations policy is a firm commitment to multilateralism as opposed to plurilateral or unilateral initiatives.\textsuperscript{348} This is reflected in South Africa’s non-participation in any of the plurilateral agreements, the way it conducts its diplomatic relations, and also in various other policy iterations.\textsuperscript{349}

Since 1994, post-apartheid South Africa has adopted different economic policy stances which are important for understanding why the country currently does not participate in certain processes like plurilateral trade agreements. The reasons for South Africa’s non-participation are informed firstly, by broader considerations of a geopolitical nature (e.g. South Africa’s commitment to multilateralism); secondly, by the country’s own industrial policy objectives (which are heavily influenced by the need to create jobs in the face of rising unemployment in the country); and thirdly, by pure economic arguments (e.g. the growth or decline in export revenues, the possible loss of revenue on imported goods and general investment prospects).

The GTAP analysis that informed this study seemed to support South Africa’s non-participation in the plurilaterals, showing that South Africa would not experience much economic gain from joining any of the plurilateral agreements under consideration. Growth in terms of GDP, employment and trade creation would also be minimal. Joining the plurilaterals would lead to an increase in imports, which while offering welfare gains to consumers could suppress the development of local industry. Considering that South Africa uses trade as a tool of industrial policy, it is therefore difficult to make an economic argument for joining the plurilateral agreements.

In order to build a case for South Africa’s participation, there are various political economy considerations, broadly informed by the evolution of trade dynamics in the multilateral sphere, which could be emphasised. Central to the need for participation would be the stalled state of the Doha Development Round, which provides an incentive for South Africa to seek new opportunities via plurilaterals. Furthermore, South Africa would benefit from participation in plurilaterals considering the growing disaggregated nature of production networks which have been in evidence over the past couple of years. Ultimately, South Africa’s participation would improve governance and transparency in its procurement regime.

\textsuperscript{347} Ibid

\textsuperscript{348} Infra 4, below.

Another important objective of this policy brief is to explore what developed countries already participating in plurilaterals could do to attract countries like South Africa to join the negotiations. Key to this would be an acknowledgement of South Africa’s unique history and its transformation agenda. In addition, developed countries should be sensitive to South Africa’s need to build its own industries in some of the areas that the plurilaterals are focused on, such as environmental goods. Meanwhile, South Africa should be able to envisage clear benefits for its industries by participating in the plurilaterals. Where there are no clear benefits in terms of GDP growth, for example, South Africa should be convinced that participation would nevertheless bring other, indirect benefits, such as the opportunity to reform the domestic regulatory environment, to gain access to global value chains and to send a signal to the investment community that there is benefit in investing in the country because of a rules-based regime flowing from the various plurilaterals.

The GTAP modelling for South Africa did not reflect substantive economic benefits emanating from participation in the plurilaterals. This should not detract, though, from the fact that participation in plurilaterals brings other benefits that might not necessarily be linked to GDP or employment growth.

5.2 An Overview of the Sectors Covered by the Plurilaterals

South Africa has a diversified economy which is mostly concentrated in the services sector. In addition, the country has high spend in public procurement. Over the past couple of years the country has started to engage in renewables through the Renewable Energy Independent Power Producer Programme (REIPP), which is contributing to an energy mix that the country envisages for the future. Openness to renewable energy reflects a commitment to some of the principles that are embodied in the EGA. However, South Africa, like most developing countries, favours an approach whereby the country controls the pace at which renewables are phased into the energy matrix. Information technology also contributes a sizeable amount to South Africa’s GDP, with the country having recently published a White Paper aimed at overhauling the ICT sector.

The contributions of the sectors covered by the four plurilateral agreements (services, government procurement, information technology and environmental goods) to the South African economy in terms of GDP and employment indicate that a prima facie case could be made for the country to participate in the plurilaterals. A GTAP analysis on each of the sectors was carried out with a view to giving an indication of how South Africa’s participation in the various plurilaterals could benefit the country’s economy.

5.2.1 Trade in Services Agreement (TiSA)

South Africa has quite a sophisticated services sector, contributing an impressive 68.7% to GDP. Its banking sector in particular is ranked highly in the world, and this is complemented by equally globally competitive insurance and legal sectors. What is not so impressive, however, is that the economy is weighed down by a high unemployment rate of about 27% and generally poor education standards (both of which can be attributed to some extent to South Africa’s political history). As the services sector tends to attract highly skilled personnel, many job seekers are excluded from the sector. In addition, it is difficult for entrepreneurs to start businesses due to regulatory barriers.

The South African economy is characterised by high levels of inequality which have worsened since the end of apartheid. This is despite the fact that the economy experienced considerable growth in the early 2000s with some level of job creation, as opposed to the current jobless growth
phenomenon. The South African government has therefore shifted its focus to manufacturing with a view to growing the economy and, most importantly, creating jobs. When South Africa joined the WTO in 1995, it made sharp cuts in tariffs – even in the manufacturing sector – which later led to massive job losses and the de-industrialisation of the textile sector. During that period South Africa also greatly liberalised its services sector. Today South Africa’s GATS commitments are less liberal than in its domestic policy sphere for services.

The question then is whether an economic argument can be made for South Africa to participate in the TiSA negotiations.

**GTAP Analysis on Services**

South Africa has high bound tariff commitments in the GATS. This means that the country allows for policy space, though currently there is no reason to use that wiggle room. The TiSA, on the other hand, is intended to bind the applied policy in the GATS and disregard the bound tariff. The significance of such a binding is that signatories to the TiSA will lose policy space, in that they will not be able to increase their tariff commitments back up towards the original bound rate. Investors and service providers view a high bound rate as contributing to policy uncertainty as a country has more room to change its policies. South Africa, owing to its turbulent history, prefers to have more policy space in order to realise its transformation objectives. Its position in this regard is provided for in various post-1994 policy documents that place economic transformation at the core of South Africa’s industrial and economic vision. For instance, South Africa’s termination of its various bilateral investment treaties was informed by the perceived need to create more policy space.

The GTAP modelling exercise indicated that South Africa would save 1.33% in welfare losses if the applied rate became the bound rate. In terms of welfare, SA benefits whether they join or not, i.e. both scenarios result in an increase in welfare, but joining results in a more substantial increase. A sectoral approach reflected that the following sectors would face significant trade export losses should the country join the TiSA: water (8%), transport (3.5%), communications (7.5%), financial services (10%), insurance (7.3%), business services (7.7%), ICT (6.8%) and construction services (10.6%). Moreover, joining the TiSA would not lead to any GDP growth for South Africa. Similarly, there would be no growth or change in national income or value of exports; instead the economy would experience a 0.1% increase in services imports. Furthermore, there would be a 0.1% increase in wages in the manufacturing sector as demand for unskilled labour services increased. The manufacturing and agricultural sectors would experience no growth linked to the services sector, even if South Africa joined the agreement. It is important to note that the increase in the different variables would be dependent on the growth of other sectors.

In a nutshell, the economic benefits emanating from South Africa joining the TiSA would be minimal. There could, however, be benefits in the maritime transport sector with a potential increase in exports of about 7% to other TiSA countries.

During interviews with government officials in South Africa it became clear that the country is not part of the TiSA negotiations mainly because of its general opposition to plurilaterals. In addition, South Africa is opposed to the way the TiSA negotiations have been conceptualised and conducted, i.e. secretive and exclusionary as far as developing countries are concerned. Moreover, South Africa

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is of a view that the TiSA negotiations are meant to push the interests of developed countries at the expense of developing countries, and particularly least-developed countries (LDCs). South Africa has also indicated that it is mainly focused on developing its manufacturing sector which potentially has more welfare gains for the general population through job creation. In short, South Africa does not envisage any direct economic benefits emanating from TiSA participation.

According to Brendon Vickers, a former senior trade official at the South African Department of Trade and Industry (dti), South Africa is opposed to the TiSA because the country perceives the agreement to undermine the basic WTO principles of inclusiveness, transparency, multilateralism and the developmental aspects encapsulated in the Doha Development Round. With these principles being compromised, South Africa believes that the outcomes of the TiSA negotiations would consequently lack any legitimacy amongst the broader WTO membership.

However, what is apparent from South Africa’s trade and industrial policies is an inclination towards the retention of the policy space that the country has carved out in the GATS. In terms of domestic policy, the services sector is one of the least transformed segments of the South African economy. The South African government therefore envisages transforming the services sector, meaning that the current bound reservations would be crucial for that process. The interviews with government officials revealed this awareness when reference was made to the Private Security Industry Regulation Amendment Bill which sets out to limit foreign ownership and control of private security companies in South Africa to a maximum of 49%, with local entities being afforded the majority stake.

Developed countries involved in the TiSA negotiations could seek South Africa’s participation if they addressed the systemic issues surrounding the negotiations. These relate to the secrecy of the negotiations and the fact that the negotiations are also hidden from the WTO Secretariat itself. The nature of the negotiations currently feeds into South Africa’s fears that plurilaterals are advancing the interests of developed countries at the expense of developing countries. South Africa would likely participate under the TiSA framework if it could be convinced of the link between trade in services and investment. In order to realise its industrial policy objectives, South Africa needs to attract investment. This could manifest as a service provider deciding to establish a commercial presence in a particular jurisdiction. From a purely economic perspective this might be more of a lure for South Africa to participate in the TiSA.

5.2.2 Government Procurement Agreement (GPA)

According to the South African Treasury, the country spends approximately US$ 37.5 billion annually on government procurement activities. Much of this spend relates to infrastructure projects, notably construction. With so much spent on public procurement, it is not surprising that this sector of the economy is at the core of South Africa’s transformation agenda and assorted policies to develop SMEs.

While South Africa has a well-developed public procurement regime at a domestic level, the country is neither a party to nor an observer of the Government Procurement Agreement or its successor,

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the Amended Government Procurement Agreement (AGPA). An understanding of South Africa’s domestic procurement regime is important for appreciating the country’s non-participation.

From a regulatory standpoint, the South African Constitution makes reference to this particular sector in Section 217, stating that procurement should take place ‘... in accordance with a system that is fair, equitable, transparent and cost effective’. In addition, the Constitution provides for public procurement to be used as an instrument of socio-economic transformation which addresses historically skewed policies. In this regard, the Constitution asserts that procurement should take into consideration ‘categories of preference in allocation ... the advancement of persons or categories of persons disadvantaged by unfair discrimination’.

Institutionally, the South African Treasury has a centralised procurement office, overseen by a Chief Procurement Officer. This office works closely with the Department of Trade and Industry (dti) which manages the relationship between procurement and trade policy. The evolution of South Africa’s trade policy after the end of apartheid has been such that trade policy is used as an instrument of industrial policy. This link between industrial policy and trade policy is one of the main reasons why South Africa is reluctant to engage in plurilateral negotiations.

**GTAP Analysis on Government Procurement**

Emerging from the GTAP modelling exercise was a picture of a negligible net welfare loss of 0.04% should South Africa decide not to join the GPA and an equally negligible net welfare gain of 0.6% should the country decide to participate in the agreement. The negative effects of South Africa joining would be concentrated in the manufacturing sector. On a positive note, there would be employment gains in the mining and extractive sectors.

The GTAP modelling exercise indicated that South Africa’s GDP would grow by 0.08% from 0.05% should the country become part of the GPA. Being part of the GPA would increase welfare gains for South African consumers in the amount of US$ 17 billion. South African imports of procured goods and services would increase by 2.18% while exports would increase by 1.42%. This means that South Africa would have a trade deficit in public procurement. In terms of changes in overall trade activity in various sectors, the modelling indicated that the construction sector would experience a total increase in trade of 0.9%, government services 0.4% and dwellings (RDP housing) would experience a 0.5% increase. The GTAP analysis reflected a disturbing decrease for many industries caused by a loss of domestic sales. In addition, there would be trade diversion to GPA countries with notable losses in exports in the construction, vegetable oil, and mining and quarrying sectors. Imports in the manufacturing sector would increase by 3.5%.

**A Case for South Africa Joining the GPA**

It is difficult to make an economic case for South Africa joining the GPA as it would not lead to considerable economic benefits but may instead lead to de-industrialisation in the manufacturing sector. This is against South Africa’s current industrial policy aims which are contained in government plans like the Industrial Policy Action Plan of 2017-18, the Framework of the New Growth Path of 2010 and the National Development Plan 2030 of 2011. These policy iterations reflect a shift from South Africa’s earlier economic policies that were consistent with a more liberal

approach to trade. As indicated, South Africa has since adopted a more cautious approach to trade as it tries to secure more policy space for industrialisation.\textsuperscript{353}

Interactions with South African policy makers within the dti revealed that South Africa’s reluctance to join plurilaterals is linked to an apprehension that resulting increased imports would undermine South Africa’s efforts to industrialise in the face of heightened foreign competition and, furthermore, that the country would have to surrender some of its policy space in relation to local content and preferential procurement stipulations, as envisaged in the Preferential Procurement Policy Framework Act of 2000.\textsuperscript{354}

However, notwithstanding the above, a case could be made that South Africa’s joining of the GPA would strengthen the country’s public procurement governance regime. The GPA complements South Africa’s domestic framework as the agreement states in its preamble that there is the need to tackle corruption and bid rigging.\textsuperscript{355} Additionally, being part of the GPA would help deal with challenges around the governance of public procurement in South Africa.\textsuperscript{356} Being a party to an international agreement would have the effect of encouraging greater adherence to related domestic normative regimes.\textsuperscript{357} The GPA would facilitate efficiencies and cost effectiveness, while also helping to tackle corruption in government procurement.\textsuperscript{358}

Besides improvements in the governance and regulation of public procurement, developed countries might persuade South Africa to participate in the GPA if they could demonstrate that there are other, additional benefits to be derived, like transfer of knowledge, skills and technologies through partnerships with local firms. Developed countries should consider including provisions that take into consideration the development and industrial policy imperatives of developing countries such as South Africa. This could include inserting caveats that are of a long-term nature for previously disadvantaged groups. The latest version of the GPA does have SDT provisions but for short transition periods only. South Africa’s transformation programme has no sunset period, which makes the current GPA (with its fixed-term SDT provisions) incompatible with the country’s Constitution which envisages ongoing concessions for entities that (having been victims of economic marginalisation) need special treatment. In addition, developing countries would be looking for technical assistance and capacity building for small and medium-sized enterprises to enable them to be competitive when the procurement market is opened up to other international players. Such capacity building would improve the standard and quality of services provided by SMEs.

5.2.3 Information Technology Agreement (ITA-II)
In line with its general policy of non-participation in plurilateral agreements and negotiations, South Africa is also not a party to the ITA-I or ITA-II. The reason for this non-participation (besides the general political-economic preference for multilateralism) stems from the nature of the information

\textsuperscript{354} See also Section 217, Constitution Act 108 of 1996.
\textsuperscript{358} M. Dube et al., Ibid
and communications technology sector in South Africa. The ICT sector contributes ZAR 94.7 billion (US$ 13.4 billion) to South Africa’s economy annually which translates into about 3% of GDP. In terms of employment, the sector currently provides about 335 000 jobs. South Africa is a net importer of ICT products and services which totalled US$ 12.2 billion in 2016. Accessibility to broadband is a challenge, with South Africa ranking 65th on the WEF’s 2016 Networked Readiness Index. Broadband speed stands at 4.1 MBPS against a global average of 5.6 MBPS, with Internet prices having decreased by 10% in the past three years. This means that while the South African ICT sector is not big in terms of its contribution to GDP, the government protects the industry to encourage more local participation and job creation.

The South African government is in the process of reviewing its ICT policy as evidenced in the National Integrated ICT Policy White Paper released in September 2016. At the core of the envisaged policy changes is the need to transform the sector and make it more inclusive. In addition, the South African government intends to boost ICT infrastructure and broadband roll-out. It is instructive that the South African government makes no mention of the ITA-II or any international agreement in its policy documents.

In interviews with South African policy makers, it became evident that one of the main reasons why the country is not keen on the ITA-II negotiations is that the country still wants to build and advance its ICT sector. South Africa is wary of an international agreement that might have a constraining effect on policy space, especially with regard to the policy on Black Economic Empowerment (BEE). This is because the country’s ICT policy has a lot of local content requirements aimed at developing black entrepreneurs in the SME sector. South African officials pointed to the experience of fellow BRICS member, India, whose ICT sector was almost decimated after prematurely joining the ITA-I.

**Making a Case for South African Participation in the ITA-II through GTAP**

The GTAP analysis indicated that in the event that South Africa joined the ITA-II, its GDP would grow by 0.17% as a contribution from the ICT sector. While the GTAP analysis evidenced overall negative growth in various indices for the South African economy in the short to medium term, the GTAP results made a case for increased imports that would then lower prices, leading to higher welfare effects. However, because South Africa intends to create a domestic ICT sector and export ICT products, the welfare creation effects of joining the ITA-II are not compelling to the government. This means that if South Africa were to join the ITA-II, there should be more than an econometric argument driving the decision.

South Africa already has low tariffs owing to the ambitious tariff cuts that the country embarked on after joining the WTO in 1995. However, totally eliminating tariffs would result in the government having to increase personal tax by a further 1% in order to make up for revenue losses to the fiscus, or when alternative sources of income. This would, however, decrease the price of IT products, leading to welfare gains. Currently, South Africa accrues US$ 3.7 billion in tariffs on IT products which amounts to 1% of GDP.

For South Africa to join the ITA-II, the country should be made aware of the dangers of forced localisation policies, which prescribe local investment and production, and have the potential to limit technology transfer and innovation. Countries that have embarked on policies aimed at creating an ICT industry through the imposition of performance requirements on firms have not been successful. Examples of countries that have tried unsuccessfully to embark on such policies include Argentina,
Brazil, India and Malaysia. In addition, developed countries can highlight the welfare gains that joining the ITA-II would bring to South Africa, especially in terms of the price of broadband. Critical to this argument would be studies showing that the liberalisation of broadband would unleash other innovations and lay the foundation for new industries.

South Africa needs to be able to envisage that joining the ITA-II would help address some of the challenges the country identifies in its ICT Policy White Paper, including low employment, poor infrastructure and lack of inclusivity, amongst others. This means that the ITA-II should have a broader development component linked to the protection of infant industries, capacity building and localisation requirements. Furthermore, considering the position of South Africa in SADC and Africa as a whole, an agreement that promotes regional complementarities and the development of regional supply capabilities would be more attractive to the country. Such an approach would best be achieved through rules of origin that take into account regional comparative advantages in the ICT sector. As the ITA-II currently stands, it is viewed by South Africa as being an attempt by members to aggressively push for market opportunities to the detriment of any possible development of a domestic ICT industry and supply chains.

5.2.4 Environment Goods Agreement (EGA)

South Africa’s environmental goods industry is quite small and is highly concentrated and specialised, contributing US$ 1.43 billion to GDP and an export value of US$ 4 billion in 2013. The sector is mainly concerned with the management of mine waste, mine rehabilitation and conservation, and biodiversity management. This is in response to a strong domestic demand emanating from the mining and energy sectors. Exports, however, face a range of non-tariff barriers such as certification requirements, local content requirements, and sanitary and phytosanitary measures.

As with the three other sectors discussed above, South Africa intends to develop its own domestic EG sector. This is evident from references thereto in various government industrial policy iterations, such as the New Growth Path which identifies the EG sector as one of the main employment-creating industries of the future. The IPAP, which is the Department of Trade and Industry’s guiding industrial policy document, places the EG sector at the core of efforts to improve energy efficiency and employment creation.

GTAP Analysis on Environmental Goods

The GTAP modelling indicated that South Africa would enjoy an increase in trade of 1.3% should the country become party to the EGA. Real national income would increase by 0.3% with exports increasing by 0.25% and imports by 0.96%, creating a trade deficit. The mining and extractive sector would generally benefit from South Africa’s membership of the EGA as the sector is already competitive.

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A sectoral analysis revealed that South Africa would benefit most in the extractive sector. The GTAP analysis also showed that countries that would gain the most from joining the EGA are those that have migrated to a greener economy. South African policy makers in the EG sector are of the view that the EGA is designed to create markets for green technology exports from the developed countries at the expense of the development of domestic industries producing equivalent goods.

**Securing South Africa’s Participation in the EGA**

The preceding analysis highlighted the nascent but important EG industry in South Africa – an industry that has not escaped South Africa’s current approach to making trade policy a component of industrial policy. Inevitably, such an approach is characterised by infant industry protection. South Africa will therefore not naturally gravitate towards a very liberal trade agreement which has the potential to undermine the country’s efforts to create a local EG industry. In order for South Africa to participate, the country would need to be assured that the development aspect of the agreement as initially conceived in the DDR has been preserved. Secondly, some form of infant industry protection for developing countries would need to be guaranteed in the EGA. South Africa is opposed to the APEC list of dual-use goods and would want to see an agreement with narrowly defined environmental goods. Dual-use goods are those products that can be narrowly defined as environmental in the EGA or can be utilised in ways that do not fall within the EGA. South Africa fears that the inclusion of dual-use goods in the EGA could lead to abuse of the agreement’s provisions. In addition, South Africa may consider participating if the agreement was broken down into projects or sectors, as this would also mean greater protection of policy space. Prospects of South Africa’s participation in the EGA could also be improved if the agreement focused on components rather than finished goods as South Africa (as a higher interest in developing its components market) and if there was provision for the agreement to expand to include non-tariff barriers to environmental goods trade.

**5.3 Conclusions**

This policy brief has highlighted the fact that South Africa’s general attitude towards plurilaterals is informed by both a foreign economic policy principle (adherence to multilateralism) and domestic industrial policy considerations. While the former serves a geopolitical purpose, the latter is based on experience and a desire to create a strong industrial economy that provides people with employment and a higher standard of living. South Africa lowered its tariffs in the mid-1990s when it joined the WTO, with grave consequences for the country’s nascent textile industry. The outcome of this has been a general concern about trade liberalisation which the country associates with de-industrialisation, loss of employment and underdevelopment. In a bid to rectify the perceived mistakes of the mid-1990s, South Africa has taken a policy decision to make trade policy an instrument of industrialisation.

Historically, creating such a link has led to a more inward-looking trade policy. Indeed, policy iterations such as the New Growth Path, the National Development Plan, the National Industrial Policy Review and the Industrial Policy Action Plan are a reflection of South Africa’s evolving approach to trade policy. The need for the country to preserve and expand policy space in bilateral, regional and multilateral trade (and even investment) agreements has been at the core of these various policy documents. An example of the encroachment of this policy approach was when South Africa rejected the Southern African Customs Union (SACU)-US FTA negotiations in 2002 in which
demands were made that were perceived to threaten the country’s policy space. Most recently South Africa terminated its bilateral investment treaties with the EU because it was of a view that such agreements did not create sufficient room for industrial policy. The same logic is applied in the case of the plurilaterals.

For South Africa to participate in the plurilaterals, it has to be convinced that they would not undermine the country’s efforts to industrialise. Complementing these industrialisation efforts is the country’s commitment to redress historical economic imbalances by developing a raft of policies that favour previously disadvantaged persons. These are measures that, in a WTO context, would fly in the face of the principles of non-discrimination. It is important to note that in many instances South Africa assumes agency on behalf of African countries and the global South. The country’s participation could therefore lead to more African countries engaging in the plurilaterals.

A.6 Policy Brief Lesotho

6.1 Introduction

Lesotho is a small, landlocked country, completely surrounded by South Africa. With a population of about two million people, Lesotho had a GDP per capita of US$ 1034 in 2016 and an unemployment rate of 28%. An estimated 57% of the population live below the poverty line. The country relies mainly on its agricultural production and its textile and clothing industry for export revenue. In 2016, more than 50% of Lesotho’s manufactured exports went to South Africa, while 33% went to the United States under the latter’s preferential market access scheme, the African Growth and Opportunity Act (AGOA). Of Lesotho’s exports to the US that year, textiles and clothing made up more than 50% of the value thereof.

Lesotho participates in global trade through various frameworks and alliances. The country is, inter alia, a member of SACU and SADC, and is eligible for duty-free market access under various preferential schemes offered to LDCs and developing countries, including AGOA and the European Union’s EBA initiative.

Despite Lesotho being offered preferential trade treatment by many countries, its economic performance is in decline. Similarly, SACU tariff revenue proceeds accruing to Lesotho have been steadily declining. This has put an additional burden on Lesotho as it relies on a sizeable proportion of SACU-generated revenue to fund its annual budget. According to the Lesotho Central Bank, revenues from SACU trade declined from 29.2% of GDP in 2014/15 to 15.9% of GDP in 2016/17, signalling a worrying trend that is likely to persist in the short to medium term. The Central Bank has also called attention to Lesotho’s widening current account deficit (mainly attributed to a trade deficit in goods) and worsening financial account in the last quarter of 2016.

Clearly, Lesotho’s decision to join any of the four plurilaterals would need to resonate with the country’s economic growth and development goals. Such a decision needs to be based on the country’s economic status as an LDC, its economic relationship with (and the implications of being entirely surrounded by) South Africa, and its economic dependence on SACU.

6.2 Plurilateral Agreements

6.2.1 Trade in Services Agreement (TiSA)

Lesotho’s Position Regarding Services

On the whole, Lesotho’s services sectors lack sophistication – at least when compared with those of the TiSA participants. For example, the TiSA’s preoccupation with safeguarding data in the interests of privacy is far removed from Lesotho’s priorities at this stage. An assessment carried out under the framework of the Services Waiver for LDCs revealed that in terms of market access, Lesotho was more interested in regional markets than those countries/markets taking part in the TiSA negotiations.

Lesotho has a fairly open economy, as revealed in its schedule of commitments under the GATS. This implies that the TiSA would coincide with the steady reforms that are currently under way in Lesotho. For example, in 2016 efforts were made to review the ICT policy in the water and energy sectors. However, the provisions being negotiated under the TiSA would make it difficult for Lesotho’s infant industries to develop. Similarly, Lesotho’s regulatory regime on data flows is not mature enough to make it feasible for the country to participate in the TiSA. Instead, it would simply amount to an expressed desire to adopt standards set by other countries – perhaps on a best practice basis. Nevertheless, it is important that Lesotho gives thought to the growing relevance of international data flows in international trade. Moreover, Lesotho should take cognisance of the structural and strategic implications of a possible TiSA agreement. Not joining the TiSA could lead to a situation in which, in the long run, Lesotho is locked out of the evolutionary process in specific services sectors – which could be undesirable given that most of the countries taking part in the TiSA negotiations have a sizeable share of the services market. If, through the TiSA, a two-tier system develops where the TiSA co-exists with the GATS, the trend would certainly be to move away from the GATS model to deepened liberalisation under the TiSA. It is therefore imperative that Lesotho undertakes an appraisal of the short-, medium- and long-term effects of not joining the TiSA.

Results of the GTAP Modelling Exercise

The countries that are estimated to gain the most from being a member of TiSA are those for which services sectors are relatively more important. More specifically, countries are expected to benefit from higher real national income increases if their services sectors’ exports share in GDP is greater. Lesotho’s proportion of services exports contributing to GDP in 2011 was 8.6%, and the ad-valorem equivalent (AVE) of reduction of services barriers undertaken by Lesotho is about 2.5%.

By comparison, Mauritius has a relatively large share of service exports of GDP, with a large binding overhang; thus, as barriers to services exports are reduced across TiSA participating countries, Mauritius is expected to ‘win’ by joining TiSA. Given that services are not as important in Lesotho economic mix, and given that the binding overhang (or uncertainty) to be removed is not that large, we do not expect major gains for Lesotho if the join TiSA.
Accordingly, we find that Lesotho could only benefit marginally from joining TiSA:

- In terms of GDP, Lesotho could gain from joining, but the gains are small (0.006 %-point increase)
- In terms of welfare, Lesotho could benefit if they join TiSA, with welfare increase of 0.12%-points
- In terms of investment Lesotho could benefit, but increase is small; only 0.004%-points
- National income could increase by joining, but benefits are small; only 0.001%-point increase
- Exports and imports: When joining, exports increase by 0.002%-points; imports fall by 0.003%-points. This would result in a slight decrease in terms of trade by -0.01%-points.
- Wages could be slightly higher and expect an increase of 0.001%-points.
- Sector that could benefit when joining TiSA include dwellings, other business services, trade (i.e. wholesale and retail), utilities, some manufacturing sectors and agriculture.
- Agriculture, textiles and food and beverages stand to gain more significantly from joining, whereas other sectors show negligible gains.
- **For all the above metrics, the benefits of joining TiSA are better for Lesotho than not joining, but in most instances the benefits or gains are small. Thus, it may not be worth the admin effort if they stand to gain so little.**

### 6.2.2 Environmental Goods Agreement (EGA)

**Lesotho’s Position in Relation to Environmental Goods**

Lesotho’s economy revolves around farming and low value-added manufacturing. Notwithstanding this, Lesotho’s priority sectors, including renewable energy and aqua-culture, suggest a growing appreciation of the importance of diversification into environmentally-friendly trade. For Lesotho, any decision to either join or refrain from participating in the EGA should be informed by a clear understanding of the future of environmental goods and how agreements like the EGA could impact such trade.

While greater participation in the EGA may enhance the impact of the agreement, there are some issues that warrant close scrutiny if the value of the EGA to LDCs like Lesotho is to be determined. In the first place, the potential economic benefits of the EGA may not get a positive reaction from politicians if the agreement involved sacrificing tariff revenue in the short term, particularly for those countries that are heavily dependent on such revenue. In the case of a country like Lesotho, participating in the EGA implies the need to open its market, the outcome of which would have repercussions for SACU as a whole, including the revenue proceeds from SACU. As a member of the customs union Lesotho cannot reduce tariffs unilaterally and will have to do so in consultation with and in unison with South Africa, Botswana, Swaziland and Namibia. In addition, there may be insufficient reason for Lesotho to develop its environmental goods exports. LDCs such as Lesotho
would require an effective incentive regime that would assist them to secure a share in the EG market and thus strengthen the viability of their participating in the EGA.

**Results of the GTAP Modelling Exercise**
The countries that are estimated to gain the most from joining the EGA are those for which the EG sectors are relatively more important. More specifically, countries are expected to benefit from higher real national income increases if their EG sectors’ exports share in GDP is greater. Lesotho’s proportion of EG exports contributing to GDP in 2011 was 0.1%, and the applied tariff and NTM reduction of EG barriers for Lesotho are more or less in line with the rest of SACU. Given that EG’s are not as important in Lesotho economic mix (only 0.1%), we do not expect major gains for Lesotho if they join EGA.

Accordingly, we find that it would not be in Lesotho’s immediate interest to join EGA as:

- In terms of GDP: Lesotho loses when joining, with GDP growth slowing by 0.04 % points).
- In terms of welfare: Lesotho loses if they join EGA, with a welfare loss of US$1 million.
- In terms of investment: Lesotho loses, but decrease is small; only 0.9%-points.
- National income: Gain by joining, but benefits are small; only 0.12%-point increase.
- Exports and imports: When joining, exports drop by 0.34%-points; imports rise by 0.11%-points. Slight increase in terms of trade, 0.09%-points.
- Wages could increase by 0.14%-points.

**6.2.3 Government Procurement Agreement (GPA)**

Lesotho’s Position in Relation to Government Procurement

According to the Ministry of Finance, about 60% of Lesotho’s budget is spent on government procurement, which contributes between 9% and 13% to GDP. However, the country faces serious challenges in its procurement regime. The Ministry of Finance has indicated that 90% of corruption cases dealt with by the Lesotho Directorate on Corruption and Economic Offences (DECEO) are procurement related.364

The Lesotho Government Procurement Bill aims to address many of the challenges associated with the operational aspects of the procurement regime, including political interference in the procurement process. Although the Bill provides for both open and competitive international tendering and national tendering, in national tendering the government has autonomy over procurement processes and the policy space directed at potential reforms. Predictably, such an approach does not allow for the adequate opening up of Lesotho’s government procurement market to international competition. The preservation of regulatory autonomy by the government and deficiencies in the procurement regime, which in turn result in high levels of corruption, mean that Lesotho falls well short of the GPA’s standards, particularly in light of the GPA’s extensive transparency criteria. Given the regulatory maturity of Lesotho’s government procurement regime, the country may not be in a position to join the GPA, at least in the short to medium term.

364 Presentation by Mbuba Mbunngu to the Ministry of Finance officials, February 2017.
Key to the effectiveness of the government procurement process in Lesotho is the public policy dimension, particularly in relation to economic and social goals. These goals make provision for: preferences to be granted to local suppliers; environmental concerns to be heeded; and vulnerable groups, such as SMEs, women, the youth and other disadvantaged persons, to be given special consideration in government procurement processes. From this perspective, the liberalisation of the public procurement market to outside competition through accession to the GPA, which prohibits offsets, would frustrate Lesotho’s public policy objectives.

In terms of transparency, the precision of Article XVII of the GPA regarding the degree of publication expected of GPA members is currently irreconcilable with Lesotho’s government procurement regime. As the GPA straddles all laws, regulations, procedures and practices relating to procurement, Lesotho would need to overhaul its current legal and regulatory environment before it could consider joining the agreement. However, a decision to do so largely lies with Lesotho’s political elite. As noted above, political interference in Lesotho’s government procurement allows loopholes which grant the political elite considerable influence over procurement systems and processes. Thus, any potential accession to the GPA would be subject to substantial reforms of the government procurement system.

Although the GPA recognises the position of LDCs in Article V, the obligation “to take into account the needs of LDCs” is legally subject to the unilateral decision of GPA parties to carry out the assessment of such needs. As a result, there are no checks and balances in the agreement to ensure a predictable and accountable assessment. In this context, the negotiations foreseen in the Article would clearly not be concessional, and Lesotho would largely have to accede to pre-established GPA obligations without recourse to the need for parties to the GPA to surrender their rights. Consultations with Lesotho government officials revealed that it would be difficult to sell the GPA to politicians without the assurance that Lesotho would be granted exemptions from having to implement some of the provisions of the GPA, particularly those tied to the pursuit of public policy objectives.

When it comes to potential GPA accession, market access emerges as an area of concern for Lesotho. As a net importer of most goods and services and faced with limited supply (i.e. both manufacturing and services-related) capacity, Lesotho is not – according to government officials consulted – competitive enough to seize market opportunities in the GPA members’ markets, even in the face of duty-free preferences. Given these weaknesses, the government would be hard-pressed to convince the politicians and the public that joining the GPA and opening the local market to foreign competition would benefit the business community and improve economic and social conditions in the country through the empowerment of domestic enterprises. Despite a positive GTAP modelling result highlighted below, the reality is that market access does not equate to market penetration and, from a goods and services exports perspective, market penetration is not guaranteed by accession to the GPA.

A further complication is that the GPA provides for negotiations of derogations or exclusions exempting countries from the need to implement parts of the agreement. This translates into conditional non-discrimination whereby GPA members may discriminate amongst each other in

365 GPA article https://www.wto.org/english/docs_e/legal_e/gpr-94_01_e.htm#articleV accessed on 17 June 2017.
cases where they are granted country-specific derogations or exclusion from some GPA obligations. While Lesotho may protect its sensitivities, the general thrust is that this approach partially nullifies the non-discrimination principle and limits the number of suppliers that can actively participate in a GPA member market. The impact of GPA-type derogations is that over and above Lesotho’s limited supply capacity, the GPA itself may allow limitations to market access.

Results of the GTAP Modelling Exercise
Lesotho shows clear and notable gains from joining the GPA, across most metrics and a good case could be made for Lesotho to join the GPA were it not for political economy reasons outlined above. The GTAP modelling finds that:

- In terms of GDP, Lesotho could gain from joining with GDP increases by 0.6 %-points.
- In terms of welfare: Lesotho benefits if they join GPA, with welfare increase of US$48 million.
- In terms of investment: Lesotho benefits, with a notable increase of 1.5% -points.
- Exports and imports: When joining, exports increase by 1.03% -points; imports rise by 1.6% -points. Slight increase in terms of trade, 0.41% -points.
- Wages slightly higher, 0.001% -points.
- Sectors that benefit when joining GPA include, textiles, construction, dwellings and government services.
  - Other sectors are negatively impacted, although losses are small, due to lower levels of local procurement by government
- For all the above metrics, the benefits of joining GPA are better for Lesotho than not joining, with more notable gains as compared to other plurilaterals.

Should Lesotho Join the GPA?
Even with the necessary political will, the decision to join the GPA should not be taken lightly. Opening the domestic market to foreign competition under the GPA has to be reconciled with the government’s public policy objectives, including employment creation which appears viable if domestic suppliers are prioritised and the sovereign right to regulate the government procurement market is preserved. Notwithstanding the outcomes of the GTAP modelling, there is insufficient evidence from parties to the GPA that suggests that the potential benefits of the agreement outweigh the public policy objectives foreseen in Lesotho’s government procurement regime.

Given the level of transparency required to accede to the GPA, Lesotho would be obliged to undertake reforms in order to be compliant with the agreement. However, the reforms envisaged in the Government Procurement Bill may not go far enough and therefore may not closely mirror the transparency obligations called for in the GPA. Furthermore, political will is another factor that is key to being able to determine if there is a need for reform and what is required for accession to the GPA to take place. Given political uncertainty in the country at present, such reform seems unlikely.

6.2.4 Information Technology Agreement (ITA-II)
Lesotho’s Position Regarding Information Technology
Currently there are no LDCs partied to the ITA-II. Not surprisingly, Lesotho is a net importer of ICT goods and services, with negligible exports of ICT products. However, like other African countries,
Lesotho is acutely aware of the need to develop higher levels of ICT awareness and capacity in order to stimulate its economy and enhance its competitiveness at both regional and international levels.

Lesotho has regional commitments stemming from its membership of SACU and SADC, e.g. the sharing of customs revenue under the SACU framework. The impact of the liberalisation of ICT products under the ITA-II would therefore need to be considered in the broader context of Lesotho’s commitments at a regional level. In practical terms, being a member of the customs union presents Lesotho with three options where the potential accession to the ITA-II is concerned, namely: to convince all SACU members to join the ITA-II in order to maintain the sanctity of the CET regime; to not join the ITA-II at all if any of the other SACU members are reluctant to join; or to leave the customs union altogether and join the ITA-II as an independent party. A further challenge is that the range of products covered by the ITA-II is so extensive that they may not be accommodated within SACU’s flexibilities.

Thus, Lesotho would face many challenges in persuading the relevant stakeholders to adopt the idea of joining the ITA-II. Apart from the complications created by Lesotho’s economic dependency on SACU, it would be difficult to explain away the ‘market access-market penetration’ dichotomy when contemplating the country’s export potential to ITA-II parties. The ITA-II does not address non-tariff barriers which frequently hamper trade in ICT products. Therefore, despite officially enjoying market access, Lesotho exporters might find it difficult to gain a foothold in foreign markets in the face of onerous technical standards, licensing procedures, and so on. In addition, Lesotho’s limited ICT productive capacity would mean that few products would in fact benefit from export preferences. A sweeping liberalisation of ICT products in turn would potentially put the local industry under considerable pressure and could well defer its development.

Lesotho’s national ICT policy has largely fallen short of being mainstreamed into ministerial action plans, and there are currently no trade-specific implementation strategies in place. Consequently, the policy is ill-equipped to inform a national approach to trade in information technology products. To this end, Lesotho’s ICT policy stance and development programme should be underpinned by a thorough feasibility study on viable sectors and product categories that could potentially benefit from more liberalised trade and/or export incentives. In turn, Lesotho would most likely attract foreign and domestic investment and trigger productive capacities in the information technology sector. Of course, the right political atmosphere is needed if progress is to be made. Therefore, in order to benefit from acceding to the ITA-II, an accommodating policy framework should be put in place.

**Results of the GTAP Modelling Exercise**

The countries that are estimated to gain the most from the ITA-II are those for which IT related sectors are relatively more important. More specifically, countries are expected to benefit from higher real national income increases if their IT-related sectors’ exports share in GDP is greater. Lesotho’s proportion of IT exports contributing to GDP in 2011 was very small, with a relatively small

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average tariff reduction from joining the ITA-II. Given that IT products are not as important in Lesotho’s economic mix, and given that the protection levels to be removed is not that large, we do not expect major gains for Lesotho if join ITA-II.

Accordingly, we find that:

- In terms of GDP, Lesotho could lose when joining the ITA, with losses range between -0.001 (for lower bound) and -0.002 %-point for upper bound tariff lines.
- In terms of welfare there could be a small welfare gain, ranging between 1.3 (for lower bound) and 1.6 %-point for upper bound tariff lines.
- In terms of investment, Lesotho could lose out when joining with both lower and upper bound decrease by 0.018%-points.
- National income could gain by joining, but benefits are small; range between 0.015 and 0.016%-point increase for lower and upper bound respectively.
- Exports and imports: When joining, exports increase by 0.023 and 0.024%-points for lower and upper bound respectively; imports increase by 0.014%-points for both lower and upper bound, which leaves a slight decrease in terms of trade of -0.01%-points.
- Wages could be slightly higher, 0.023 and 0.027%-points for both lower and upper bound.
- Sectors that benefit when joining ITA: for Lesotho, IT sectors of Electronic equipment and Metal products, but also in Wood products and some of the services sectors.
- The results of the GTAP modelling therefore remain fairly mixed but with gains being relatively small it would probably not warrant Lesotho joining the ITA in the near future.

Should Lesotho Join the ITA-II?

On the face of it, Lesotho seems not to be in a position to join the ITA-II. The country’s ICT industry has limited productive capacity and forfeiting customs revenue on ICT imports would be an disagreeable prospect both for the Lesotho government and other SACU members. Even if an SDT package could be negotiated for Lesotho to become a party to the ITA-II, the productive incapacities and plethora of non-tariff barriers in export markets of interest could be serious stumbling blocks. Varying political expectations in the region, particularly regarding the path to regional integration, could also complicate Lesotho’s prospects of acceding to the ITA-II.

Lesotho should, in the short term, concentrate on building relevant capacities at a national level, and leveraging the relative economic strength and sophistication of South Africa to strengthen the sectoral value chains in ICT products and thereby fast-track the development of the country’s (Lesotho’s) ICT sector. From a regional cooperation perspective, adopting a SACU or even SADC-wide negotiating position vis-à-vis the ITA-II negotiations appears to be the best way forward. This should ensure that Lesotho’s economic interests, which are largely intertwined with those of its regional neighbours, continue to be safeguarded. Finally, the national policy framework should be accommodating of trade in ICT products.
6.3 Overall Conclusions

From Lesotho’s perspective, each of the four plurilateral trade agreements needs to be considered on its own merits in the light of the country’s development priorities and shortcomings. Of course, for those plurilaterals that involve trade in goods, Lesotho is unable to take any unilateral decisions or action because it is constrained by its membership of SACU and its obligations under other regional trade arrangements.

A general observation from the analysis of the four plurilaterals is that the piecemeal approach to trade liberalisation may be a disincentive to Lesotho joining any of the plurilateral agreements.

If, however, the plurilateral agreements are fully implemented within the WTO system, they would represent a new approach to advancing the cause of trade liberalisation in the world and a new way of shaping trade agreements. Of course, the risk of marginalisation and the emergence of a bi-polar trading system would remain, particularly if some of the major economies chose not to participate in these new-look initiatives. Yet plurilaterals also provide scope for countries with narrow sectoral strengths to influence global trade policy in a way that could give their promising sectors a leg up – provided they concentrate on tackling their entrenched institutional and infrastructural weaknesses at a domestic level, while also streamlining their policy and regulatory processes. In this context, Lesotho is riddled with capacity challenges at the regulatory and sectoral levels, rendering the country ill-equipped to effectively participate in the plurilaterals. Instead, being part of an LDC collective within the multilateral system is a better option for the country at this stage.

Although the prospects of Lesotho taking part in any of the plurilaterals anytime soon seem unlikely, it is important that the country invests in reforms because the sectors under plurilateral arrangements are frontier areas that may define new standards in global trade. Lesotho should also identify possible synergies among plurilateral agreements, multilateral agreements and regional integration initiatives, particularly with respect to the market access-market penetration dichotomy.

A.7 Policy Brief India

7.1 India’s Economic Background

India is considered a late entrant into the global trading system. Despite being one of the founding contracting parties of the GATT, India’s commitments under the GATT were initially limited and for many years the country’s involvement in the global trading system was marginal and insignificant.

By the 1980s, India’s trade policy was marked by a considerable degree of export pessimism, with Indian industry performing relatively poorly in export markets. As a result, the government tightened import curbs, introducing quantitative restrictions on a wide range of imported products to conserve scarce foreign exchange. However, a full-blown macroeconomic crisis in the early 1990s forced the then Prime Minister Narasimha Rao and his Finance Minister Manmohan Singh to initiate large-scale macroeconomic and trade reforms, including:

(i) Abolishing industrial licensing;
(ii) Devaluing the Rupee twice and introducing partial convertibility; and

While unprecedented levels of FDI flowed into India and foreign participation became a reality in several sectors, the incumbent industries managed to keep in place a web of government controls and restrictions through their political connections. Even some of the successful manufacturing industries flourished on the back of state subsidies, which were administered through tax breaks or export incentive schemes.\(^{369}\) However, with the exception of a few industries like pharmaceuticals, textiles, gems and jewellery, and petrochemicals, most of India’s industries remained focused on the domestic market. India’s import activity, in turn, was confined to a few essential commodities, such as crude oil and capital goods.

This policy brief asks three main questions: what are India’s core priorities and sensitivities in international trade? How has India managed to push its offensive interests and safeguard its sensitivities in the preferential trade agreements concluded so far? Are there any real benefits to be had from India’s participation in the plurilateral negotiations, and do they offer India an opportunity for greater multilateral participation and the realisation of domestic trade interests?

The answers to these questions will depend to some extent on the geopolitical events that are yet to unfold; however, India’s approach to preferential trade agreements, and especially the four plurilateral negotiations, is influenced by whether the framework supporting any of the agreements can accommodate India’s core sensitivities, especially in some of the pro-poor sectors.

7.2 What Does India Want and What Can It Offer in Trade Negotiations?

Traditionally, India has been comfortable joining economic treaties that have allowed flexible trade commitments, such as the old GATT. Even the WTO framework has allowed reasonable flexibility for member countries to determine the extent and scale of their trade concessions.

India often brings a vast list of offensive and defensive interests to trade negotiations. India’s offensive agenda can be gleaned from some of its negotiating proposals as well as some of the reports prepared by national and international agencies. The WTO Secretariat’s Trade Policy Review\(^{370}\) report, for example, is an extremely useful means of conducting such an analysis.

India’s major offensive interests lie in securing improved foreign market access for a number of labour-intensive commodities, such as textiles and clothing, leather, gems and jewellery, marine products, chemicals and plastics, and certain engineering heavy-industry items.\(^{371}\) Although India is not a major exporter of agricultural products, it has a competitive advantage in goods such as rice, barley, wheat, dairy products, edible oils, and tropical fruits such as mango. According to a study

\(^{369}\) Some of these export incentive schemes were camouflaged as substitution drawback schemes which sought to neutralise the import duty element in exported products. But in many ways, these schemes were identified as export subsidies by various countervailing duty investigating authorities.


conducted by the Centre for WTO Studies based in New Delhi, India has a price advantage in only 20% of the tariff lines in the context of an agreement such as the TPP. The percentage could be even lower in the case of the Regional Comprehensive Economic Partnership (RCEP) countries, although India may have countervailing benefits in sectors such as services.

India has reduced its overall level of import duties on merchandise goods. However, duties on certain products, such as automobiles, wine and spirits, and re-manufactured goods, remain high. In most of its preferential trade agreements India has set out to suppress import competition by preparing a list of sensitive products that are not subject to tariff reductions. The country’s trade agreements generally incorporate an early harvest scheme (EHS), a timetable for tariff reduction or elimination, and sensitive lists.

Trade in services is one of the fastest growing sectors in the Indian economy. Indian software services exports alone generated US$ 82 billion in 2014–15. India has strong interests in various business services, such as medical services, transcription services, consulting services and legal process outsourcing. However, the country has taken only 33 commitments in this sector under the GATS. Despite India’s immense strength in various categories of services, the lack of proper regulatory regimes and poor coordination between various regulatory and professional agencies have ensured that India is not reaping the benefits of its competitive strength. During the run-up to the DDR, India had aggressively pushed the concept of a ‘GATS Visa’ as India’s services sector faced entry and operational barriers in several countries. However, this proposal lost traction, especially after 9/11.

Like many other developing countries, India’s defensive interests lie mainly in the agricultural sector and the country has often followed a middle path in agricultural negotiations. Although the sector’s share in India’s GDP has been steadily declining, at least three-quarters of the Indian population are dependent on agriculture. While India has been pursuing autonomous trade liberalisation in all sectors of the economy, the average applied rates on agricultural products remain in excess of 36%. In pursuing export interests in the agricultural sector, India’s major focus has been on retaining policy flexibility in providing price support to key agricultural products and shielding farmers from price volatility. In this regard India passed the National Food Security Act in 2013. India’s position in the 2013 Bali Ministerial declaration on food security served to reaffirm the

373 RCEP is a proposed FTA between ASEAN nations, and the six countries with which ASEAN has existing FTAs: Australia, China, India, Japan, South Korea and New Zealand.
374 A. Das & S. Singh, op cit
375 An early harvest scheme is a precursor to an FTA between two trading partners. It is intended to help the two trading countries to identify certain products for tariff liberalisation pending the conclusion of FTA negotiations. It is primarily a confidence-building measure.
critical importance of the agricultural sector in India’s trade negotiations. More recently, however, India’s stance on food stockholding threatened to derail the implementation of the Trade Facilitation Agreement, until a resolution was found in November 2014.\textsuperscript{382}

Indigenisation and local content requirements have been the two faces of India’s growth model. Import substitution policies have been slowly removed from India’s industrial policy, which has seen a revival in recent times in the wake of India’s new ‘Make-in-India’ campaign. However, the latter is not intended to reinstate import substitution; instead it is focused on making India a manufacturing powerhouse.\textsuperscript{383} However, some within India’s administration view import substitution policies favourably.\textsuperscript{384} Several sectors of the economy have benefitted from state-led policies mandating domestic content. For example, India is the third largest automotive manufacturer in the world.\textsuperscript{385} Similarly, the retail sector benefits from mandatory domestic sourcing requirements.

7.3 India’s Priorities in Terms of Preferential Trade Agreements

Even after joining the WTO, India did not seriously consider the idea of negotiating preferential trade agreements. Instead, the country focused on issues arising from the phase-out of quotas and market barriers, such as transitional safeguard measures and antidumping actions. In any case, typical North–South FTAs did not offer India too many benefits in the goods sector. India’s relatively high tariff structure implied that the country would have to offer disproportionately more than what it could extract from such agreements. However, successive governments in India affirmed their commitments to reduce the MFN applied rates to ASEAN levels. It was widely felt that reaching the ASEAN levels was crucial for achieving competitiveness in various sectors of the economy.

India currently has a network of 16 preferential trade agreements in force.\textsuperscript{386} These are mainly with its neighbours and other Asian or South-East Asian countries. India has also signed agreements with Afghanistan, Thailand, Singapore, Bhutan, Nepal, Japan and Malaysia. In addition, it has some RTAs with countries in Latin America, such as Chile and members of the MERCOSUR customs bloc.\textsuperscript{387} India is also a party to the Generalised System of Preferences (GSP), but these are partial in scope and cover very few tariff lines.

\textsuperscript{382} WTO (November 2014) \textit{Agricultural Negotiations Factsheet: The Bali decision on stockholding for food security in developing countries}, https://www.wto.org/english/tratop_e/agric_e/factsheet_agng_e.htm accessed on 17 May 2017.
\textsuperscript{383} India’s former Governor Raghuram Rajan argued that “Make in India” slogan should be reworded to “Make for India”. See also: A. R. Mishra (21 December 2014) \textit{Make for India better approach than Make in India: Raghuram Rajan}, LIVE MINT, http://www.livemint.com/Politics/nEPZGnUMtLN3o86upKbPs/Make-for-India-questions-Modis-Make-in-India-strategy.html accessed on 17 May 2017.
\textsuperscript{384} India’s former Commerce Secretary Rajeev Kher notes in the context of domestic content requirements in India’s Solar Mission programme, “in its development pursuit, India has not hesitated in adopting a pathway which though violative of the WTO rules, could also leverage the potential of its renewable energy market…” See A. Das & J. Nedumpara (eds.) (2016) \textit{Rajeev Kher: India’s Trade Disputes: Implications for Public Policy}, in ‘WTO Dispute Settlement at Twenty: Insider’s Reflections on India’s Participation’.
\textsuperscript{385} The Economic Times (24 July 2013) \textit{India to be world’s 3rd largest automotive market by 2016: HIS}, http://economictimes.indiatimes.com/india-to-be-worlds-3rd-largest-automotive-market-by-2016-ihs/articleshow/21306611.cms accessed on 17 May 2017. While India exported a mere 140,000 vehicles in the year 2000, in 2015 India exported roughly 3,570,000 – a more than 50-fold increase.
India’s integration with the ASEAN countries was given a major boost when it signed the ASEAN FTA in 2010. Services were initially not included within the framework of the ASEAN agreement and a separate agreement for trade in services was signed in 2014, which is yet to come into force. More recently, India has initiated a comprehensive regional integration initiative in South-East Asia with ASEAN plus six (the other members of the latter being China, Japan, Republic of Korea, Australia and New Zealand).

In 2007 India initiated negotiations to conclude a broad-based trade and investment agreement with the EU. The EU is India’s leading trade partner and the negotiations were widely considered to be in the interests of both parties. However, differences over various aspects, including intellectual property rights, market opening for services, non-tariff barriers and investment protection, served as major stumbling blocks.

India’s various trade agreements show how the country has been able to secure its trade interests and cement its trade relations through bilateral mechanisms. While empirical surveys have revealed that India’s trade agreements have resulted in improved trade between India and several other countries, they have also shown that India has a persistent trade deficit with most of its preferential trade partners. According to the Ministry of Finance, despite its negative trade balance India has realised significant welfare gains from these agreements. Yet the likelihood of a trade deficit, even in the midst of expected welfare gains, could explain the country’s reluctance to participate in plurilateral negotiations or more ambitious preferential trade agreements. India’s general approach has been one of cautious exploration based on strong domestic interests. Therefore, India is unlikely to negotiate agreements whose potential benefits are unclear and which exert a disproportionate amount of pressure on domestic producers – the majority of which are from the small and medium-sized enterprise sector.

7.4 Plurilateral Trade Agreements and Results from the GTAP Modelling

The GTAP modelling provided mixed results regarding India joining the plurilateral negotiations, with potentially favourable outcomes for the services and environmental goods sectors in particular. Currently, India is not party to any of the four plurilaterals, partially as a result of its protectionist policies and its resistance to the multilateral trading regime. Moreover, India would have to remove existing restrictions in a number of sectors and introduce regulatory harmonisation in several areas that are currently unregulated. Plurilaterals require a significant degree of harmonisation in diverse fields, which is something that India, like other developing countries, is still working towards.

India and the TiSA

According to the GTAP simulations, India is projected to enjoy a moderate aggregate net welfare gain from joining the TiSA. Sectors that would specifically gain from participation in the TiSA include communication, air transport, construction, agriculture, and the petroleum and chemicals

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sector. On employment, skilled labour would benefit from joining the TiSA, with some gains concentrated in the manufacturing sector that would be greater than those in the services sector.\footnote{R. Rossouw (2017) TiSA GTAP modelling report.}

Considering India’s inherent strength in services (being the sixth largest exporter of commercial services in the world), it was initially estimated that India would benefit by joining the TiSA. However, some of the proposed clauses in the TiSA, such as the standstill, MFN-forward and ratchet provisions (which restrict the reintroduction of previously existing trade barriers), may not be suitable for a country that is in the early stages of developing disciplines and a regulatory framework for some of its commercial services. According to NASSCOM President Chandrasekhar, “these agreements (TiSA) give global companies access to India’s markets. So the question is what we are getting in return and whether our services are getting the reciprocal access”. \footnote{Business Standard (2015), \url{http://www.business-standard.com/article/news-ians/need-to-protect-indian-interests-in-new-ita-pact-nasscom-115072401125_1.html} accessed on 28 July 2017.} Given these sentiments, there is an overwhelming view that participation in the TiSA may not be in the overall interests of India.

**India and the EGA**

According to the GTAP simulations, India is one of the developing countries that would gain from the increased trade flows and trade creation resulting from joining the EGA, although the real gains would be in terms of EGA imports: third countries joining the EGA would experience increases in imports of between 0% and 19% (i.e. US$ 0 and US$ 1.24 billion), with India ranking at the top in terms of countries that would gain from joining the EGA. Imports would increase if India joined the EGA as opposed to not joining, whereas exports would decline from joining to not joining (i.e. decreasing from -0.53% to -1.41%). Both skilled and unskilled labour in India would benefit more when joining the EGA, and investment amongst participating EGA countries is also expected to increase, with the most gains being realised by Cambodia, followed by Thailand, India, Sri Lanka and Kenya.\footnote{R. Rossouw (2017) EGA GTAP modelling report.}

<table>
<thead>
<tr>
<th>Importer</th>
<th>Trade creation effect</th>
<th>% change</th>
<th>Imports after</th>
<th>Imports before</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>US$ 1 242 591</td>
<td>12.4%</td>
<td>US$ 9 985 369</td>
<td>US$ 8 742 778</td>
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</table>

In terms of the impact on revenue, India would experience a positive net effect by joining the EGA. The new trade flows created as a result of joining would be greater than the loss in revenue from the elimination of tariffs on environmental goods. Changes in India’s terms of trade (the value of the country’s exports relative to imports) would be limited to 0.90% in the event that the country joined the EGA, as per the estimates for the year 2025.

<table>
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<tr>
<th>Importer</th>
<th>Revenue effect</th>
<th>Trade creation effect</th>
<th>Welfare effect</th>
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<tbody>
<tr>
<td>India</td>
<td>–US$ 493 051</td>
<td>US$ 1 242 591</td>
<td>US$ 47 366</td>
</tr>
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</table>

According to the GTAP simulations, India would experience an increase in real GDP by joining the EGA. The simulations and estimates are based on the assumption that the EGA will have been fully
implemented by 2024. India is projected to enjoy a moderate improvement in its aggregate net welfare by joining the EGA (improving from 1.2% to 1.8%).

In relation to wages, workers in countries with the highest real national income gains are expected to experience the highest wage increases, with India’s real wages estimated to grow by 2.1%. This gain is on account of the importance of EG exports in these countries, especially in the light of reduced barriers to EG trade. According to the simulations, skilled and unskilled labour would benefit more by joining the EGA. Concerning the different sectors, the strongest sectoral impact of the EGA is projected for transport, communication, and motor vehicles and parts.

Notwithstanding the trade and welfare gains, India does not see major advantages in joining the EGA since the simulations suggest an adverse impact on exports. Also, India’s export destinations (countries) are currently not part of the EGA and India cannot expect reciprocal market access for its EG products.

**India and the GPA**
The GTAP modelling shows that India would experience GDP growth of between 0.07% and 0.45% if it chose to participate in the GPA. This is not a small increase considering that India’s economy is already very sizeable. Moreover, India’s participation in the GPA would see its exports increase by 1.31%, with imports increasing by a more moderate 0.86%. This bodes well for a country that is seeking to increase its export volumes to maintain a healthy current account. India’s overall trade would increase by 0.68%.  

In terms of sectoral impact, India would realise welfare and employment gains in construction, government services, petrochemicals, and textiles and apparels. On the other hand, the country would experience losses in major segments of the manufacturing sector, electronic goods, vegetables and oils, and mining and quarrying. India’s reluctance to join the GPA negotiations could also be related to the potential losses in the sectors in which it considers itself to have a comparative advantage, such as electronics. However, these losses would potentially be offset by increases in exports in sectors such as oil and gas, petrochemicals and electronic products. Similarly, India could see huge increases in imports of textiles, food and beverages, and grains and crops by joining the GPA. For instance, textile imports are projected to grow by 4%. These sectors are among those that India would ordinarily want to protect in view of internal political dynamics. The country has been defensive in textiles, electronics and even agriculture. An increase in imports of grains and other cereals would inadvertently depress a sector that is already quite sensitive in the Indian political-economic matrix and in which India has a comparative advantage.

**India and the ITA-II**
With regard to India joining the ITA-II, the results are also mixed. Ordinarily one would expect India to be at the forefront of participating in the ITA-II considering that the country has a relatively competitive IT sector. However, India maintains a fairly high applied tariff of 8% on products covered under the ITA-II. For some of the non-IT products, such as refrigerators, window air conditioners and

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washing machines, the applied tariffs are more than 10%. According to the GTAP simulations, India is projected to enjoy only a moderate improvement in its aggregate net welfare by joining the ITA-II.

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<tr>
<th>Importer</th>
<th>Scenario</th>
<th>Revenue effect</th>
<th>Trade creation effect</th>
<th>Welfare effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>Upper\textsuperscript{b}</td>
<td>−US$ 1 464 927</td>
<td>US$ 2 571 737</td>
<td>US$ 111 160</td>
</tr>
<tr>
<td></td>
<td>Lower\textsuperscript{a}</td>
<td>−US$ 1 019 083</td>
<td>US$ 1 839 042</td>
<td>US$ 78 504</td>
</tr>
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Notes: \textsuperscript{a} Excluding ex-out lines, \textsuperscript{b} Including ex-out lines.

According to the GTAP simulations, imports are likely to decline from India not joining to joining, and exports to make significant gains from India joining to not joining (improving from 0.6% to 2.2%). Furthermore, according to the simulations, in the event of India joining the ITA-II, there would be an estimated increase in imports of 7.7% (including ex-out lines) and of 7.6% (excluding ex-out lines).

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<tr>
<th>Importer</th>
<th>Scenario</th>
<th>Trade creation effect</th>
<th>% change</th>
<th>Imports after</th>
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</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>Upper\textsuperscript{b}</td>
<td>US$ 2 571 737</td>
<td>7.7%</td>
<td>US$ 35 960 588</td>
<td>US$ 33 388 851</td>
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<tr>
<td></td>
<td>Lower\textsuperscript{a}</td>
<td>US$ 1 839 042</td>
<td>7.6%</td>
<td>US$ 26 180 158</td>
<td>US$ 24 341 116</td>
</tr>
</tbody>
</table>

Notes: \textsuperscript{a} Excluding ex-out lines, \textsuperscript{b} Including ex-out lines.

In terms of the impact on sectors, the strongest sectoral impact of the ITA-II is projected for the manufacturing sector, as well as for construction. In relation to employment, only skilled labour is likely to gain in the event of India not joining the ITA-II, whereas both skilled and unskilled labour would benefit if India opted to join.

While the GTAP estimations were positive overall in a scenario of India joining the ITA-II, the experiences of the domestic producers point to the fact that India being a party to the ITA-I was particularly harmful to the domestic industry. While imports (of 210 products at HS six-digit level) grew by 18% during the period 1997–2000, the figure virtually doubled to 38% in the next five years. Imports of IT products constitute roughly 10% of India’s total imports and occupy second place after petroleum in India’s import mix. The demise of India’s fledgling electronics hardware industry has often been attributed to the signing of the ITA-I.\textsuperscript{396} In this regard the Indian electronics industry found it hard to compete with the more established East Asian and Chinese companies. In view of its weak domestic production, India’s growing demand for IT products is largely met through imports, especially from China.

In sum, the GTAP findings point to India experiencing both losses and gains should it participate in the plurilateral negotiations. However, future decisions to participate in these negotiations would be informed by whether the trade losses are justified by trade gains, the impact that participation would have on domestic markets, and whether India can move beyond its current defensive stance towards the multilateralism agenda.

### 7.5 Conclusion

India is at a crossroads regarding whether or not to participate in plurilateral trade agreements. While India does support multilateral processes, the utility of such an approach is somewhat dubious in view of the lack of progress in trade negotiations under the WTO. The inability of the WTO to

conclude any major trade agreements, other than the Trade Facilitation Agreement, in the last few years has spawned a certain amount of frustration about the negotiating branch of the multilateral framework for India and other developing countries.

India has a competitive advantage in the production of several commodities and in services sectors, and also has domestic industries to consider when deciding which multilateral processes to participate in, and which to avoid. As such, India has to balance competing interests when establishing its position in multilateral and plurilateral trade negotiations. Consequently, expansive trade agreements may not be an immediate option for India. This view is fortified by India’s experience in concluding PTAs over the last two decades. Instead, a staged and sequential approach may be the best option for India, with stand-alone bilateral trade agreements being the preferred route. Even in the case of the RCEP countries, India’s potential losses due to trade diversion are likely to be least in those countries with which India has preferential trade agreements.

While quantitative results revealed certain welfare gains for India in the context of the four plurilaterals, there is concern that the domestic industry, especially small and medium-sized enterprises, could be rendered vulnerable in the wake of tariff elimination. Going forward, India’s experience in the ITA-I will certainly influence the country’s approach to the plurilateral negotiations. India is independently negotiating FTAs with several countries on a bilateral basis. These bilateral agreements could ensure that the negative consequences of trade diversion are effectively mitigated or minimised. Moreover, concluding agreements on a bilateral basis could pave the way for the negotiation of more ambitious agreements with larger trading partners or blocs. Importantly, these would guarantee India access to important markets, trade concessions and the upholding of its domestic interests in ways that would not be possible under plurilaterals and the WTO multilateral agreements.