

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

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*African perspectives.  
Global insights.*

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## SUMMARY

Plurilateral trade agreements (PTAs) are voluntary agreements of a sectoral nature that are entered into by more than two WTO member states. The WTO membership is to be notified of PTAs when signatories decide to formally incorporate a PTA into the WTO architecture. However, member states' decision to embark on plurilateral negotiations does not require formal consideration by WTO members not party to these negotiations. Nevertheless, incorporation of a PTA into WTO architecture requires compliance with Annex 1 or 4 agreements, as per the WTO Marrakesh Agreement, in terms of which '[t]he 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.'<sup>1</sup>

The overarching purpose of this project was to understand what factors limit developing country and least-developed country (LDC) participation in the 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 research aimed to identify, analyse and understand developing countries' lack of engagement in plurilateral agreements, and to quantify the losses resulting from their non-participation, in order 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 Doha Development Round (DDR).

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, despite the fact that progress on DDR issues has stalled.

This final report of the project focuses specifically on the following plurilateral agreements: the Trade in Services Agreement (TiSA); the Government Procurement Agreement (GPA); the Environmental Goods Agreement (EGA) and the Information Technology Agreement II (ITA-II).

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1 WTO (World Trade Organization), 'Marrakesh Agreement establishing the World Trade Organization', [https://www.wto.org/English/docs\\_e/legal\\_e/04-wto\\_e.htm](https://www.wto.org/English/docs_e/legal_e/04-wto_e.htm), accessed 24 October 2017.

The methodology followed was mixed, with both GTAP and SMART modelling<sup>2</sup> 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.

## QUANTITATIVE RESULTS

The results from the GTAP model on all four plurilateral agreements are summarised below. 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 policymakers should delve deeper into specific country case analysis to fully understand each of the four PTAs' potential impact.

While the results show small positive gains from participation, they are not significant for the developing country and LDC group on aggregate

**TABLE 1** SUMMARISED RESULTS OF THE GTAP ANALYSIS

PTA	GTAP results for selected developing countries and LDCs <sup>a</sup>
TiSA	<ul style="list-style-type: none"> <li>Aggregate gross domestic product (<b>GDP</b>) of all selected developing countries and LDCs that choose to participate in the TiSA is projected to <b>increase</b> by between 0.01 and 0.02 percentage points over the period 2017 to 2025.</li> <li><b>Investment is projected to rise</b>, 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.</li> <li>An <b>increase in welfare</b> of \$1.5 billion (in Scenario B) is projected for all developing countries and LDCs.</li> <li>Taking into consideration the potential GDP, welfare and investment gains foregone, the total <b>opportunity cost</b> of developing countries and LDCs' not participating in the TiSA is a <b>loss in additional GDP growth</b> of approximately 0.01 percentage points; \$1.2 billion in terms of <b>foregone welfare gains</b>; and 0.004 percentage points in <b>foregone investment growth</b> over the period 2011 to 2025.</li> <li><b>Most of the economic gains are driven by the reduction in the binding overhang.</b><sup>b</sup></li> <li>The TiSA presents net economic benefits to most countries that choose to participate, but there will be <b>adjustment costs</b> arising from increased competition and cross-sectoral obligations.</li> </ul>

2 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. See, for example, GTAP, 'GTAP data bases: GTAP 9 data base', <https://www.gtap.agecon.purdue.edu/databases/v9/default.asp>, accessed 7 February 2018, for more detail on the model and database.

<b>TiSA</b>	<ul style="list-style-type: none"> <li>For all developing countries and LDCs, most benefits are concentrated in <b>maritime transport</b>, 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; ie, 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.</li> </ul>
<b>EGA</b>	<ul style="list-style-type: none"> <li>Aggregate <b>GDP of all developing countries and LDCs</b> that choose to participate in the EGA is projected to <b>increase</b> by between 0.1 and 0.43 percentage points over the period 2017 to 2025.</li> <li><b>Investment is projected to rise</b>, with gains ranging from 0.23 to 6.67 percentage points across developing countries and LDCs, attributable mainly to higher investment growth in the environmental goods sectors.</li> <li>An <b>increase in welfare</b> of \$2.9 billion (in Scenario B) is projected.</li> <li>Taking into consideration the potential GDP, welfare and investment gains foregone, the total <b>opportunity cost</b> of developing countries and LDCs not participating in the EGA is a <b>loss in additional GDP growth</b> of approximately 0.33 percentage points; \$2.8 billion in terms of <b>foregone welfare gains</b> (the difference between scenarios A and B); and a loss of 0.9 percentage points in <b>foregone investment growth</b> over the period 2011 to 2025.</li> <li>Most developing countries and LDCs experience <b>increased real spending</b> on environmental goods, resulting in gains in economic <b>benefits linked to improved environmental quality</b>.</li> </ul>
<b>GPA</b>	<ul style="list-style-type: none"> <li>The aggregate <b>GDP of all selected developing countries and LDCs</b> that choose to participate in the GPA is projected to <b>increase</b> by between 0.21 and 1.75 percentage points over the period 2017 to 2025.</li> <li>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.</li> <li>An <b>increase in welfare</b> of \$56 billion (in Scenario B) is projected.</li> <li>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 <b>loss in additional GDP growth</b> of approximately 0.52 percentage points; \$54 billion in terms of <b>foregone welfare gains</b> (the difference between scenarios A and B); and a loss of 2.11 percentage points in <b>foregone investment growth</b> over the period 2011 to 2025.</li> <li>Most of the economic gains are driven by the <b>reduction in home bias and resulting changes in government procurement or linked sectors</b>.</li> </ul>

<b>ITA-II</b>	<ul style="list-style-type: none"> <li>• Aggregate <b>GDP of all selected developing countries and LDCs</b> 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.</li> <li>• <b>Investment is projected to rise</b>, with gains ranging from 0.01 to 0.03 percentage points across developing countries and LDCs, attributable largely to higher investment growth in sectors related to information technology (IT).</li> <li>• An <b>increase in welfare</b> of \$213 million (in Scenario B for the upper bound) is projected using GTAP and an estimated \$441 million for the upper bound using the SMART model.</li> <li>• Taking into consideration the potential GDP, welfare and investment gains foregone, the total <b>opportunity cost</b> of developing countries and LDCs not participating in the ITA-II is a <b>loss in additional GDP growth</b> of approximately 0.001 percentage points for both the lower and upper bound scenarios; \$13 million for the lower bound and \$50 million for the upper bound scenario in terms of <b>foregone welfare gains</b> (this is significantly lower than the \$315 million for the lower bound and \$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 <b>foregone investment growth</b> over the period 2011 to 2025.</li> </ul>
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- a See Annex A for more information on the scenarios used.
- b The gap between the bound and applied Most Favoured Nation 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, World Bank, 'Types of tariffs', [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 30 August 2017.

## QUALITATIVE RESULTS ON COUNTRY CASE STUDIES AND POLICY BRIEFS

This report provides information on three in-depth case studies looking at Chile, Bangladesh and Malawi. Each of the countries provides a perspective on plurilateral negotiations relating to their respective social and economic development levels. Of the three, 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, and 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 as-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.

The country case studies show that countries are willing to forego the significant anticipated net welfare gains in favour of maintaining control over their policy space. For countries such as 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 PTAs. Table 2 gives a broad overview of potential gains to be had for the three countries in the four plurilateral agreements, based on the GTAP analysis.

**TABLE 2** POTENTIAL OVERALL GAINS — AS MODELLED FOR ALL IMPACT AREAS FOR THE THREE CASE STUDY COUNTRIES — FROM PARTICIPATING IN THE PTA NEGOTIATIONS

Country/plurilateral	TiSA	EGA	GPA	ITA-II
Chile	Moderate gains	Moderate gains	Very low potential with possible negative impact	Moderate gains
Bangladesh	Moderate gains	Moderate gains	Good potential benefits	Very low potential
Malawi	Moderate gains	Moderate gains	Moderate gains	Moderate gains

Source: GTAP Analysis, 2017

## 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 few developing countries and LDCs participate in PTA negotiations (except for the ITA-II).

- 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.<sup>3</sup> 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 developed countries are not really interested in including developing countries and LDCs in multilateral initiatives from the outset;

3 Interview with ODEPA (Bureau of Agricultural Studies and Policies) official, 4 April 2017; interview with MFA (Ministry of Foreign Affairs) official B, 5 April 2017.

and that developed countries might not be interested in equal partnerships and approach negotiations in a manner that can be detrimental to developing countries.<sup>4</sup> Misunderstandings, 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 remain outside the PTA negotiations.

- The stagnation of the DDR in relation to non-agricultural market access (NAMA) and agricultural goods is an issue of great concern among developing countries and LDCs alike.<sup>5</sup> 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.<sup>6</sup> The fact that many developed economies continue to provide their farmers with subsidies remains a source of contention among developing countries, particularly since agriculture often gives them a natural competitive advantage.<sup>7</sup> 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.
- Commitments and measures taken by 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 by different political parties.<sup>8</sup> 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.
- SDT is insufficient in helping developing countries further their participation at a multilateral level.<sup>9</sup> Sometimes there can be a lack of understanding from developed country peers as to the exact kinds of constraints developing countries face on these

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The stagnation of the DDR in relation to non-agricultural market access (NAMA) and agricultural goods is an issue of great concern among developing countries and LDCs alike

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4 Interview with MFA official B, 5 April 2017.

5 Interview with DIRECON (Dirección General de Relaciones Económicas Internacionales de Chile) officials, 4 April 2017.

6 Interview with ECLAC (Economic Commission for Latin America and the Caribbean) representative, 3 April 2017.

7 Interview with Ministry of Environment official, 3 April 2017.

8 Ibid.

9 Interview with MFA official A, 6 April 2017.

fronts, as well as a lack of articulation on the part of developing countries on the exact nature of the constraints faced.<sup>10</sup> It would be useful if developing countries could be provided with longer tariff phase-out provisions if they have already joined or may consider joining in future.<sup>11</sup> 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.

## RECOMMENDATIONS

The report makes seven recommendations based on the findings from all three countries. 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.

- 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.
- 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.
- 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.
- 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.

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10 Interview with MFA official B, 5 April 2017.

11 Wu M, 'Why developing countries won't negotiate: The case of the WTO Environmental Goods Agreement', *Trade, Law and Development*, 6, 1, 2014, p. 93.

- 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.
- 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 (eg, 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.
- 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 PTAs may be multilateralised. In designing support programmes, development partners need to take potential accession negotiations into account, as well as what the capacity gaps may be if individual developing countries and LDCs take such negotiations on board. These programmes could focus on the following:
  - » 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');<sup>12</sup> and
  - » the need for clarity on whether positive/negative list approaches or project approaches would be taken (for example, in the EGA, developing countries have always opposed the list approach and favoured the project approach – as such, this will influence how they view/approach these agreements).<sup>13</sup>

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- 12 WTO, Revised Government Procurement Agreement, [https://www.wto.org/english/docs\\_e/legal\\_e/rev-gpr-94\\_01\\_e.htm](https://www.wto.org/english/docs_e/legal_e/rev-gpr-94_01_e.htm), accessed 2 February 2018.
- 13 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 (found in annexes to a trade agreement) contains all of the measures that do not conform to the core disciplines of the relevant chapters and that governments choose to maintain.

## ANNEX A

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

- the first (Scenario A) involved binding each PTA's specific requirements (ie, applying the relevant shocks) across all current member states that are party to the negotiations of that PTA; and
- 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 A1).

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

**TABLE A1** COUNTRIES SELECTED FOR INCLUSION IN 'EXPERIMENT B'

Algeria <i>(Rest of North Africa: Algeria + Libya + Western Sahara)*</i>	Ghana	Nigeria
	India	Pakistan
Bangladesh	Kenya	Peru
Botswana	Laos	Senegal
Brazil	Lesotho <i>(Rest of SACU: Lesotho + Swaziland)*</i>	South Africa
Cambodia		Sri Lanka
Chile	Malawi	Tanzania
Colombia	Malaysia	Thailand
Costa Rica	Mauritius	Tunisia
DRC <i>(South Central Africa: Angola + the DRC)*</i>	Mexico	Uganda
Ethiopia	Myanmar <i>(Rest of South-East Asia: Myanmar + Timor-Leste)*</i>	Vietnam

\* These countries are only available as part of regional groupings in the GTAP-9 database. The Southern African Customs Union countries comprise South Africa, Botswana, Lesotho, Namibia and Swaziland



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