# Formulation of Country Positions

Date: 26 December 2023

Learning Objectives

- Learn how to conduct robust analysis for the formulation of country positions

- Understand the significance of stakeholder inputs and thorough analysis in shaping country positions

- Learn techniques to identify and delineate sensitive areas that require safeguarding in free trade agreements (FTAs)

- Overview on strategies to communicate and uphold redlines during negotiations

# How to Conduct Robust Analysis for the Formulation of Country Positions?
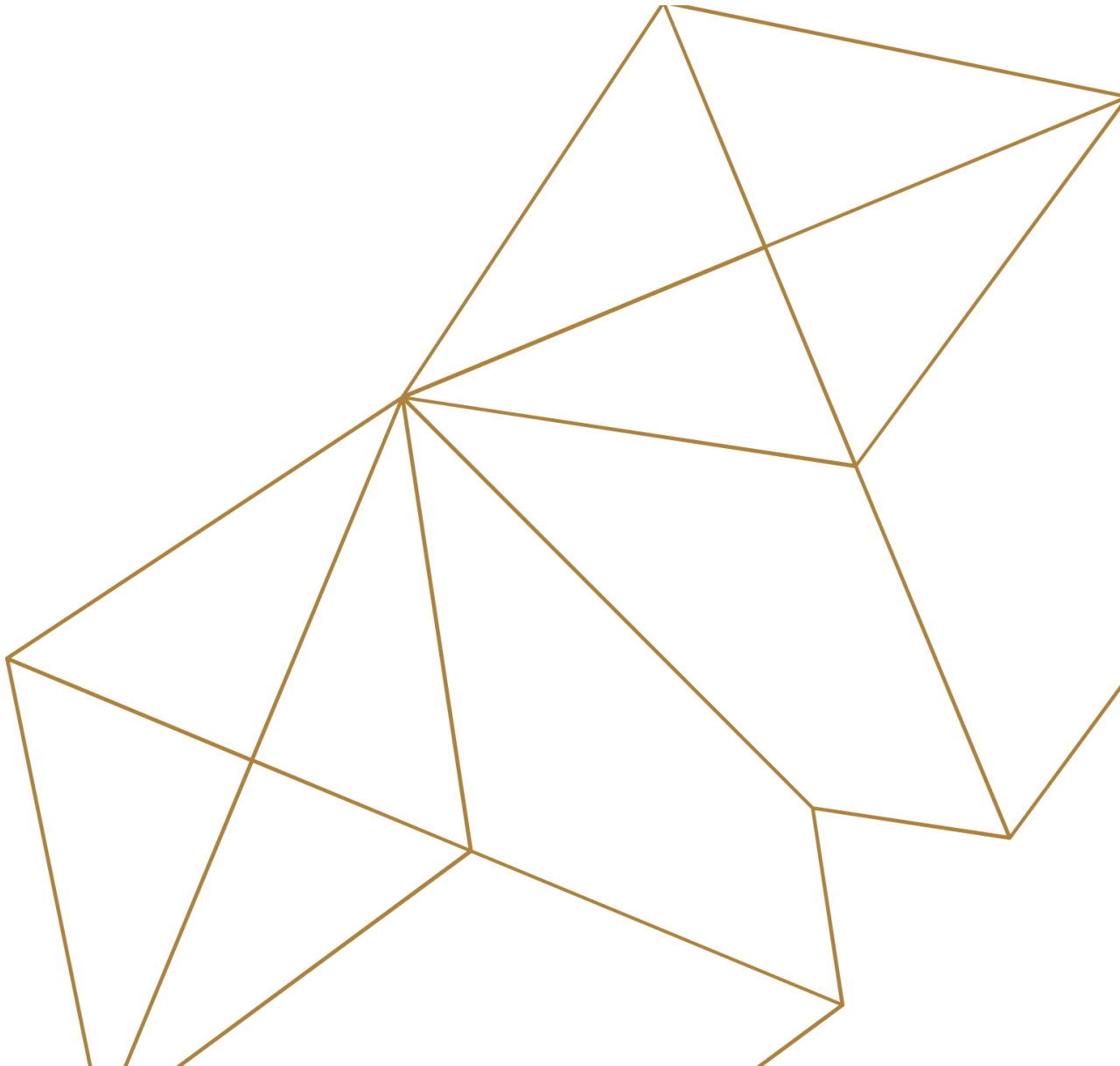
CGE Analysis

- The CGE model simulates markets for goods and services as well as for factors of production, such as labor and capital
- Such models typically include a representation of the government sector, which may levy taxes, provide subsidies, and engage in other economic activities
- CGE models also include representations of households and firms
- It covers multiple sectors and assesses the impact of an FTA on an economy-wide level
- The term 'general equilibrium' refers to the consideration of interactions and feedback effects among all sectors and agents within the model
- Agents in the model (households and firms) are assumed to behave rationally
- Armington specification is used as a base for most CGE models
- CGE models can be either dynamic or static.
  - *Static* models do not incorporate time, demonstrate what the eventual long-run projection of a shock is.
  - *Dynamic* models incorporate the element of time, allowing for the analysis of how the economy evolves over time - offer a picture of the adjustment processes as the economy progresses to a new equilibrium.

Example: Khorana and Narayanan (2017) employ dynamic GTAP (GDyn) model to:
(a) examine the effects of TPP and TTIP on production, consumption, prices and trade of 'harmful' products, i.e. sugar and tobacco, over 2015-2030.
(b) assess the costs of imposing stringent IP rules following commitments under megaregional agreements.

The Process of CGE Analysis
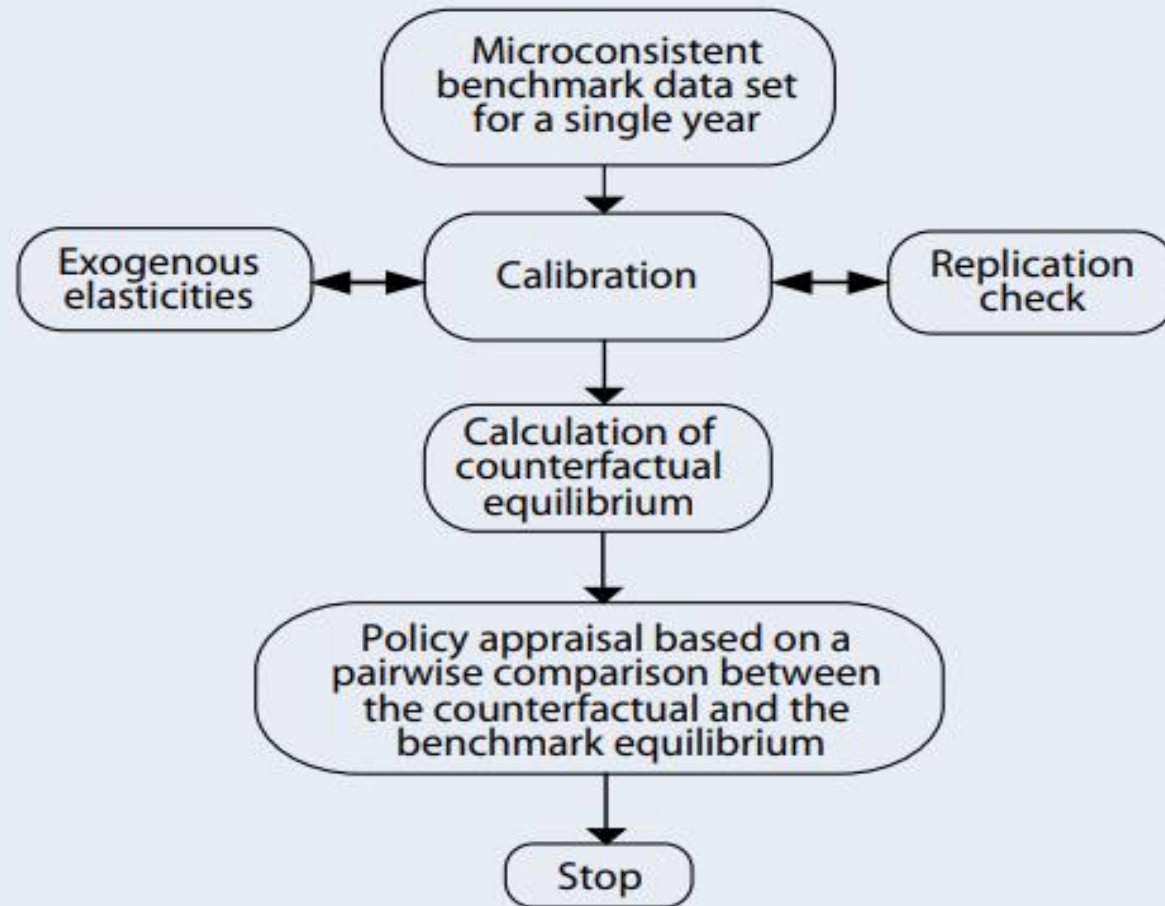
Source: Shoven, J. B ., and Whalley, J. 1992. *Applying General Equilibrium*. Cambridge, United Kingdom: Cambridge University Press.

GTAP Model

- The standard GTAP Model is a multi-region, multi-sector CGE model
- The quantity of endowments—land, skilled labor, unskilled labor, natural resources, and initial capital—in each region is fixed exogenously within the GTAP model
- Main agents are producers, consumers, and the government
- Assumes perfect competition and that prices will adjust to clear all markets
  - Transport sector and importers satisfy zero profit conditions in equilibrium because of perfect competition
- As the labor supply within each region is fixed and not mobile across regions, market clearing implies that there is no unemployment
- Trade is characterized by the Armington (1969) assumption, this implies substitutability, albeit imperfect, between varieties of a good by national origin
- Basic GTAP model is static (i.e., there is no time dimension and, therefore, no dynamics for variables such as savings or investment); dynamic models are used

GTAP Model

- The latest [GTAP version 11](#) was launched in 2023
  - It has 5 reference years (2004, 2007, 2011, 2014, and 2017), distinguishes 65 sectors in each of 141 countries and 19 aggregate regions - with individual countries accounting for 99.1% of world GDP and 96.4% of world population
  - The exhaustive nature of GTAP in its country and sector coverage facilitates its use in economy-wide studies of global economic issues
  - Versions that are at least 2 releases old are freely available for [download](#).

- GTAP houses a database that currently contains the Social Accounting Matrix (SAMs) for 141 countries; production, endowment, and bilateral trade data; and values for all parameters in the GTAP model

- The dataset which forms the backbone of the CGE model:
  - Captures the flows of all economic transactions which take place in the economy in a single year.
  - Primary data sources - Input-Output tables and the National Accounts (complemented by a range of other data on taxes, income and expenditure)

GTAP Model

- The economic impact of the policy or economic shock being modelled (baseline) is estimated by comparing the economy before and after the shock (e.g. introducing a change in policy or environment)
- The pre-policy baseline is generated by fitting the model equations and the behavioral parameters to the base year data
  - In general, this will mean that the base year to which the shock is applied will reflect the current structure of the economy
  - Shocks can be in the form of reduction in tariffs, removal of NTMs, certain trade facilitation measures
  - Each country will experience shocks in their respective ways and thus the impact of shocks will vary
- The selection of 'closure' rules is paramount to scenario design
  - These rules dictate which variables are exogenous and endogenous, and thus which variables the model is computing rather than taking as given in its simulations
- When a policy change or economic shock is introduced, the economy converges to a new equilibrium, governed by the economic relationships as specified in the system of equations
- The model derives a solution by finding a new set of prices and allocation of goods and factors such that the economy is in an equilibrium again
- GTAP is suited to analyze FTAs involving the preferential liberalization of bilateral tariffs- Introducing a dynamic framework allows for accurate modelling of the phasing out of tariffs from trade agreements

GTAP Modelling

- Enables assessment of the impact of potential FTA:

Economic	Social	Environmental
•GDP, GDP per capita, Real Income • Investment (Capital Formation) •Trade Effect (tariff reduction, nontariff measures) •Sectoral Impact •Overall Welfare Gains •Production and Consumption	• Poverty • Health • Education • Levels of Employment • Wages • Occupational Health and Safety • Freedom of Association • Equality (Gender, People with Disabilities) • Human Rights	• Greenhouse Emissions • Waste Management • Land and Soil Quality • Biodiversity • Environment Quality • Fresh and Waste Water

Partial Equilibrium Analysis

- Partial Equilibrium (PE) used for highly disaggregate trade analysis
- PE model is used to quantify the potential impacts of FTAs on a particular sector (s) and market(s) and is well adapted for detailed sectoral analysis
  - Harmonized System (HS) 6-digit level disaggregation allows simulating product level
- Key elements of model include:
  - Market Structure
  - Demand and Supply Functions
  - Prices and Quantities
  - Trade Flows
  - Factor Markets
  - Government Policies
  - Consumption and Production Functions
  - Elasticities
  - Underlying Assumptions and Constraints

Available Datasets

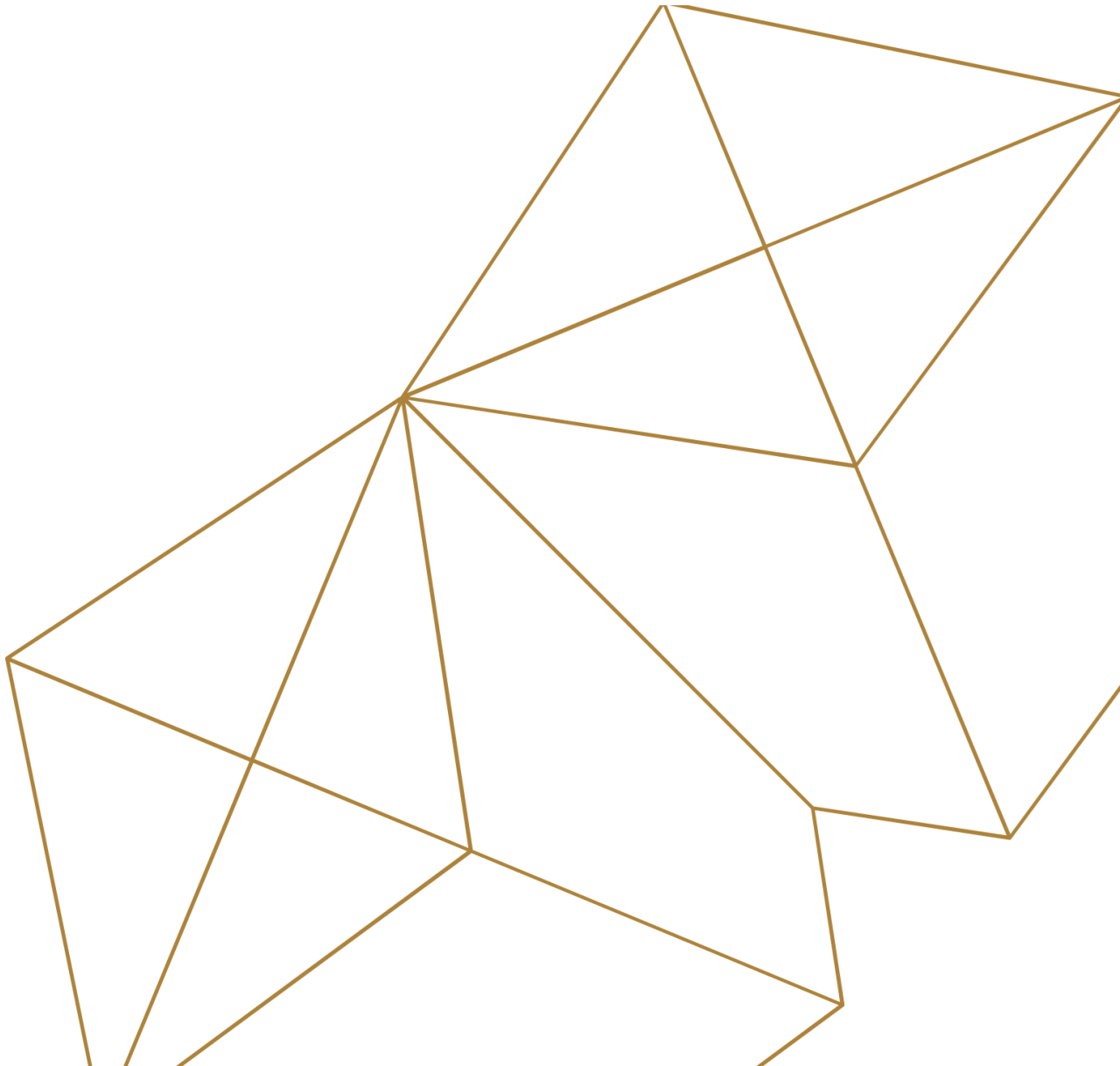| Sources of Trade Data in Goods	Sources of Trade Data in Services
World Integrated Trade Solution (WITS)	WTO-OECD Balanced Trade in Services Datasets (BaTiS)
UNIDO (Industry Data)	Trade in Services by Mode of Supply (TISMOS)
World Bank's Enterprise Surveys (Firm-level Data)	Services Trade Restrictions Index (STRI)
WTO's Integrated Data Base (IDB), UNCTAD TRAINS (Tariff Data)	World Bank Trade in Services Database
Input-Output Data (GTAP)	United Nations Conference on Trade and Development Statistics (UNCTADStat)
Country Household Survey Data	OCED Services Trade Database
WTO-World Bank Services Trade Policy Database (STPD)	IMF Balance of Payments and International Investment Position (BOP/IIP) Statistics

Assessing Trade Outcomes - Goods

- The economic analysis tools can help in assess the impact on trade outcomes

- Broad trade outcomes include:
  - *Intensive Margin* - refers to changes in the amount of goods or services traded between two countries in existing product lines
  - *Extensive Margin* - refers to changes in the number and types of products being traded between two countries
  - *Quality Mar*gin - refers to differences in the quality of goods being traded
  - *Sustainability Margin* - refers to differences in the environmental and social sustainability of goods being traded

- This assessment provides a strong guide for countries to formulate their negotiating positions

- Earlier module discusses Trade Indicators

Assessing Trade Outcomes - Services

- Unlike trade in goods, services trade is not subject to tariffs, making the reductions in costs associated with liberalization difficult to quantify

- To account for this, the modelling exercise must translate barriers (e.g. NTMs) to trade in services (e.g. from STRI) into tariff-equivalent (into AVE) that can then be used to calculate incidence of barriers and likely impact from their reduction

- A holistic picture of restrictions/NTMs in services trade enables the country to assess which NTMs must be prioritized under FTA talks

Undertaking
Robust Analysis

Ensuring Robustness of Economic Analysis

- Modelling exercises are inherently uncertain and present a stylized representation of the trading relationship
- These enable to gauge the broad range of possible results from a trade agreement
- Economists recognize that results of simulation models are dependent, (sometimes highly dependent) on values employed for critical exogenous variables
- To account for this, analysts sometimes conduct sensitivity analysis with respect to key exogenous variables
  - Example – sensitivity analysis for PE model is undertaken to calibrate the model based on different elasticity rates that measure the responsiveness of demand and supply to price changes
- Sensitivity analysis examines how the variation in the numerical output of a model can be quantitatively apportioned to different sources of variation in basic input parameters
  - Example - whether the choice of basic parameters of the model, e.g. elasticities or time preference parameters, lead to stable equilibrium values of economic variables, e.g. GDP or labor participation
- In this manner, it provides a check of robustness of the model's numerical results

Sensitivity Analysis - I

- This is undertaken by altering:
  - the core parameters within the model
  - the expected non-tariff measures reduction estimates
  - structural assumptions of the economic model
- Sensitivity checks:
  - i. Trade Elasticities
    - The values of the trade elasticities may be important determinants of the outcomes for any CGE modelling.
    - High values of the elasticities lead to a relatively greater response of model outcomes to a given reduction in trade barriers, and vice versa.
  - ii. Technical and Rent Generating Ratio
    - The implementation of this approach is referred to as 'iceberg' costs, which models the NTMs in terms of lost imports: the idea is that some of the product is lost between the buyer and the seller (akin to an iceberg melting on its journey).

Sensitivity Analysis - II

- ## Sensitivity Checks:

  iii. NTM Estimates

  - The trade impact of NTMs may also be investigated through the computation of *Ad Valorem* Estimates (AVEs)
  - The AVE measures the gap in the product's price with and without the NTM
  - An AVE corresponds to the tariff equivalent that has the same impact on trade
  - Using AVEs, one should in principle be able to detect which products, sectors, or exporting countries are the most affected by NTMs

  NOTE: Methods used to analyze the incidence of NTMs to prepare for FTA include calculating:

    - Simple Count
    - Frequency Index
    - Coverage Ratio
    - Prevalence Ratio

Assessing Impacts on Regions and Nations

- FTAs affect places differently depending on a host of factors including:
  - the composition of economic activity in areas
  - the relative competitiveness of those activities compared to the rest of the country
  - the degree to which those regions and nations are integrated into international trade
- This method uses the differing composition of economic activity across the nation's regions and trade partners to consider how regions could be positively or negatively impacted based on the modelled sectoral changes in gross value added

Example - Location Quotient

The location quotient is calculated by dividing a sector's employment share in a region by the employment share in the country. A value of one indicates that an industry's share of employee jobs in the region is the same as its share of employee jobs nationally. A value greater than one means that the industry makes up a larger share of employee jobs in the region than the national levels, indicating that the nation or region is particularly specialised in a sector). Location quotients are calculated using data from a country's Business Register and Employment Surveys.

Assessing Impact on SMEs

- Assessing the impact of an FTA on SMEs is important:
  - often represent a key component of an economy
  - composition of SMEs differs across different sectors

- Analyzing the impact on SMEs should be undertaken to assess
  - variation of SMEs across different sectors
  - compare these with the estimated pattern of impacts across sectors

Example

- The data on which sectors SMEs belong to are paired with the sectors where output is expected to increase or decrease relative to the baseline as a result of an FTA.
- This provides a preliminary assessment of whether SMEs are concentrated in industries where gross value added (GVA) decreases relative to the baseline.
- For the purpose of identifying which sectors have a higher concentration of SMEs, the analysis can focus on sectors in which employment changes by more than +/- 0.05% relative to the baseline.

Assessing Impact on Groups in Labour Market

- FTAs and overall trade liberalization have the potential to affect not only various sectors of the economy but the groups differently

- It is important to assess the implications of the agreement for various groups in the labor market including sex, ethnicity, disability and age

- Increasingly assessed during FTA preparation phase

Example of an FTA between countries that address and include provisions on the impact of FTA on SMEs and different groups

The UK-Australia's FTA Chapter 19 on SMEs states "[….] recognize the importance of the participation of SMEs owned or led by under-represented groups, such as women, youth, indigenous peoples, persons with a disability and minority groups in international trade"

Assessing the Impact of FTAs on Third Countries

- With new FTAs, developing countries that benefitted from preferences can experience 'preference erosion', this means:
  - An FTA would reduce their relative competitiveness due to the greater market access agreed between the FTA partners
  - The FTA could potentially shift the demand for goods and services from developing country to the FTA partner
  - Reduced demand for developing country's exports can negatively impact their economy's trade balance, foreign reserves, trade patterns and gross domestic product.

Assessing the Impact on Third Countries

- Econometric analysis can reveal if the preference erosion in developing countries and LDCs will be significant, or not, with:
  - Trade data from FTA partner to determine the competitiveness of their exports
  - Comparing developing countries' trade flows to determine their value of exports and the relative importance of the FTA country market for those goods
  - By identifying products (at the HS-6digit level) that are particularly vulnerable to preference erosion

How to Identify Products Potentially at Risk of Trade Diversion from an FTA?

- **Criterion 1: identify competitive goods of the FTA partner**
  - FTA partner exports (of goods) at HS-6 level are defined as competitive if any of the following indicators are met:
    - Partner's global exports exceed the country's total imports
    - More than 1% of the country's imports of the good are imported from the FTA partner
    - Global exports from the FTA partner are greater than 1% of total global imports
    - Revealed comparative advantage is greater than 1 (indicating that the FTA partner exports a higher proportion of the good than the global average)

How to Identify Products that are Potentially at Risk of Trade Diversion from an FTA? (II)

- **Criterion 2: goods at risk of preference erosion for developing countries**
  - Developing countries' exports (of goods) at HS-6 level are defined as "at risk of preference erosion" if:
    - Exports to the country account for more than 10% of global exports of that product (indicating reliance on the country's market
    - Exports exceed 1% of the country's total exports
    - Annual average exports are greater than US$1m (this value can be adjusted)

Additional Considerations for Developing Countries before opening FTA talks

1. Structural Reform and Policy Adjustment(s)
   - It is necessary to assess if the FTA goals assist in undertaking broader structural reforms and policy adjustments
   - An FTA locks member countries into a particular set of economic policies and insulates their economic reform from future domestic political interference—the so-called "lock-in" effect
   - Since developing countries require such reforms more than most developed countries, regional integration can, therefore, generate greater gains
2. Technology Transfer and FDI
   - Trade and FDI, especially the latter, are important vehicles for transferring technology and know-how from developed to developing countries
   - FTAs is one means to attract such long-term investment flows. It creates a more integrated marketplace within which multinationals can enjoy a regional division of labor with low transaction costs and exploit product-level economies of scale

Additional Considerations for Developing Countries

3. Macro-economic Considerations

- The linkage between regional trade integration and regional macroeconomic policy coordination should be considered in designing regional economic integration deal(s)
- Some regional integration schemes establish an institutional framework for regional economic surveillance in parallel with the FTA

4. Strategic Considerations

- Economic cooperation in these arrangements is seen as an important vehicle through which political goals can be pursued (which, in themselves, have important economic ramifications)
- Most existing preferential trading arrangements were either created as economic arrangements in support of political goals, or were at least consistent with the diplomatic strategy of the founding countries

5. Human and Institutional Capacity Building Considerations

- What is the human and institutional capacity in the country?
- FTAs can be potentially beneficial for developing countries in terms of human resource and institutional capacity building - FTAs between developed and developing countries (so-called North–South FTAs) may allow the latter to have access to various technical assistance programs rendered by the former under the FTA (e.g. EU FTAs, among others)
- In some cases, technical assistance programs are made available to potential FTA partners during the preparatory phase for the FTA

Stakeholder
Consultations
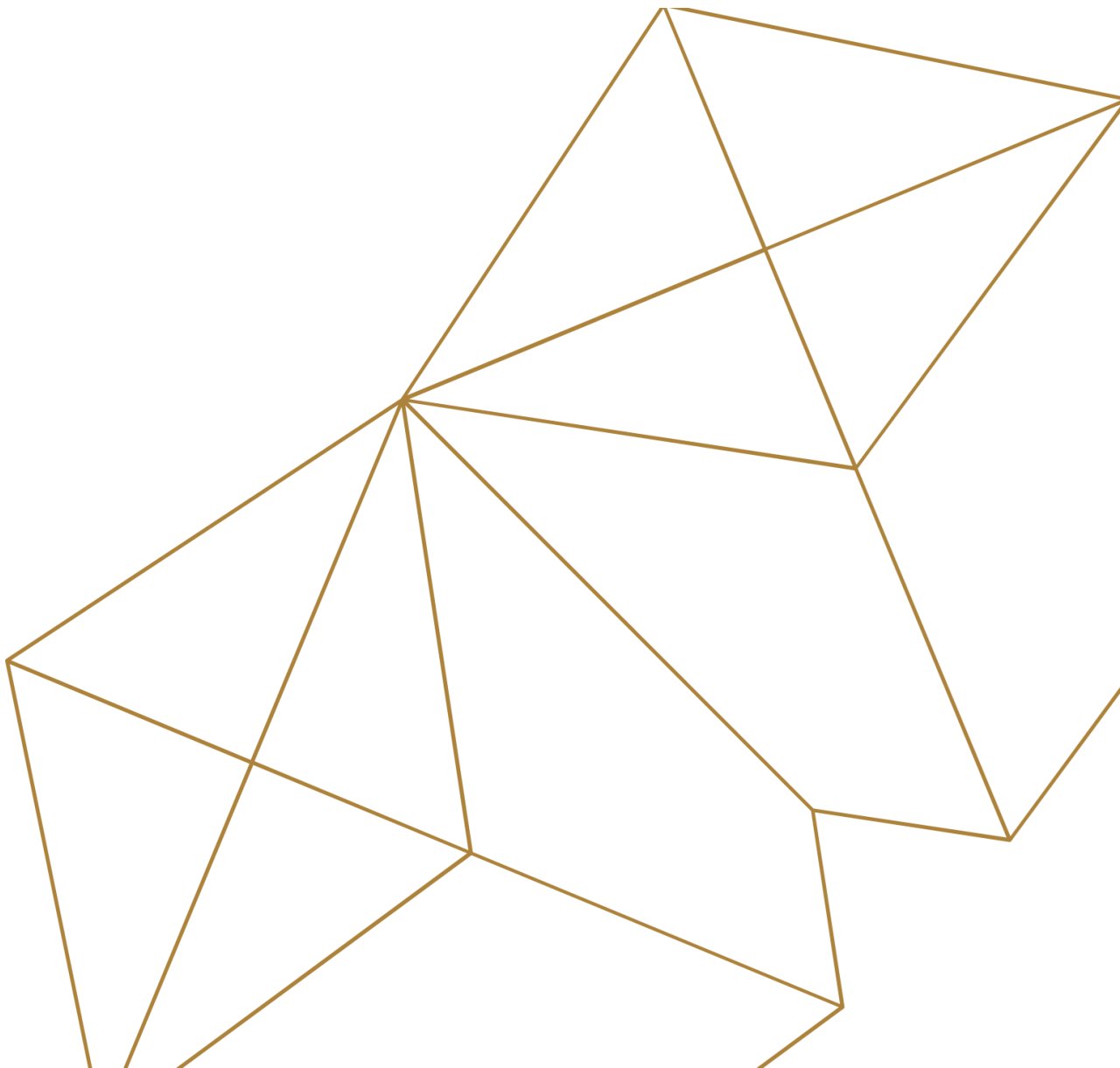
The Need for Stakeholder Consultations

- Stakeholder mapping is a tool to identify the diverse range of stakeholders

- Helps in triangulating economic results which flow as key inputs into FTA negotiations

- Consulting stakeholders enables collecting their practical experience and data that help deliver credible outcomes from FTA talks.

- Consultations enable drawing specific insights, for example on:
  - What is the current market access that firms have into a particular sector?
  - What are the issues/barriers exporters face in accessing market in the partner country?
  - How easy/difficult are these issues to address?

Stakeholder Mapping

- Relevant stakeholder groups can be identified by considering different sectors, their levels of influence, and potential interest
- The '***six tests for stakeholder identification***' include
  - Test 1. Who is directly impacted?
  - Test 2. Who is indirectly impacted?
  - Test 3. Who is potentially impacted?
  - Test 4. Whose help is needed to make it work?
  - Test 5. Who thinks they know about the subject?
  - Test 6. Who will show an interest in the subject?
- Most effective mechanisms/activities can then be selected to liaise with each type of stakeholder
- Such activity will address stakeholders' information needs and expectations, minimize resistance, and facilitate collaboration between policymakers and stakeholder groups (e.g. private sector and civil society)

Consultation Mechanisms

- Designing effective consultation mechanisms are fundamental for engaging with the private sector and civil society
- 'Call for evidence'
  - The 'call for evidence' is an opportunity to explain to the public and stakeholders
    - why a particular initiative, evaluation, or fitness check is being prepared,
    - what it aims to achieve, and
    - To gather their views
  - The document describes an initiative and, where relevant, a public consultation questionnaire
- Overview of Consultation Methods
  - **Public consultations:** A public consultation allows the public and different stakeholders to contribute freely – enables gathering inputs and views from a broad range of stakeholders.
  - **Targeted consultation:** A targeted consultation activity addresses specific well-defined stakeholder groups and invites them to participate
  - **Exploratory consultations:** Exploratory consultations are preliminary in nature, do not yet address the broad public, but are targeted to those that 'have the information'.

Consultation Methods

- **Conferences, public hearings & events** - gathering input from a larger number of targeted stakeholders through direct interaction

- **Focus groups** - gathering information through group discussion of citizens/stakeholders with similar features

- **Interviews** - Collecting information via in-depth structured conversations with individuals

- **Workshops, meetings, and seminars** - Collecting specific information from targeted stakeholders through direct interaction

Best Practices to Guide FTA Consultations

- Facilitate dialogue platforms that promote transparency and support collaboration with stakeholders
- Ensure clear and concise messaging that translates complex information into simple yet focused message to facilitates a better understanding of the potential impacts of the proposed FTA
- Promote capacity-building activities for stakeholders
  - This will enhance their understanding of basic concepts and objectives of the country's international trade policy
  - Build capacity to conduct international trade

Analysing Stakeholder Inputs

- A consultation, which allows for broad ranging submissions, requires a structured process of the information received via different sources
- At the end of the consultation process, it is essential to analyze all inputs received from stakeholders and the public
- There are a wide range of factors to consider to ensure to conduct a robust analysis within the given time and resources
- Qualitative data, more than quantitative, is sometimes prone to bias, and a systematic analysis helps prevent this
- There are primarily two levels of consultation data/results analysis:
  - **Basic analysis -** can be undertaken by those with reasonably proficient data literacy skills
  - **Advanced analysis -** can be undertaken by those with specific skills to use specialized software aimed at assisting with the analysis of data (STATA, NVivo, etc)
    - Examples also include computer-aided analysis of open text responses, correlations, cluster analysis etc.

Basic Analysis

- Basic statistical terms include – Mean, Median, Mode, Standard Deviation, Percentage

- Basic analysis of closed questions generates information such as: '67% of respondents considered that the legislative framework was delivering benefits'

- Such information is not so helpful to policy makers unless qualified by the perspective of the stakeholder, for example: 'Although 74% of industry respondents considered that the legislative framework was delivering benefits, only 32% of citizens agreed with this view'

- For an accurate analysis of contributions, the number of respondents should always be mentioned when putting forward the percentages

Advanced Analysis

- Note that the respondents to a public consultation are self-selected, which means that the responses are not drawn from a representative sample
  - Basic analysis provides limited added value to results from a self-selecting (i.e. non-randomly selected) sample and can potentially be misleading
- Analysis beyond the 'basic' form can be undertaken using advanced techniques
  - Example - **weighting of data** to make answers count for more or less to ensure they are representative
    - One can only use this technique if you have a good understanding of the demographic make-up of the population and returns

Data Preparation for Analysis

- There are three main considerations for amount of time and resource use in analyzing the contributions:
  - Closed questions depend less on the number of responses, but more on the complexity of questions and possible replies
  - Open questions depend significantly on the number of responses and, to a lesser extent, the diversity of languages in which they were submitted
  - Integration of additional information to complement the analysis of the responses with other associatedinformation (e.g. geographical identification, personal information collected, distribution in time of responses)

Interpretation of Data

- It is essential to provide the right context of the consultation when presenting the outcome, including information on:
  - Who participated and who the respondents represent
  - Distinction should also be made between the different stakeholder categories that contributed to the consultation
- Stakeholder Credibility Test:
  - *Longevity*: has the stakeholder organization been established long enough to acquire the wisdom in the policy field?
  - *Expertise*: how well does the stakeholder know the subject matter?
  - *Representativeness*: who exactly does the stakeholder represent and the extent of representativeness?
  - *Track record*: how useful/credible has its contribution been in the past?
  - *Reputation*: how seriously do other people take the stakeholder organization?

Informing Trade Negotiations - Factual Summary Report

- For each consultation activity, it is good practice to publish factual information on the input received from stakeholders – this will ensure transparency

- The purpose of factual summary report on the stakeholders' input:
  - Presents a first, succinct overview on 'what has been said by the stakeholders'
  - Must be neutral, as it precedes the in-depth analysis and interpretation of consultation results
  - Must present basic statistics on the number of the participants, their country of origin, their stakeholder type and other relevant basic figures

- Thus, the factual summary following a public consultation should contain the following elements:
  - A concise and balanced overview of contributions received
  - Factual information on inputs received
  - Neutrality
  - Aggregation at an appropriate level
  - Information on the process
  - Information on results/data processing and security
  - Any necessary disclaimer

Informing Trade Negotiations - Synopsis Report

- The Synopsis Report covers all:
  - consultation activities
  - ad hoc contributions directly linked to the preparation of the policy
  - evaluation or fitness check
  - information on the input received through the 'call for evidence'
- The Synopsis Report aims to inform:
  - policymaking on the outcome of all consultation activities
  - stakeholders on how their input has been incorporated
- It summarizes the results of all consultation activities and gives both a qualitative and a quantitative analytical overview of these results
- The synopsis report should be prepared as soon as possible after the last consultation activity

Informing Trade Negotiations - Explanatory Memorandum

- For legislative proposals, the explanatory memorandum should explain how far the main contributions have been considered in the draft policy initiative, and:
  - Explain the overall consultation strategy and add reference to the factual summary and synopsis report
  - Highlight the link between respondents' inputs and the impact assessment that justifies and explains the options proposed
  - Report why certain options were discarded (in particular when those were widely supported by respondents)
  - Be transparent about minority and dissenting views

Techniques to Identify and Delineate Sensitive Areas that Require Safeguarding in FTAs (I)

- Robust economic analysis and stakeholder consultations provide a solid foundation to identify key objectives to be pursued during the FTA negotiations
- Economic Analysis
  - CGE and PE models, combined with sensitivity analysis, helps in providing data-driven evidence-based inputs to assess the impact of an FTA on macroeconomic indicators, at the aggregate, sectoral, industry and product levels
- Stakeholder Consultation
  - Gathers inputs from a diverse range of stakeholders which verifies the findings of economic analysis
  - Based on the type of stakeholder group various tools are available to extract targeted responses and feedback
- These techniques help to identify key areas of importance including sensitive sectors, defensive and offensive interests of a country

Techniques to Identify and Delineate Sensitive Areas that Require Safeguarding in FTAs (II)

- What is a sensitive sector?
  - Refers to a specific industry or economic area that a country deems particularly vulnerable or strategically important

- Key characteristics
  - May include industries that are directly related to national security, such as defense, telecommunications, or critical infrastructure
  - May include industries that are strategically important for a country's competitiveness or technological advancement
  - Sectors that play a crucial role in a country's economic stability, growth, and development
  - Industries that have a significant impact on employment rates
  - Sectors that are closely tied to a country's cultural identity or social fabric

---

Example - Australia-India Economic Cooperation and Trade Agreement

The proposed ECTA's regulation <u>impact assessment</u> suggests that "*tariffs on all remaining imports from India in longstanding industries that have been sensitive for Australia, including articles of iron or steel and aluminium will be eliminated after a period of four years*". In case of the services sectors, Australia makes commitments "*while also reserving policy space in areas that are sensitive, such as broadcasting and audiovisual services and Indigenous traditional cultural expression and the creative arts*".

Techniques to Identify and Delineate Sensitive Areas that Require Safeguarding in FTAs - III

- Identification of offensive and defensive interests are critical when formulating country position before launching the FTA negotiation
  - **Offensive interests** are the concessions the team is trying to secure from the other side
  - **Defensive interests** are the sensitive areas where the team does not want to make concessions

- Based on economic analysis, validated by the stakeholder consultations, negotiators can draw the country's offensive and defensive interests

- Negotiators can set out 'red lines' in both of these categories.
  - Offensive concessions team would coordinate with defensive concessions team and conduct negotiations accordingly

Example – A country with a strong agriculture sector would most likely want to protect it and thus list it in its defensive interest. A country wanting to expand its services sector would aim to get more market access in partner countries and place it in the offensive interest list.

Techniques to Identify and Delineate Sensitive Areas that Require Safeguarding in FTAs (IV)

- The overall techniques for identifying priorities and formulating country priorities hinge upon:
  - Aligning the objectives with national policy and strategies
  - Conducting a robust economic analysis where the findings are guided by numbers and data analysed using robust econometric methods
  - Undertaking stakeholders consultations which enable triangulating and verifying national policy objectives with data findings
  - Accommodating the needs of country that may be at different levels of development
    - FTAs often have provisions for easier transition of developing countries (special and differential treatment)
    - Examples include asking for easier transition into the FTA regime, longer and phased implementation, greater liberalisation in development-inducing sectors
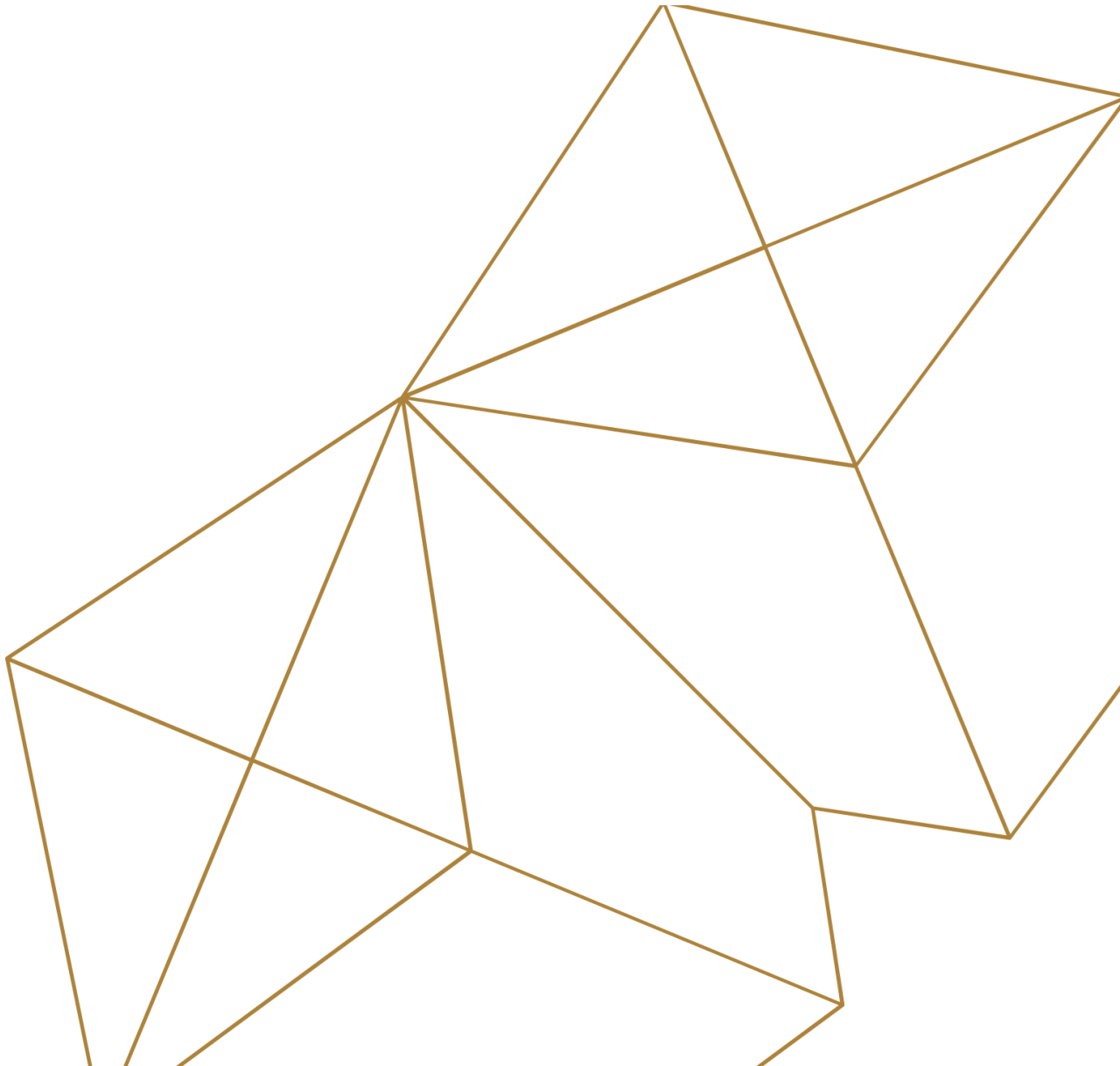
Example: African Continental Free Trade Area (AfCFTA)

The FTA covers over 1.2 billion people with a combined GDP of US$2.5 trillion. In addition to its economic impact, the AfCFTA is expected to foster industrialization, job creation, and investment in Africa. By advancing trade in value-added production across all service sectors of the African economy, the AfCFTA aims to establish regional value chains and enhance Africa's competitiveness in the global market.

Tariffs between African regional economic community were high but following AfCFTA agrees that tariffs on:

- 90% of goods traded among themselves will be eliminated within 5 years for non-Least Developed Countries (LDCs) and 10 years for LDCs
- For an additional 7% of goods identified as 'Sensitive', tariffs will be eliminated within 10 years for non-LDCs and 13 years for LDCs
- A final 3% of 'Excluded' products are to retain their tariffs to allow flexibilities for State Parties with particular sensitivities but will be subject to review every five years.

Steps to Successful Negotiations

Principles of Trade Negotiations

The following principles of trade negotiations must hold:

- Non-discrimination
  - Most-Favored-Nation principle
  - National Treatment
- Open economy with fair and free competition
- Transparency
- Reciprocity
- Special and differential treatment

Trade Negotiations Framework

- Setting up a robust framework is critical for strategic trade negotiations which
  - Includes aligning negotiations with national policy priorities
  - Entails agreement on what is to be negotiated (mandate/goals) and how it is to be negotiated (modalities)
    - Agreeing on what is to be negotiated (Sustainability, Intellectual Property, etc.)
    - Agreeing on ground rules, i.e. how the negotiation is to be organized, how long it will last, and who will participate
- Negotiations are held in different rounds

Trade Negotiations Framework

Prioritizing the sensitive sectors:

- Positive/Negative list approach
- Relative importance
  - Less Important/More Important
  - Estimated Weight (0 – 1)
- For each issue
  - Maximum outcome
  - Opening position
  - Reservation outcome
  - Bottom line
  - Alternative outcomes for each issue

Value Creation in Negotiations

- Value creation begins with fostering a favourable atmosphere for problem solving despite sometimes rising tensions and conflicts during the process
- Negotiators, through words and actions, convey to each other that the talks are not a combat but an effort to find mutually favourable solutions
- To create value, negotiators must delve into issues behind the state positions
  - This will help in determining the negotiating partner's real needs and interests
- Negotiators must work to build relationships with the negotiating partners

Value Creation in Negotiations

- Negotiators must focus on two key things which are to:
  - Cooperate with each other to create value
  - Compete with each other to claim as large as share of the created value
- The negotiators must be cognizant of the fact that too much:
  - Competition creates the risk of loosing the deal
  - Cooperation creates the risk of obtaining less than the maximum benefit
- Focus must be on reducing/narrowing differences
  - Tabling Position papers
  - Combining Position papers into common negotiating documents

Research the objectives

- Have a checklist of objectives ready
  - Derived from ex-ante impact assessment, the mandate, and FTA strategy
  - List of most/least important sectors
  - Discussion encouraged to follow the 'traffic light' approach
- Be agile
  - Moving away from the original plan is in this case a conscious decision
  - It may well be a new target to trade-off concessions with the negotiating partner
- The objectives can be presented in the form of negotiator's brief including:
  - An agenda – that agrees on the order of business and sets out the sequence of issues to be negotiated
  - Objectives expressed in terms of parameters
  - The negotiating partners' pre-declared position/s
  - Questions to ask to obtain information

Listening and Speaking Strategies

- Active listening is important
  - Hear and listen carefully to what the negotiators have to say
  - Repeat and check that you have understood what has been said
- Ask 'open' questions:
  - What? Why? When? How?
  - Allows for the negotiating partner to respond with extended statements
  - To help unblock deadlocks
- Further strategies will be discussed in detail in future modules

Thank you for your attention!!