

Negotiating a Deep Regional Trade Agreement
Simulation Exercise prepared for CUTS training seminar 21-27 October, 2007

Common Facts

Northistan and Southistan should be negotiating a free trade agreement, however there are some issues that remain unresolved. Northistan is a large developed economy, and Southistan is an advanced developing economy about one tenth the size of Northistan. Northistan is among the largest trading countries in the world and it represents around 40% for Southistan exports and imports. Southistan represents less than 1% for Northistan trade.

There is an extensive economic relationship between the two countries, as a result of a large immigrant population from Southistan in Northistan, extensive investments by Northistan companies in Southistan, and heavy dependence of the Southistan economy on exports to Northistan. Southistan is also an important tourist destination for Northistan citizens, who are a major source of income in Southistan which depends heavily on tourism as a source of income.

Both Northistan and Southistan have been plagued by employment problems and this has created sensitivities on both sides. Loss of manufacturing jobs in Northistan has resulted in a decline of wages for low skilled workers in Northistan, as these workers have switched to other low skill jobs. Unemployment, nevertheless has remained fairly stable, despite the fact that some industries such as the information and communications technology, and health industry, which are not extensively unionized, are employing a large number of foreign workers.

As a result of its concerns about the decline in wages for low skilled workers, Northistan reduced the number of temporary work visas. In addition, as a result of recent terrorist incidents, Northistan has tightened its visa requirements.

There are six major sticking points, which have to be resolved in order to conclude the agreement. The President of Southistan is scheduled to visit Northistan in two weeks, and the President of Southistan would very much like to sign the agreement. The Northistan President is rather concerned about the political repercussions of signing the agreement, especially that his country has been accusing Southistan of lack of democracy and human rights. Very considerable political pressure has been put on the Southistan negotiating team to come up with an agreement.

One of the six issues that remain unresolved is the desire of Northistan to gain access for its banks and telecommunications firms, which are highly competitive, and are at the technological frontier in the application of information technology. Support by the banking industry in Southistan is essential for legislative approval of the agreement, since the banking industry is quite powerful politically. The telecommunications industry in Southistan is still not well developed despite the potential for its flourishing due to the abundance of well trained cheap labor, and large size of the market. Southistan has

indicated that the liberalization of banking services is very difficult issue due to its social and political repercussions. The banks in Southistan are concerned about going out of business if they had to compete with the Northistan banks. Moreover, the Central Bank is concerned that it would not have the same degree of effective control over capital outflows if foreign banks were allowed to proliferate in the country. The telecommunications industry's position towards liberalization is still not very clear.

Another major issue that remains unresolved is the request by Southistan for an increased number of temporary work visas and expedited processing of visas for its citizens, which are now subjected to extended background checks to prevent entry of terrorists. Southistan has a large number of extremely well trained university graduates who have not been able to find jobs, and work in other countries by these professionals has not only proven to be an important source of income, but also an important means for keeping social discontent by this articulate element of the population at a tolerable level. The limitations Northistan has placed on the number of business visas granted each year has cut off many of these opportunities. Southistan has depended on the employment and training opportunities in Northistan to expand the number of jobs for its citizens, many of whom have also come to rely on remittances from relatives working abroad. Without the employment opportunities provided by temporary work abroad, Southistan's unemployment problem could threaten its social stability. Moreover, Northistan depends heavily on Southistan citizens in some industries as telecommunications and information technology and, health industries.

The third issue concerns labor standards. The unions in Northistan feel that they should not be expected to compete with firms in Southistan that treat their workers poorly from Northistan's unions point of view, and they have demanded that Southistan agree to the same high labor standards required of firms in Northistan. Southistan, on the other hand believes its labor laws are fully consistent with international standards, and resents interference in its internal affairs.

The fourth issue concerns agriculture. Northistan maintain import restrictions on a variety of agricultural products exported by Southistan, including cotton, which is Southistan's major agricultural export. Southistan does not believe that an agreement that excludes agriculture is justifiable. Northistan on the other hand believes very strongly that its agricultural trade measures are an essential part of its domestic agricultural support programs aimed at preserving family farmers, and that reform of its agricultural policies can only take place in the context of global negotiations aimed at reforming agricultural policies worldwide. In fact Northistan has undertaken some reforms within the context of multilateral negotiations but it does not want to expedite the liberalization measures faster in regional context.

The fifth issue concerns textiles. Southistan is likely to lose its market share in Northistan due to the developments in the world market, the Most Favored Nation lowering of tariffs undertaken unilaterally by Northistan and, Northistan's abolishment of quota system. In case Southistan loses its market share for exports in Northistan, this can result in a large wave of unemployment which has serious negative social and political repercussions.

Northistan has offered before to Southistan to cumulate rules of origin with a country in the neighborhood of Southistan in textiles which will allow Southistan to access Northistan market duty free. However, Southistan has always rejected this option due to its political repercussions especially that the history of Southistan and this neighboring country is full of political frictions and wars. Moreover, this type of agreement is not WTO consistent.

The sixth issue is related to democracy and human rights. Northistan believes that Southistan government is weak on enhancing democracy and human rights and that without taking drastic measures to improve upon the conditions of those two critical political files, a conclusion of a free trade agreement would be impossible. Southistan believes that Northistan comments on those two files and its demands for reform are affecting its national sovereignty and that they have nothing to do with concluding a free trade agreement.

Confidential Instructions to Northistan Negotiating Team

You are instructed to conclude negotiations with Southistan on the terms of the free trade agreement. It is important that we conclude these negotiations in time for the visit of Southistan's President to Northistan provided that Southistan agree to undertake drastic reform measures in the areas identified. You should point out to the Southistan negotiating team that this agreement will be of great value to their economic future. Although we are in more powerful position, concluding this agreement is of paramount importance from a political and economic perspective to ensure that Southland remain our close ally.

It is imperative that you gain market access concessions by Southistan for banking services, since support from the industry is crucial for ratification of the agreement by the legislature. Our banks have indicated that they believe that our tourists, who often find it difficult to cash checks at tourist spots in Southistan, would constitute a major client base. Our citizens face problems in using the underdeveloped banking system in Southistan, including the use of ATM machines. While the market in Southistan is not very large, they expect major growth in the demand for banking services in the future and they would therefore like to establish a foothold that would give them a competitive advantage vis a vis their foreign competitors when Southistan opens its market fully in the future.

You should resist requests from Southistan that we increase the number of temporary work visas. The loss of manufacturing jobs and the influx of white collar workers into our country, particularly computer programmers and other information technology workers, has created great political sensitivity. Our unions can be expected to oppose this agreement in any case, but inclusion of a provision that increase unemployment in the information technology industry or in manufacturing would push them to launch an all out campaign that could serve to mobilize broader political opposition. You cannot agree to any concessions in this area that will increase union opposition. If necessary, find a way of accommodating Southistan's requests in a way that will not increase union opposition. Southistan has also requested that we speed up the processing of visas by eliminating lengthy background checks. You should indicate to them that we cannot take the risk of letting people into our country who may have a terrorist background.

You should insist that Southistan commit itself to fair labor standards. Our unions and many members of our legislature believe that it is not fair to our workers to expose them to competition from firms that treat their workers badly. You should therefore seek to include this issue in the agreement, but in any case you must insist that they commit themselves to implement fair labor standards.

You should press Southistan negotiating team to conclude an agreement of cumulation rules of origin with its neighboring country. We as Northistan want to promote peace in the region and ensure no future wars between Southistan and its neighbors. Moreover, this will protect our political influence in this region of the world.

There should be insistence on undertaking democratic reforms in Southistan. This could entail changing some of the constitution's provisions in Northistan. On the other hand, some security measures should be strengthened to avoid some of the fundamentalists gaining more power in the political life.

Finally, you must firmly reject all requests that we eliminate our agricultural import quotas. You should indicate that our agricultural import quotas are an integral part of our domestic agricultural support program, designed to assure the survival of our family farms. We are working on a reform of our policies, which we will be ready to implement as part of global negotiations in the WTO aimed at a global reduction of barriers to agricultural trade. We cannot implement such policies on a piecemeal basis, and we cannot therefore include agriculture in this agreement. If necessary, you could explore an adjustment of their country quota for cotton as a good will measure.

Confidential Instructions to Southistan Negotiating Team

You are instructed to conclude negotiations with Northistan on the terms of the free trade agreement. It is very important that we conclude these negotiations in time for the visit of our President to Northistan. While you are authorized to use some limited flexibility to meet high priority needs of the other side, you cannot concede on all fundamental issues.

You should indicate to the negotiating team for Northistan that we value the close economic relationship with their country, and in particular the large number of tourists. We are very much committed to making the stay of their tourists in our country a pleasant experience, and we believe that this agreement will enable us to increase that number. Our Ministry of Tourism is working with a number of ministries to improve the tourism experience in our country. Surveys have indicated that visitors are not entirely satisfied with the quality of our hotels and other tourist facilities because of a lack of well trained managers and other professionals, and they have complained that they need to carry large amounts of cash because many establishments that do not accept credit cards. The Tourism Ministry is therefore exploring what it can do to solve this problem, and has explored the possibility of introducing ATM machines under its jurisdiction.

You should insist that Northistan increase the number of temporary work visas. If we do not find jobs for many of our university graduates we face a major social problem. You can point out to the team from Northistan that most managers and professionals who go to Northistan to work only stay for a limited time, and that the professional experience in Northistan has enabled them to obtain well paid jobs in industries critical to our country, including the tourism industry. You should point out that we are particularly eager to increase the number of professionals in the hospitality industry with work experience in Northistan so we can improve our services to their tourists.

You should also request that Northistan eliminate lengthy background checks on our citizens applying for visas. Explain to them that we are doing everything we can to apprehend terrorists, and that we are fully prepared to share information to expedite requests by our citizens for visas to Northistan.

With respect to the request by Northistan that we open our banking industry, you should indicate that this is politically impossible for us to accept. Our banks are not ready for foreign competition and the Central bank is against any liberalization of traditional banking services. You may explore what concessions we could make in other financial services, and other ways of allowing them in the market, if the negotiators from Northistan insist that they must include banking services in the agreement.

You should request that Northistan include agriculture in the agreement, and that they commit themselves to abolish agricultural quotas. We have a particular interest in expanding our exports of long staple cotton, and without some benefits to our farmers we will not be able to obtain approval of this agreement in our parliament.

You should resist by all means any interference from Northistan in our political system and our domestic legislation on labor issues. You should point out to them that we have excellent labor standards that are fully consistent with the core ILO conventions. This is not an issue that you can negotiate by any means, but you should indicate we have not hesitation of indicating publicly that we are proud of our legislation on labor standards, and as a government we are committed to implement the laws of our country.

You should try to find a way out for your textiles industry to avoid negative repercussions on unemployment, which the governing regime cannot afford.