

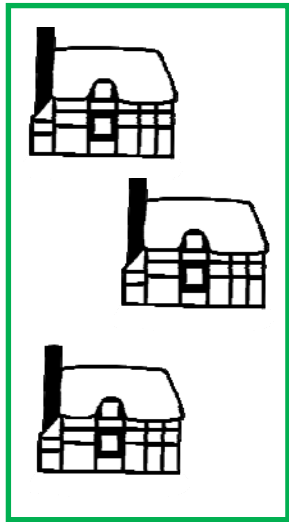
21st Century Regionalism:

Filling the gap between 21st century trade and 20th century trade rules

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Graduate Institute, Geneva
WTO
Geneva, 3 November 2010

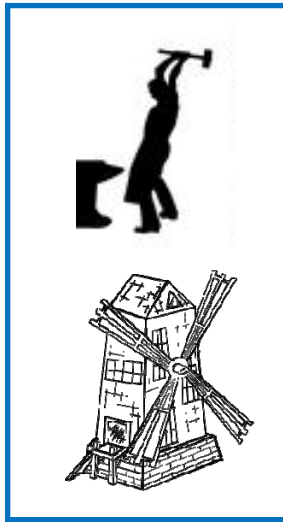
Pre-Industrial Revolution

Consumption



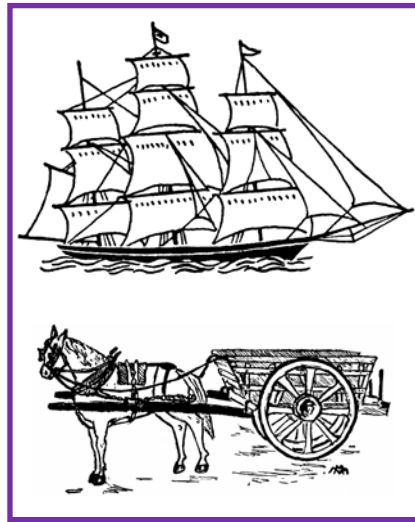
&

Production

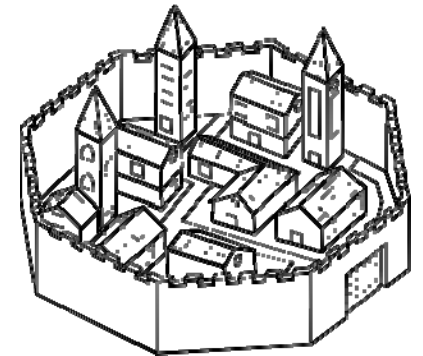


+

transportation



=



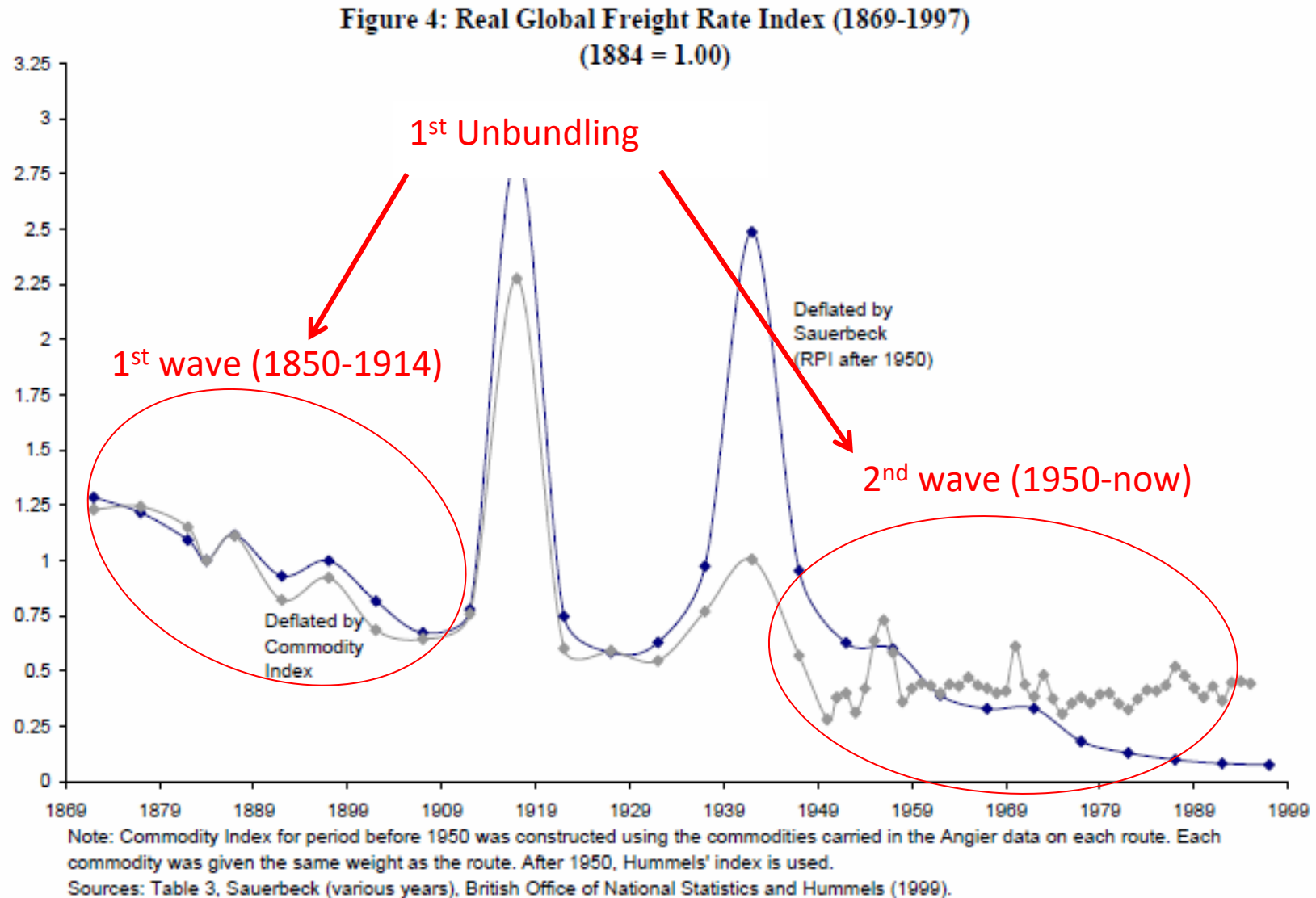
*Consumption
& production
bundled
spatially*



*Very little
trade*

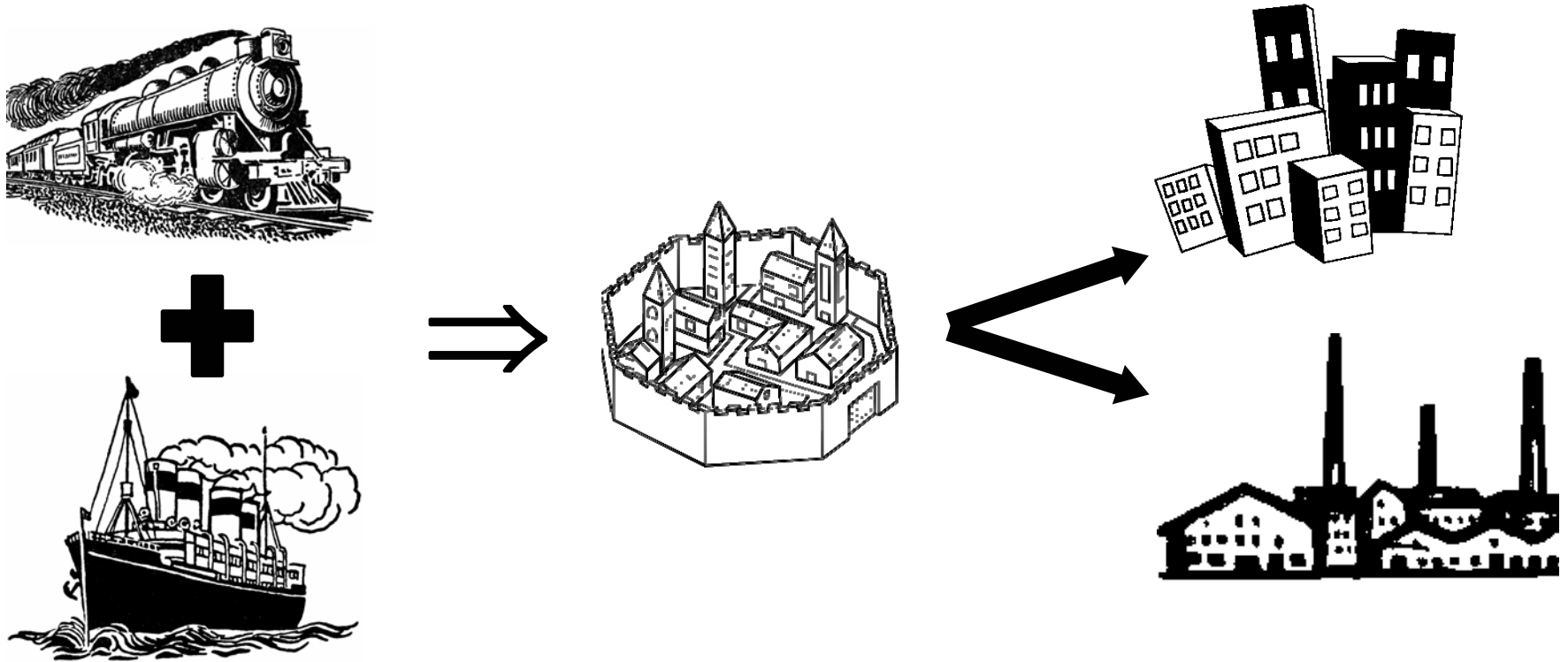
*Transportation
“glue”*

Transportation revolution (steam power)



"Freight rates and productivity gains in British tramp shipping 1869–1950" (2004) Saif I. Shah and Williamson

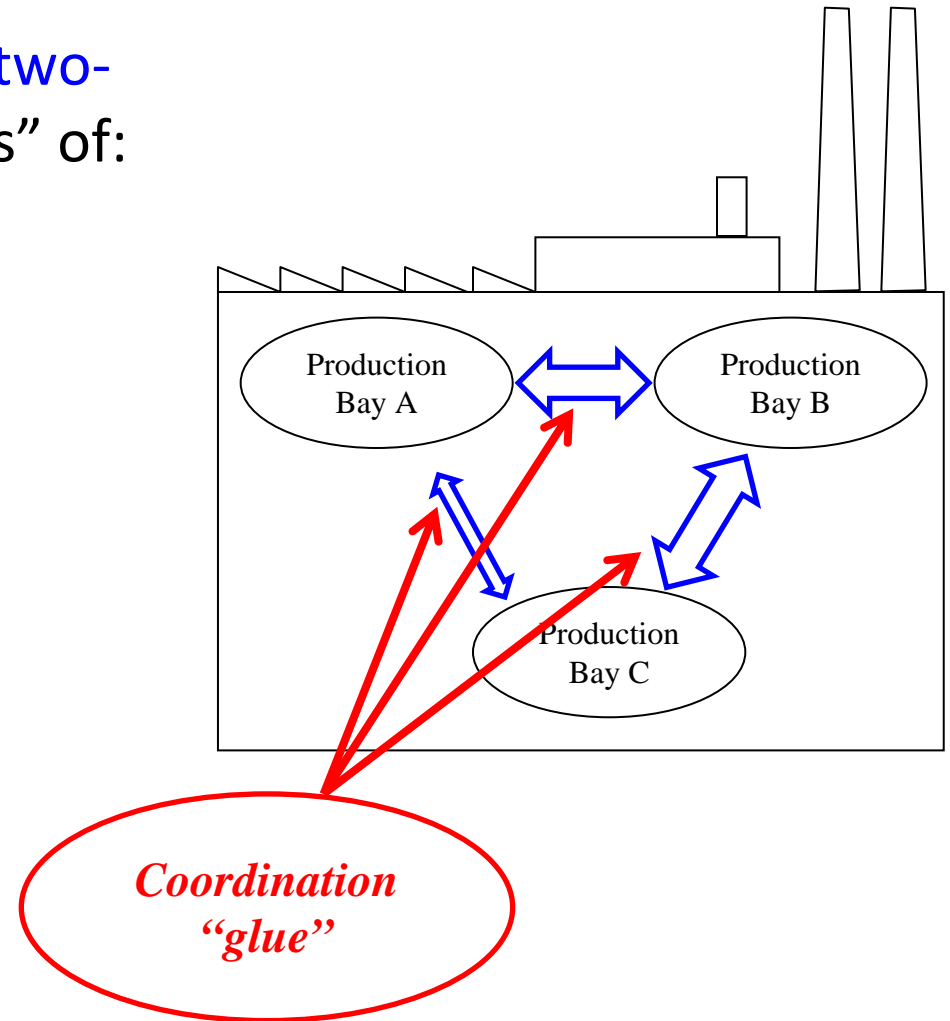
First unbundling



1st unbundling: Production clustering within nations

Manufacturing requires continual **two-way flows** among “production bays” of:

- Things,
- People,
- Information,
- Investment in training, machines, processes.



20th trade & trade governance

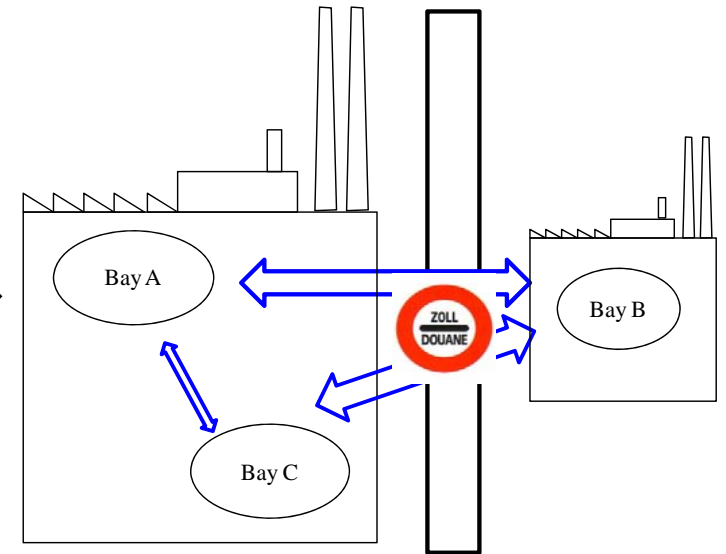
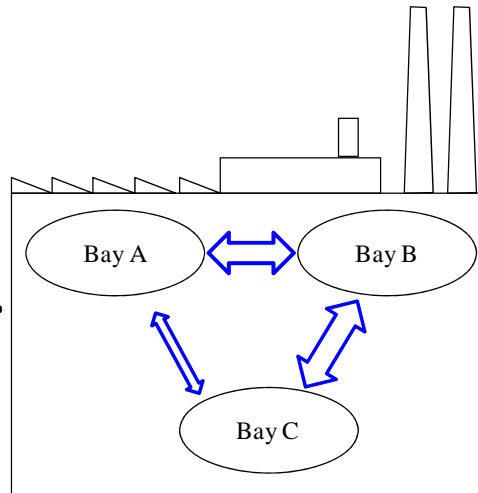
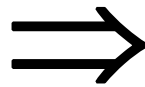
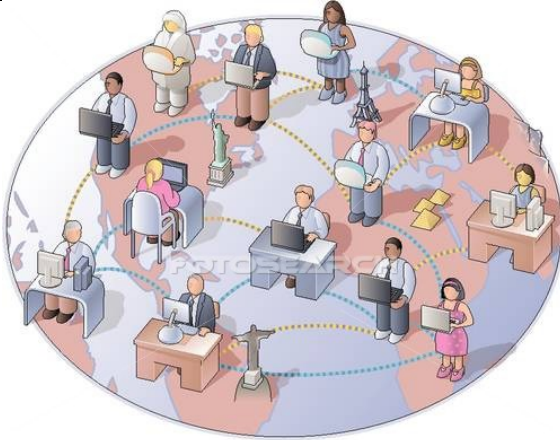


- International commerce = goods crossing borders.
- Trade disciplines required = fairly simple (GATT 1947):
 - Tariffs & other border measures – MFN;
 - Subsidies & unfair competition – AD/CDV;
 - Taxes & regulation of goods – National treatment;
 - etc.

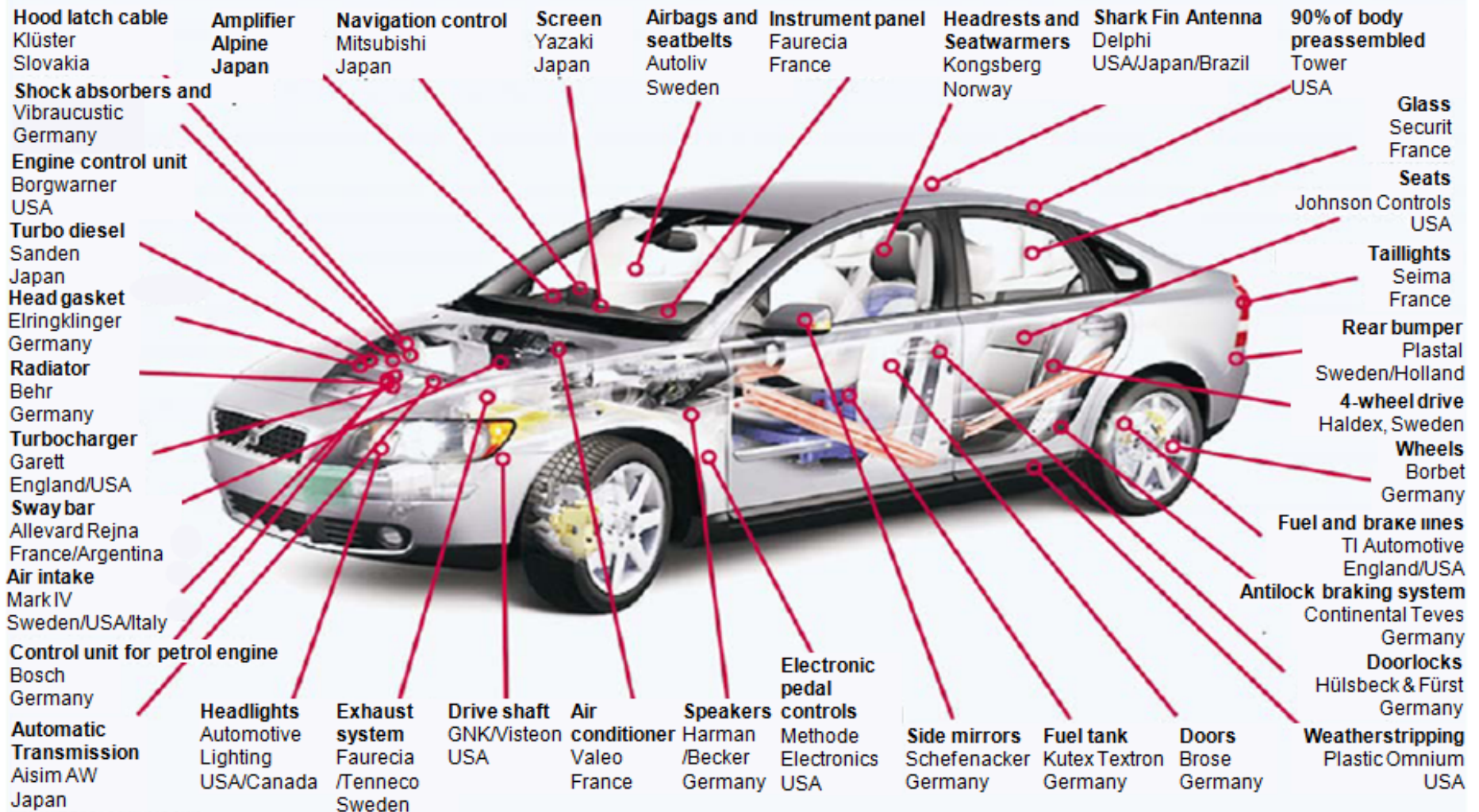
ICT revolution

- ICT revolution melts the coordination glue:
 - ✓ Telecommunication cheaper, universal.
 - ✓ Computing & information storage becomes cheap.
 - ✓ Information management software.
 - ✓ Increased modularisation of manufacturing

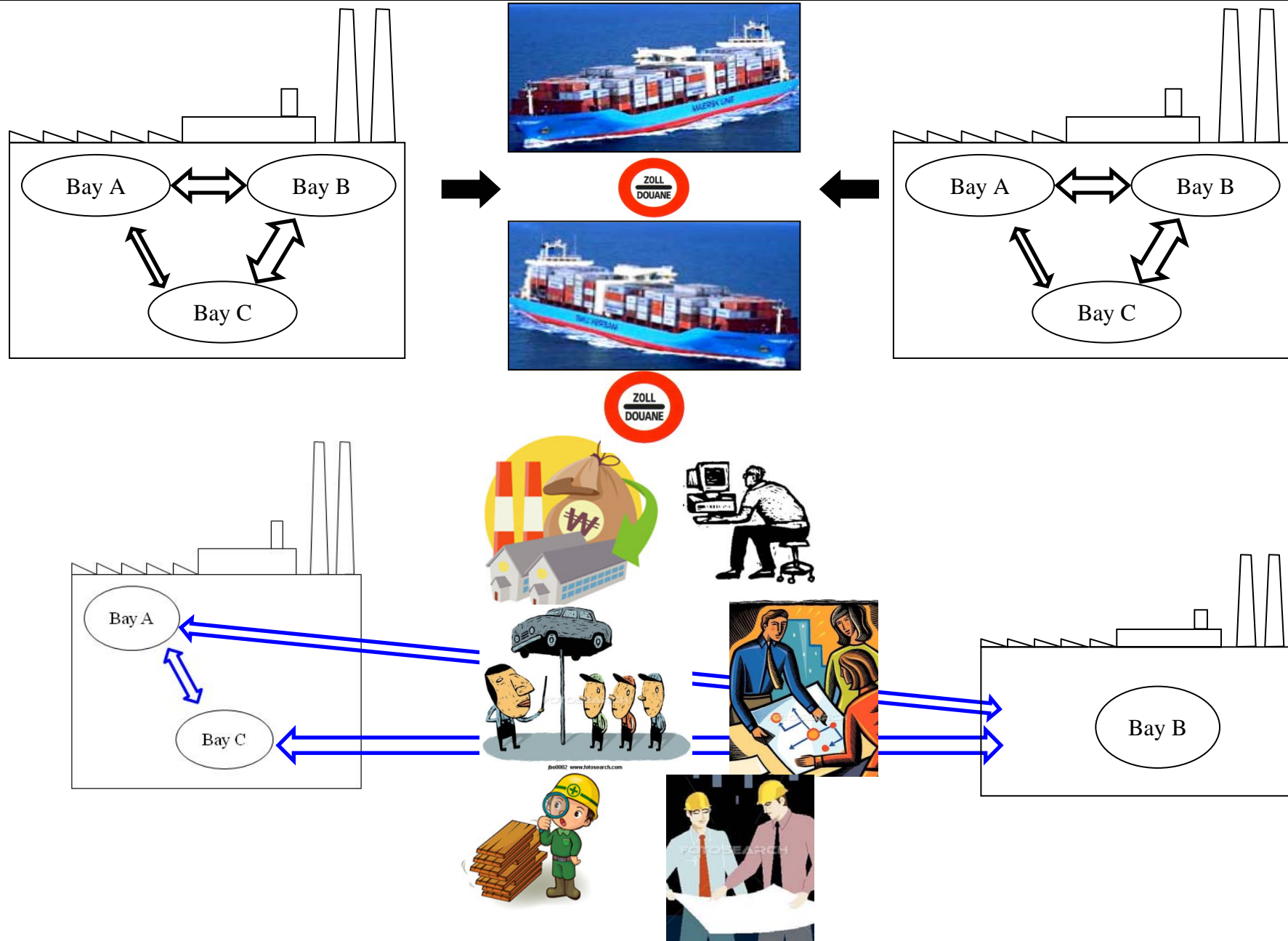
Second unbundling



2nd unbundling



21st century trade more complex

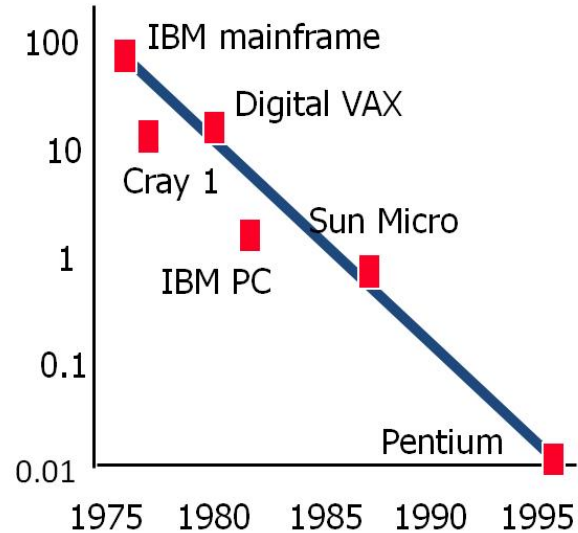


21st century trade & governance

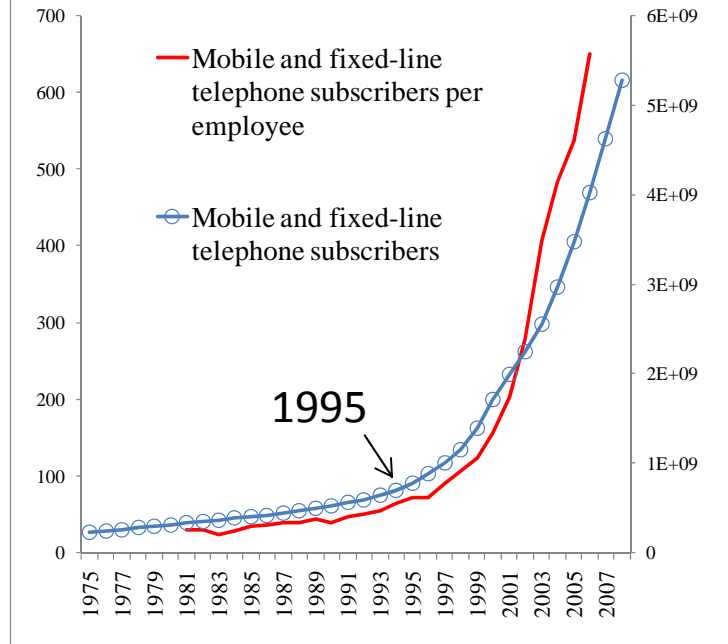
- 21st century trade needs deeper disciplines.
- Recognition & early efforts (1986):
 - EU's Single Market Programme
 - Goal: flows across border just as flows within borders.
 - US-Canada FTA
 - Deepen disciplines to include investment & services.
 - Uruguay Round
 - TRIPs, TRIMs & Services.

ICT revolution accelerates

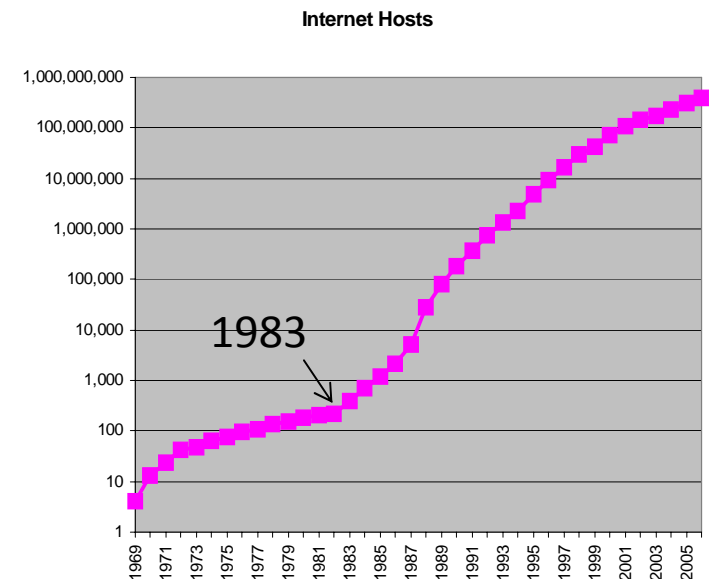
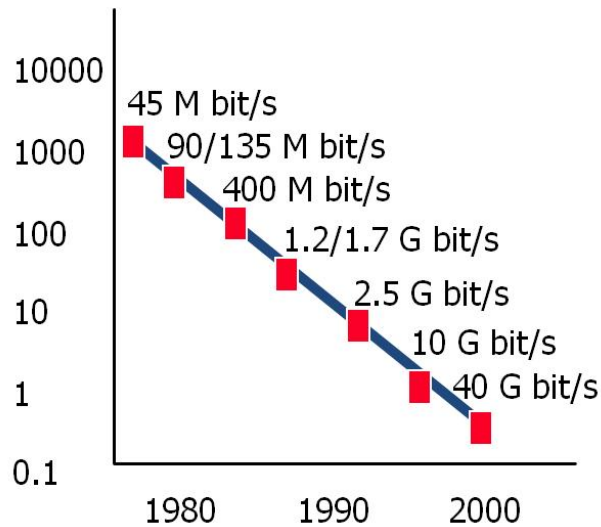
Cost of information processing (cents per instruction per second)



Moore's law & Gilder's law at work:
In 2001 more information could be sent over a single cable in a second than was sent over the entire internet in a month in 1997.

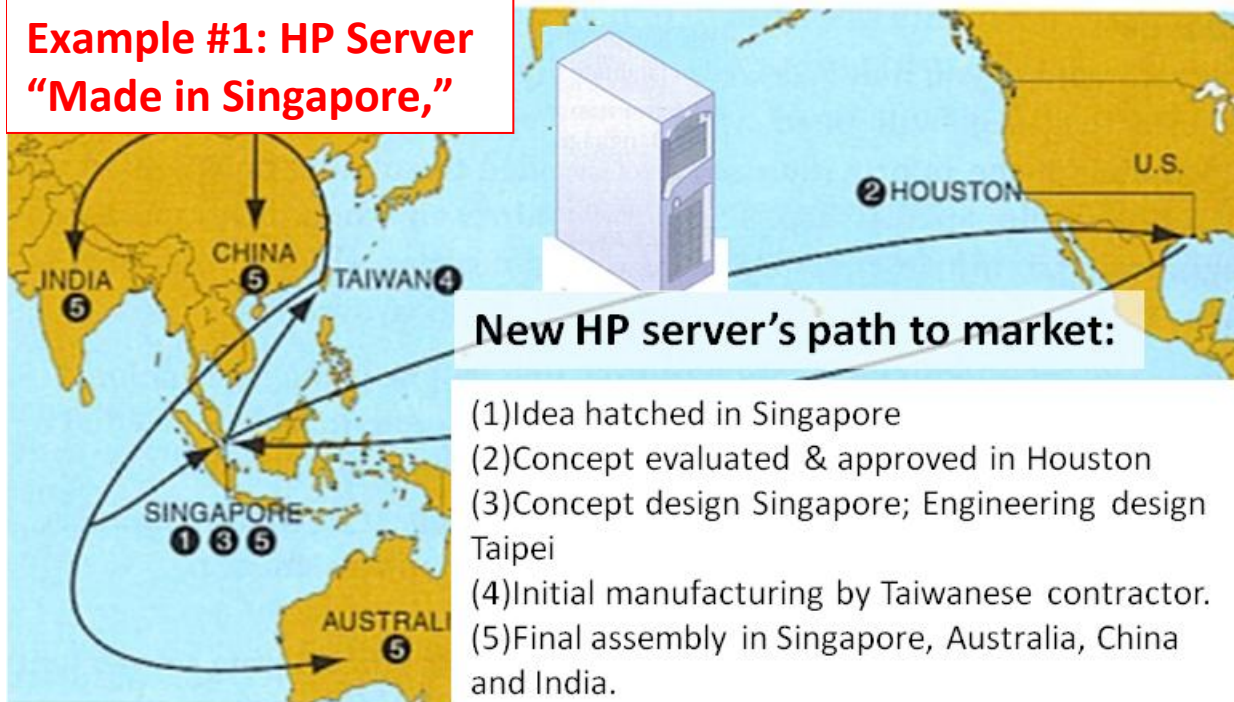


Optical Fiber Transmission (cents per Mbit/km)

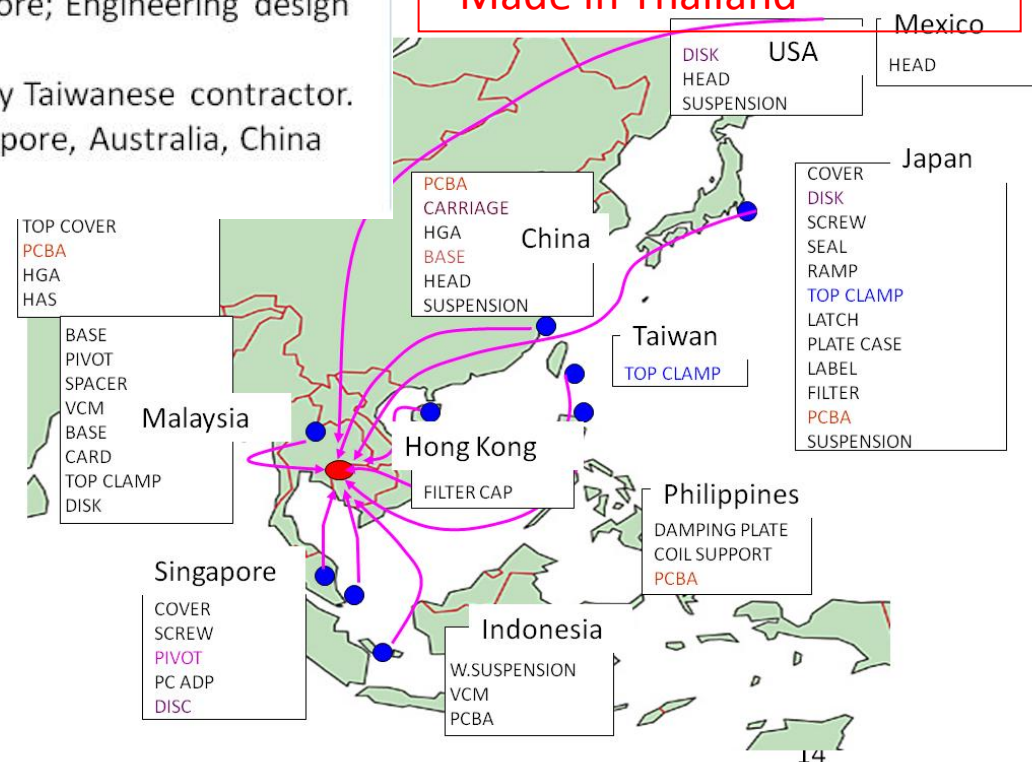


North-South production unbundling

Example #1: HP Server “Made in Singapore,”



Example #2: Hard Disc Drive “Made in Thailand”



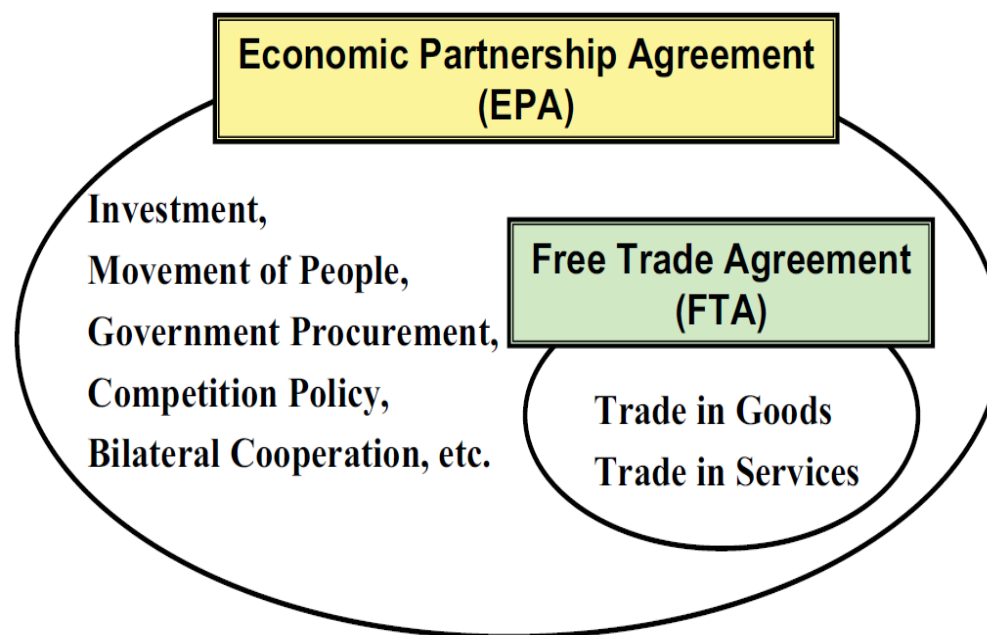
North-South trade governance gap

- Need for new disciplines North-South.
- WTO is otherwise occupied.

⇒ Governance gap.

Filling North-South governance vacuum

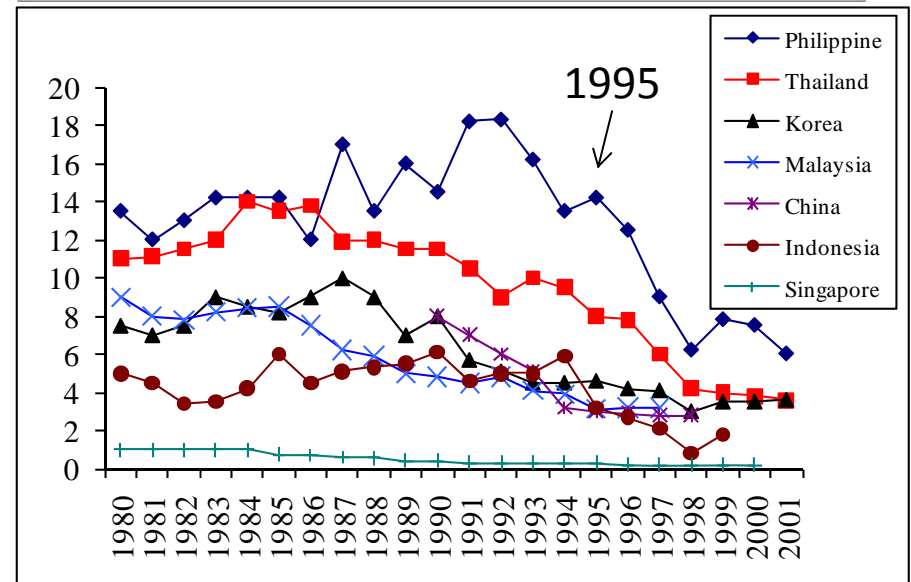
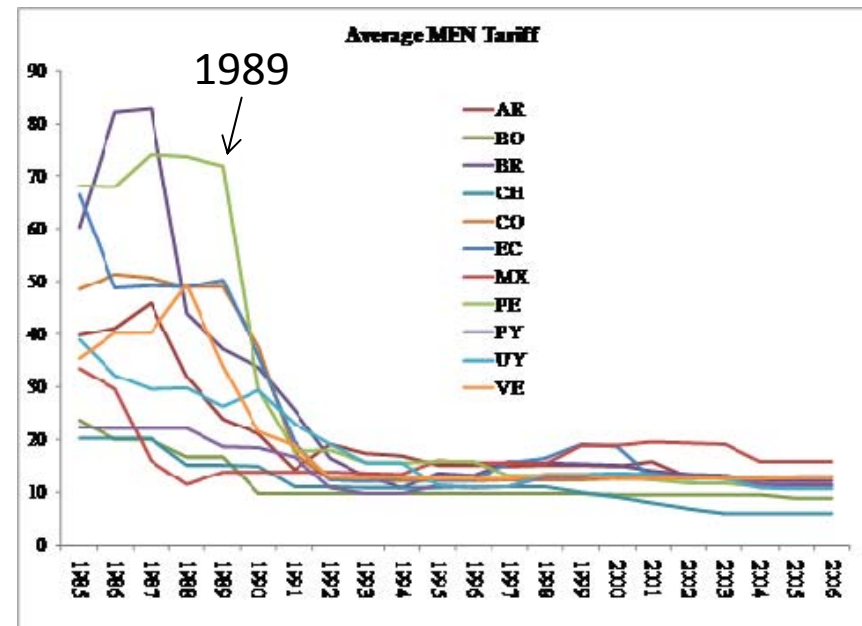
- Explosion of BITs 1990s.
- North-South deep RTAs
 - US (NAFTA-like), Japan (EPAs), EU (Association Agreements).



- Unilateral tariff liberalisation.

Filling North-South governance vacuum

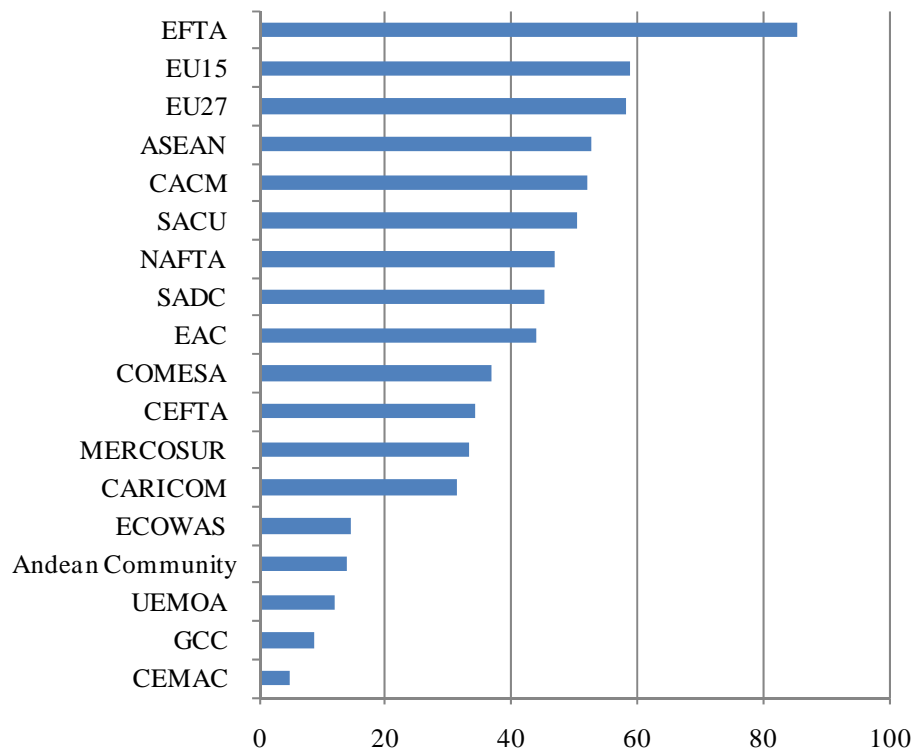
- Unilateral tariff liberalisation facilitates 21st c. trade especially:
 - By developing nations
 - In parts & components.
- 21st regionalism not about tariff preferences.



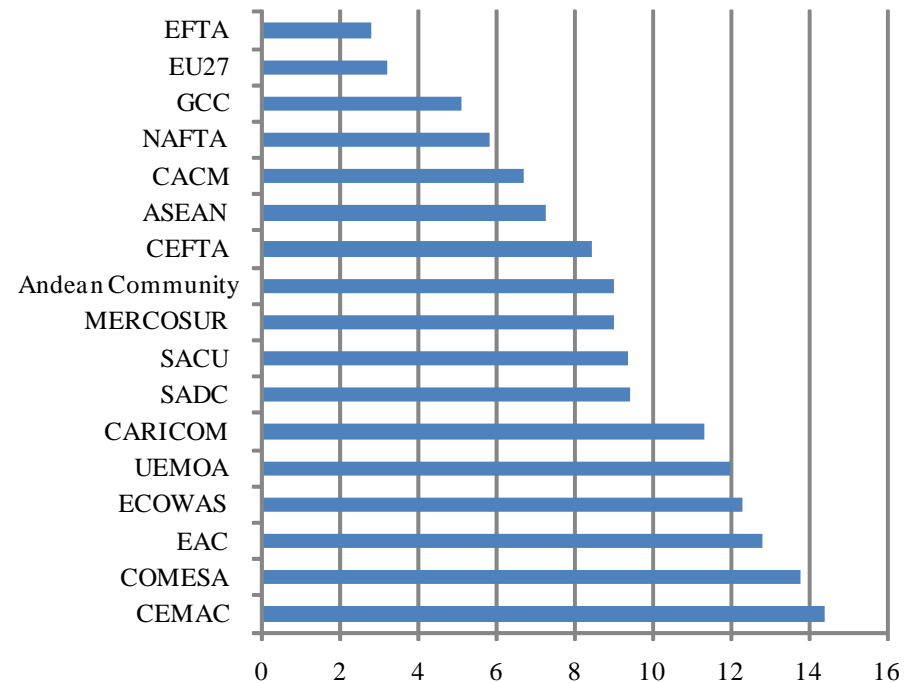
Possible preference margins are low

- Much trade has zero MFN applied tariffs (no preference); share growing fast everywhere.
- Other average tariffs are low (except sensitive products; often excluded from RTAs),
- Big inter-regional have positive MFN tariffs but are not covered by RTAs (yet).

Zero MFN tariff (% Total Imports)



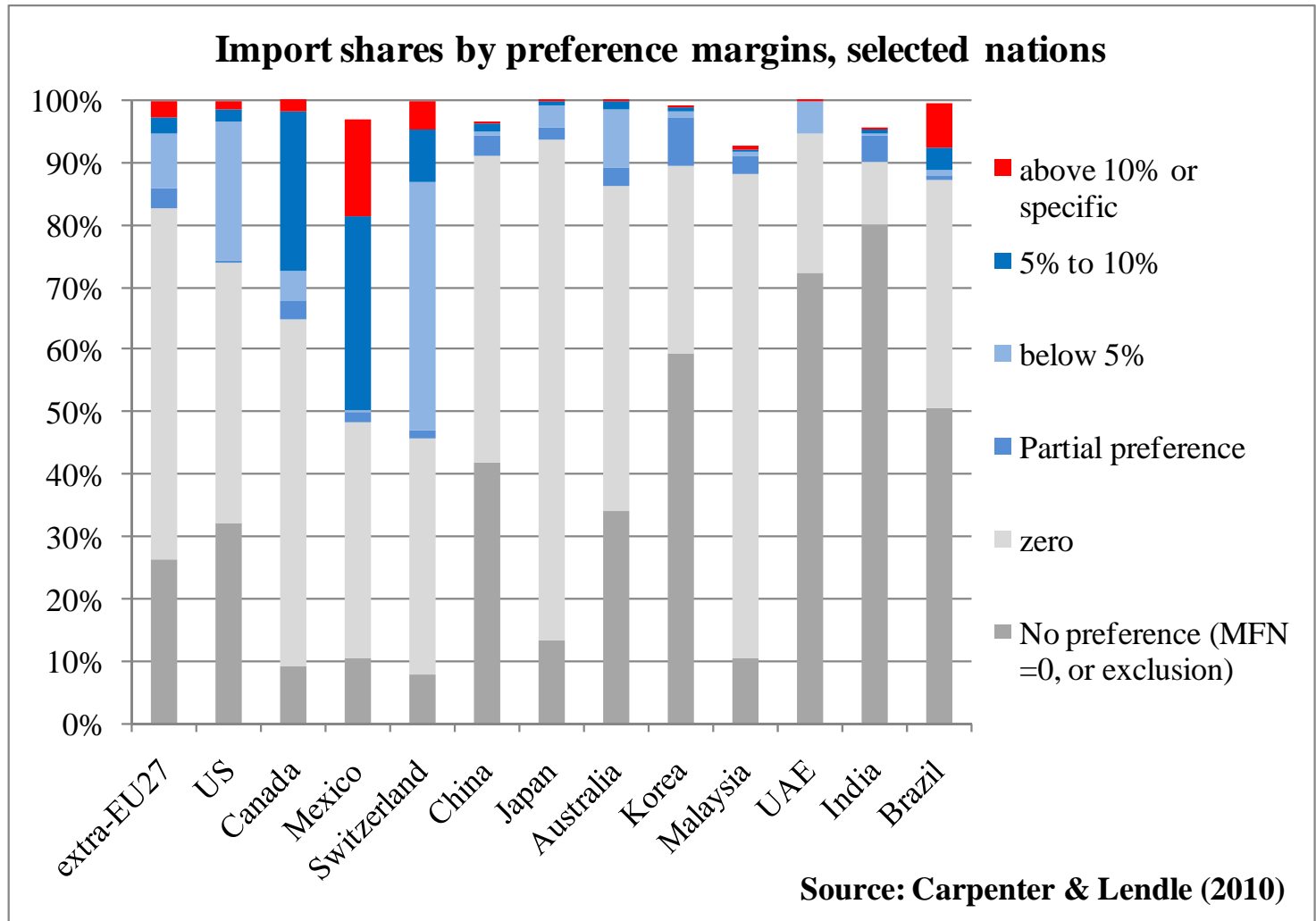
MFN applied tariff (trade weighted average)



Death of preferences

✓ Big PMs only on narrow fraction of exports.

✓ US, Canada & Mexico are exceptions.



21st century disciplines (Japan EPAs)

	Sing	Mex	Mala	Phil	Thai
Liberalization&promotion of investment	x	x	x	x	x
Harmonization of custom procedures	x		x	x	x
Protection of intellectual property rights	x		x	x	x
Mutual recognition and testing	x		x	x	x
Movement of natural persons	x	x		x	x
Government procurement	x	x			x
Competition	x	x	x	x	x
Enhancement of business environment		x	x	x	x
Environment					
Labour					
Exchange of information about intellectual property rights		x			
Financial services	x	x	x	x	
Information technology	x		x	x	x
Science and technology	x	x	x	x	x
Education and human resource development	x	x	x	x	x
Trade and investment promotion	x	x		x	x
Small and medium enterprises	x	x	x	x	x
Transportation				x	
Energy				x	x
Agriculture, forestry and fishery		x	x		x
Road development		x		x	

Source: Balboa (2008) "Negotiated Trade Liberalization in East Asia: Examining Japan's Economic Partnership Agreement (EPA): Focusing on the Japan Philippines Economic Partnership Agreement (JPEPA)".

Conceptual frameworks

Traditional regionalism v 21st regionalism

- Traditional view: RTAs = tariff preferences
– Vinerian economics & implied political economy.



Krugman: “Is bilateralism bad?”



Bhagwati: “Termites in the system”



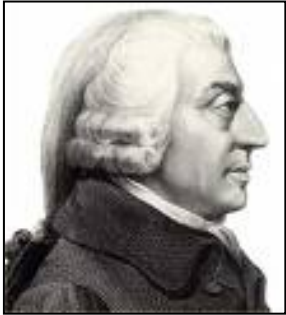
Summers: “I like all the ‘isms”

- 21st regionalism: RTAs = disciplines underpin 2nd unbundling
– Vinerian analysis moot (***RTAs not about preferences***).
– Regulation-economics, not tax-economics.
– Tools of discrimination often weak for BBBs.
– BBBs = “Behind the Border Barriers”

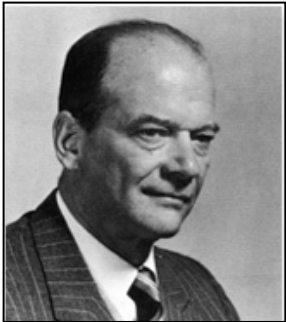
Difference without distinction?

- Why we care about regionalism:
 - Economic inefficiency from discrimination
 - Injustice and power asymmetries
 - Threats to support for multilateral liberalisation

Traditional view economics



Smith's certitude = Partner gains from preference.



Haberler's spillover = third nations lose.



Viner's ambiguity = Preference giver might lose.

Different economics

1. Frictional barrier liberalisation

- If rules-of-origin-like tools available
 - Only Viner's ambiguity dead.
- Without discrimination tools (many TBTs)
 - Haberler's spillover also dead.
 - {E'metric estimates of external trade creation}

2. Domestic entry liberalisation

- Incumbents v entrants; not home vs foreign.
- Discrimination very difficult.

3. Property right assurances

- Ditto

4. Fiscal federalism: Centralisation not always good.

Injustice & power asymmetries

- Deep RTAs worse than shallow RTAs.
 - Article 24 limits large partner's bargaining power.
 - Article 5 GATS ditto (weakly) for services.
 - No such WTO disciplines on BBBs
 - de facto = NS deep RTAs almost exclusively one-sided on BBBs.

Threats to WTO support

Different political economy

1. Basic nature of bargain

- Traditional = exchange of market access.
- 21st c. = Northern factories for Southern reform.

2. Implications:

- Only EU, US & Japan can do this deal (yet).
- WTO = no factories on offer.
- RTA tariff cuts multilateralisable; BBBs disciplines maybe not;
 - EU, US, Japan disciplines incompatible?

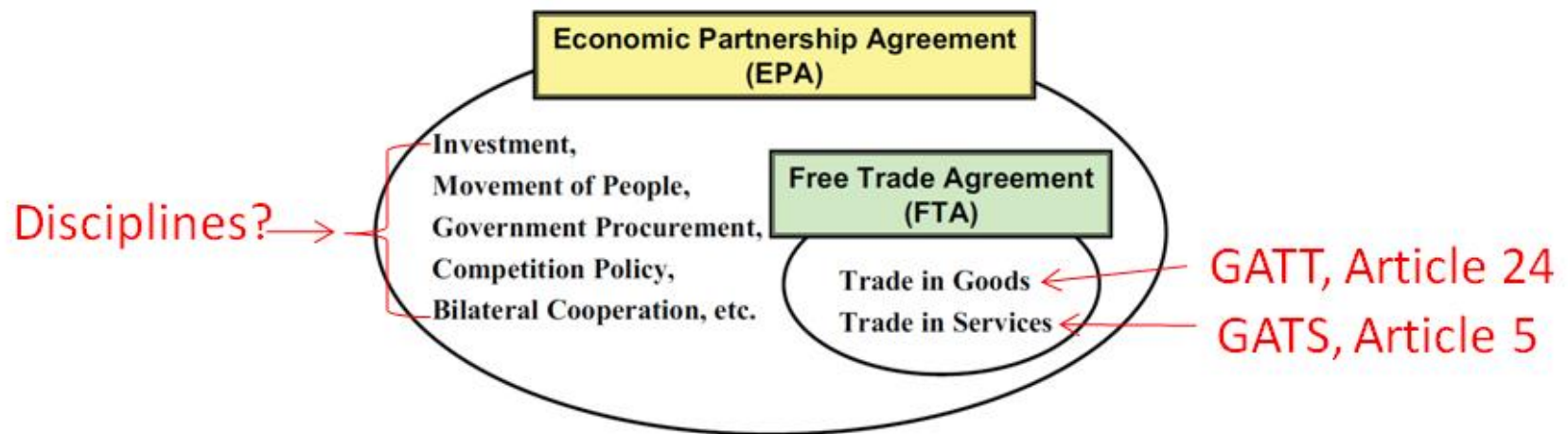
3. Unilateral tariff cutting = hole in WTO fuel tank.

Sum up

- 1st unbundling:
 - GATT & RTAs mainly about tariffs.
- 2nd unbundling:
 - 21st century regionalism mainly about BBBs
 - Politics: factories for reform
- Key questions 21st c. regionalism:
 - Are US, EU and Japanese disciplines multilateralisable?
 - Can & should some disciplines be brought under WTO?

Sum up

- Key questions 21st c. regionalism (cont'd):
 - Develop WTO disciplines like Art.24/Art.5 for deeper disciplines?



- How do new trade giants (China, India, Brazil, etc.) fit in?

Future scenarios for WTO

- Plan A (WTO centrality restored):
 - WTO disciplines updated to match 21st century trade.
- Plan B (WTO centrality eroded):
 - WTO unreformed, RTAs & BITs continue to lead.
 - Drift back towards a 19th century Great Powers world?
- B.1: WTO stays vibrant with Marrakesh disciplines only; deeper disciplines outside.
- B.2: WTO credibility withers; bicycle falls over.

End

- Thank you for listening.