Mis-thinking globalisation:  
*The case for WTO 2.0*

Richard Baldwin  
*Graduate Institute, Geneva & University of Oxford*  
26 September 2012, WTO Forum
Mis-thinking globalisation

• Conventional view:
  – Globalisation = no trade to free trade, slowly.

• But pervasive sense that today’s globalisation is different ...
Conventional view:
Globalisation ↔ trade costs (1870-1980)

Source: Gravity model based estimates of trade costs (Jacks, Meissner, Novy 2011).
Conventional view (1870-1980): Globalisation all about trade costs

Source: Gravity model based estimates of trade costs (Jacks, Meissner, Novy 2011).
Then something changed...

Despite flat trade costs, Trade kept growing...

Source: David, Meissner, and Novy (2011)
Globalisation impact changed

G7 exports

G7 GDP

G7 manufacturing

World manufacturing

logs
Global manufacturing shares
The tight geographical clustering of manufactures export swings

<table>
<thead>
<tr>
<th>Change in national export manufacturing share, 1980s to 2007-08 (percentage points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippines 59%</td>
</tr>
<tr>
<td>Italy -1%</td>
</tr>
</tbody>
</table>

-2% to -6%
Trade changed

Vertical specialisation index

Index of intra-industry trade

US-EU25

Intra-Asean

Japan-Asean

US-China
Reimporting/reexporting takeoff

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>1995</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reexports</td>
<td>Reimports</td>
<td>Reexports</td>
</tr>
<tr>
<td>US</td>
<td>Poland</td>
<td>-70%</td>
<td>-35%</td>
</tr>
<tr>
<td>CAN</td>
<td>NL</td>
<td>-50%</td>
<td>0%</td>
</tr>
<tr>
<td>MEX</td>
<td>Canada</td>
<td>-70%</td>
<td>-35%</td>
</tr>
</tbody>
</table>

Note: The diagram shows the percentage change in reimporting and reexporting for various countries in 1995 and 2008.
Global supply-chain trade, 2009

Compare total vs supply-chain trade

<table>
<thead>
<tr>
<th></th>
<th>2009 Total</th>
<th>2009 Supply-chain trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>Germany</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>France</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Italy</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>NL</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Belgium</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Austria</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Poland</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Czech</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Denmark</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Spain</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Greece</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Ireland</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Turkey</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Sweden</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Brazil</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Russia</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>India</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Australia</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>China</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Japan</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Korea</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>US</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Mexico</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

**Source:** Baldwin and Lopez-Gonzalez (2012).
International trade politics changed

- Developing nations seek out liberalisation of policies that foster supply-chain industrialisation.
- Unilateralism on tariffs, Take-off in BITs, FDI, and soaring deep RTAs provisions
Trade governance changed

• Supply-chain trade needed new disciplines.
  – More interconnected policy; trade-investment-services-IP ‘nexus’

• Deep N-S RTAs around outsourcing HQ economies partly filled the gap.
  – US, Japan and Germany (EU).

• Mega-Regionals & mega-bilats start to harmonise the bilateral rules.
  – TPP, TAP (EU-US), EU-Canada, Japan-EU, Canada-Japan (old Quad + offshoring partners).
  – ISA?
WTO did not change
Looking forward

• Harmonised rules on supply-chain trade likely to be written by 2020;
• Most likely negotiated in mega-regionals & mega-bilats;
• WTO unlikely to be involved (DDA stuck).

So what is the future of the WTO?
Three premises

• For traditional trade, WTO is in excellent health.

• Status quo is comfortable for WTO members whose trade is booming.

• On current trajectory, status quo will be destroyed by 2020;
  – mega-regionals & mega-bilats will have transformed world trade governance.
The WTO’s future:

- A) Stay on the 20th century side track;
  - Allow fragmentation of global trade governance & exclusion of some major WTO members.

- B) Seek to multilateralise the new supply-chain-trade disciplines.
Case for WTO 2.0

• In future status quo, firms from 3 of the world’s 4 manufacturing giants (US, China, Japan, and Germany) will have been involved in negotiating the harmonised supply-chain rules.

• The 3 will have to be convinced that multilateralisation will improve things.
Structure of WTO 2.0

• Key questions:
  – What structure (number of members, S&D, etc.)?
  – Which issues?

• Economic logic of S&D
  – Primarily import substitution industrialisation (ISI).
  – Secondarily vulnerable groups.
Structure of WTO 2.0

- Production unbundling destroyed ISI, so much weaker economic rational for S&D for supply-chain rules.
- Logic for vulnerable groups unaffected.
- ERGO: Need WTO 2.0
  - WTO 1.0 keeps S&D, WTO 2.0 doesn’t.
S&D in WTO 2.0: Politics

• US, inter alia, likely to demand elimination of special and differential treatment for all major supply-chain players as a price for multilateralising supply-chain trade rules.

• This cannot happen in WTO 1.0, so need WTO 2.0
  – (maybe World Supply Chain Organisation??)
Universal membership

• WTO 1.0 logic: free market most efficient
  – non-discrimination with universal members is natural implication.

• Supply-chain trade is more highly concentrated and not a ‘free market’ outcome.

• Logic of universality is weaker.

• Politics suggests membership only for those heavily engaged in supply-chain trade.
Which issues covered in WTO 2.0?
Which issues covered in WTO 2.0?

Revealed preference evidence from US RTAs (share with given provision)

Source: WTO database on RTA provisions
Ditto for US, Japan, EU & RoW
Only beyond WTO measures

Visa

Movement of capital

IPR

Investment

Competition policy
At least 2/3rd of US & Japan RTAs have legally binding provisions

- Tariffs to zero,
- Beyond TRIPs,
- Beyond AD,
- Beyond CVM,
- Beyond Customs, GATS, TRIMs,
- Investment,
- Movement of Capital,
Don’t have the answers!
Time to start thinking ahead on trade

• Global trade governance is at turning point.
• Status quo likely to evaporate by 2020.
• Need global thinking on what comes next.
• Voice of all nations needs to be added to the conversation among manufacturing giants.
• Design issues need research.
• Content issues need research.
Thanks for listening

• My paper “WTO 2.0” will be soon posted on

http://www.voxeu.org/