

Updating Trade Cooperation: An Economic View

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Macro perspective: trade is about gravity

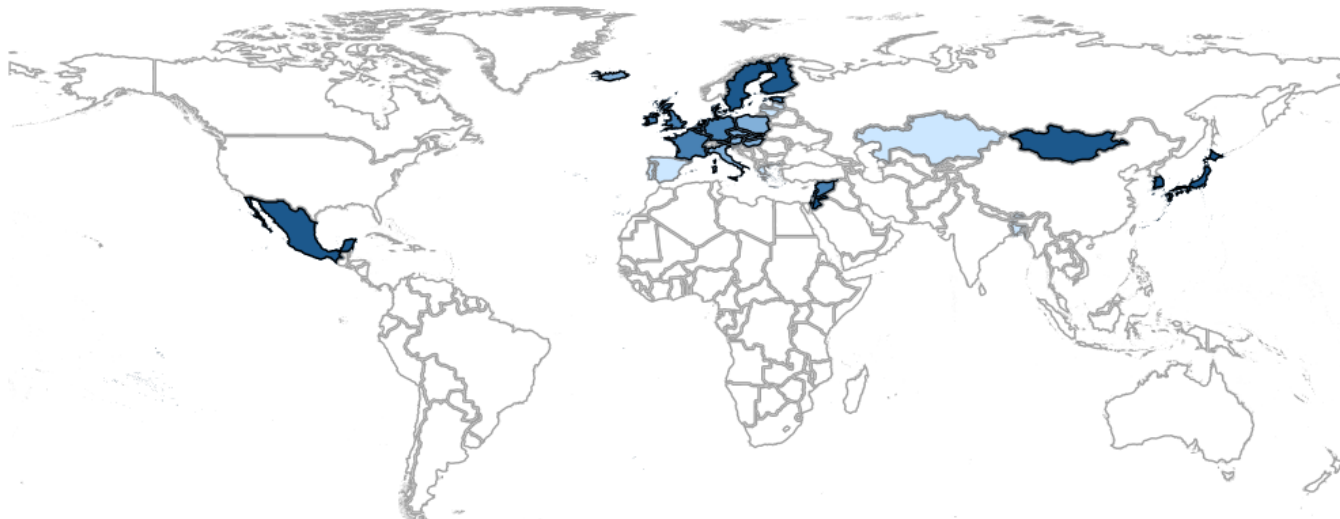
- Are trade agreements sustainable over time?
- Intensity of bilateral relationships:
 - GDP of exporter
 - GDP of importer
 - Competition at destination
 - Alternative opportunities for exporters
 - Trade costs between the two countries
 - Firm's strategies (GVCs)
- Dynamics:
 - Shift of the gravity center of the world economy towards Asia
 - China is becoming a global actor (maps)
 - China to become the next economic giant (simulations)

A global actor: Predicted China's optimal trading partners

Period 1995-2001



Period 2008-2014



Source: Fontagné, Santoni (2018) GVCs and the Endogenous Geography of RTAs

Selected country/regional shares in global GDP and exports, 2035 (per cent)

Scenario “high”	GDP (volume)		Exports (vol., excl. intra-EU trade)	
	2012	2035	2012	2035
World total (2004 USD billion)	49,992	129,618	10,165	48,206
Developed	70.1	44.3	47.8	28.6
EU	28.2	18.1	18.2	11.6
USA	26.5	16.8	15.2	9.3
Japan	9.9	5.7	6.5	3.8
Other developed	5.5	3.7	7.9	3.8
BRICs	12.9	31.1	19.3	31.5
China	7.3	20.4	14.2	22.5
India	2.4	6.4	2.0	5.0
Brazil	1.7	1.7	1.0	0.8
Russia	1.6	2.7	2.1	3.1
Other	17.0	24.5	32.9	39.9
ASEAN	2.4	3.7	8.1	8.9
MENA	4.3	6.9	7.0	10.0
SSA	1.6	3.3	2.3	4.6
Other	8.7	10.6	15.5	16.4

Source: Fontagné, Fouré & Keck (2017). Simulating world trade in the decades ahead: driving forces and policy implications. *The World Economy*

Micro perspective: market power and trade tensions

- At the micro level, massive redistribution of market shares since inception of WTO
 - World matrix trade flows X_{ijk} (excl. intra-EU) for each t (1995-2010)
 - 200+ countries, 5000+ products (BACI)
 - Sheds light on the current commercial tensions
 - Extensive margins of trade (-, +)
 - 1/3 of X_{ijk} disappeared in 15 years (\$-300bn)
 - 60% of the X_{ijk} observed in 2010 were zeros in 1995 (\$+1500bn)
 - Source: Cheptea A., Fontagné L., Zignago S., (2014), European Export Performance, *Review of World Economics*

Implications for reform

- Rise of China to be followed by other “new players”
- Rules put in place in Marrakech-94 dynamically inconsistent: neither accommodate the emergence of new players, nor the development of GVCs
- Discussion about graduation (of the SDT) is generally (mis)conducted at the macro level.
 - Verbatim *“the system remains blocked by the antiquated approach to flexibilities which allows over 2/3 of the membership including the world’s largest and most dynamic economies to claim special treatment.”* EU concept paper
- How rules should accommodate this:
 - Market power is firstly micro (product/sector level)
 - Market power could be defined taking account of vertical relationships (components, technologies,...)
 - Graduation should be defined at the micro level based on simple criteria (market shares, trade elasticities...)
 - Instead of finger pointing the most dynamic economies

Thank you

Appendix

- High (Low) scenario:
 - Higher (lower) fertility in developing world than UN
 - Fast (low) education convergence
 - Increased (Unchanged) female participation to labour market
 - Increased (reduced) capital mobility
 - Low (high) energy price (EIA)
 - Accelerated (reduced) tech progress and fast (slow) technological convergence
 - Trade opening (war) (-50% tariff)(pre-UR tariffs) and (non) reduced NTM in services
 - Trade facilitation
- Run MaGE and MIRAGE and compare outcomes in 2035