Updating Trade Cooperation: An Economic View

WTO – 11 Dec. 2018

Lionel Fontagné
PSE-Paris 1 Panthéon-Sorbonne & CEPII
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

Source: Fontagné, Santoni (2018) GVCs and the Endogenous Geography of RTAs
### Selected country/regional shares in global GDP and exports, 2035 (per cent)

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

Micro perspective: market power and trade tensions

• At the micro level, massive redistribution of market shares since inception of WTO

  – World matrix tradeflows $X_{ijk}$ (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 ($+1500bn$)

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