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

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Pre-Industrial Revolution

Production & Consumption + Transportation ➞ Very little trade

Transportation “glue”
Figure 4: Real Global Freight Rate Index (1869-1997)
(1884 = 1.00)

1st wave (1850-1914)
1st Unbundling
2nd wave (1950-now)

First unbundling
1\textsuperscript{st} unbundling: Production clustering within nations

Manufacturing requires continual \textit{two-way flows} among “production bays” of:
- Things,
- People,
- Information,
- Investment in training, machines, processes.

Coordination “glue”
20\textsuperscript{th} trade & trade governance

- International commerce = \textit{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 melts the coordination glue:
  ✓ Telecommunication cheaper, universal.
  ✓ Computing & information storage becomes cheap.
  ✓ Information management software.
  ✓ Increased modularisation of manufacturing
Second unbundling

Bay A ↔ Bay B

Bay A ↔ Bay C

Bay A ↔ Bay B
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

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.
North-South production unbundling

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

New HP server’s path to market:

1. Idea hatched in Singapore
2. Concept evaluated & approved in Houston
3. Concept design Singapore; Engineering design Taipei
4. Initial manufacturing by Taiwanese contractor.
5. Final assembly in Singapore, Australia, China, and India.

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).
✓ Big PMs only on narrow fraction of exports.
✓ US, Canada & Mexico are exceptions.

Source: Carpenter & Lendle (2010)
## 21st century disciplines (Japan EPAs)

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**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 |

**Education and human resource development**

| Trade and investment promotion | x | x | x | x |
| Small and medium enterprises | x | x | x | x |
| Transportation | x |
| Energy | x | x |
| Agriculture, forestry and fishery | x | x |
| Road development | x | x |

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 that 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

• 1\textsuperscript{st} unbundling:
  – GATT & RTAs mainly about tariffs.

• 2\textsuperscript{nd} unbundling:
  – 21\textsuperscript{st} century regionalism mainly about BBBs
  – Politics: factories for reform

• Key questions 21\textsuperscript{st} c. regionalism:
  – Are US, EU and Japanese disciplines multilateralisable?
  – Can & should some disciplines be brought under WTO?
Sum up

• Key questions 21\textsuperscript{st} 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 centricity restored):
  – WTO disciplines updated to match 21\textsuperscript{st} century trade.

• Plan B (WTO centricity eroded):
  – WTO unreformed, RTAs & BITs continue to lead.
  – Drift back towards a 19\textsuperscript{th} 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.