WTO 2.0

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Paradox

• WTO nations keep joining, but liberalisation happens everywhere but Geneva.

• Solution:
  – WTO is fine for 20\textsuperscript{th} century trade governance;
  – Becoming irrelevant for much of 21\textsuperscript{st} century trade governance.
My argument

• Globalisation changed
  ⇒ Trade changed: “21st century trade”
    ⇒ New demand for trade disciplines
    ⇒ New political economy of liberalisation

• WTO did not change
  ⇒ Governance shifted away from WTO

• Mega-regionals creating parallel governance
  ⇒ Fragmented & exclusionary system possible/likely run by old Quad (US, EU, Japan & Canada)

• What can be done?
Globalisation changed

G7 world export share

G7 world GDP share

Source: WTO database

Source: World Databank from 1960; Maddison pre-1960
1st unbundling: transportation cheaper

Steam revolution

1) Global dispersion of production.
2) Local clustering into factories.

Transportation constraint eased, but coordination constraint binds.

2nd unbundling: transmission cheaper

ICT revolution

1) Dispersion of production stages.
2) Regional clustering (Factory Asia)

Coordination constraint eased, but Face-2-face constraint binds.
Trade changed

20th century trade = Goods crossing borders

20th: Trade system for selling goods

21st century trade =
1) Two-way flows of goods, know-how, investment, technicians & services; “The nexus”.
2) Firm’s tangible & intangible assets abroad; “offshoring”.

21th: Trade system for making goods
New governance demands

1) **Seamless supply chains (supply chain disciplines)**: Intermediates tariffs, NTBs, transportation & ICT infrastructure, service barriers, business mobility, etc.

2) **Doing business abroad (offshoring disciplines)**
   “Behind the border barriers” (BBB) reform, property rights, local business climate, capital mobility, competition policy, SOEs, etc.
New political economy

• 20\textsuperscript{th} century trade = Selling things.
  – Political economy = exchange of market access.

• 21\textsuperscript{th} century trade = Making things.
  • Developing nations industrialise by joining a supply chain, not building one.
    – \textit{Protectionism becomes destruction-ism}
  • Offshoring killed import substitution.
    – Political economy = Northern factories for Southern reforms.
      • NB: No factories on offer in Geneva

• \underline{China is different}: ‘My market for your factories & technology’
WTO did not change, Governance shifted away from WTO

- Supply chains tend to be regional, so governance response tends to be regional.
  - Deep RTAs, BITs, unilateral pro-biz reforms.
- Deep RTA = trade agreement + offshoring agreement.
Mega-regionals

• Political economy is more asymmetric:
  – Hi-tech HQ nations vs factory nations.

• Mega-regionals:
  – TPP, EU-US, EU-Canada, Japan-EU, Canada-Japan
  – Old Quad + offshoring partners.
  – Tentative prediction: China, India, Brazil won’t join.

• Trajectory of world trade governance
  – WTO pillar for 20\(^\text{th}\) century trade
  – Fragmented & exclusionary pillar for 21\(^\text{st}\) century trade (Quad de facto in charge).
ERGO

• The WTO’s future:
  – A) Stay on the 20\textsuperscript{th} 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

• Nature of 21\textsuperscript{st} century trade disciplines is different (supply-chain and offshoring disciplines).

• Nature of international organisation different too.
WTO 1.0 & 2.0 logic

• WTO 1.0 logic (help sell goods):
  – Enable & lock in exchange of market access & prevent obvious ‘cheating’ on market opening (subsidies, etc.).
  – Win-win, all sell more.

• WTO 2.0 logic (help make goods):
  – Help developing nations commit to supply-chain and offshoring disciplines.
  – Win-win, hi-tech firms more competitive, low-wage nations industrialise rapidly.
WTO 2.0 structure

Provocative conjectures

- **S&D**: No special & differential treatment for supply-chain and offshoring disciplines.

- **Membership**: No clear logic for universal membership & complexity argues for more limited membership.
  
  – ?“World industrial supply-chain organisation”

- **Coverage**: Intermediates tariffs to zero, Beyond TRIPs, Beyond AD/CVM, Beyond Customs cooperation, GATS, TRIMs, Investment, Capital Movement.
Conclusion

• Doha deadlock + Mega-regionals are likely to transform world trade governance.
• Need to start thinking ahead about shape of global trade governance.
• My paper contain many assertions/conjectures where reasonable people disagree.
• My goal is to provoke more/clearer thinking on where WTO is going.
Thanks for listening

• My CEPR Policy Insight “WTO 2.0”:
  – Summary on VoxEU.org
  (link to PDF on this page)
2 types of trade, 2 types of institutions

20th century trade: Goods made in one nation sold in another

21st century trade: “Nexus”: International flows of goods, services, capital, know-how, managers, technicians

Baldwin (2012). “WTO 2.0”, CEPR Policy Insight
Which issues for WTO 2.0?

Revealed preference evidence from RTAs (share with given provision)

Source: WTO database on RTA provisions
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

US

Japan

EU

All others
At least $\frac{2}{3}$rd of US & Japan RTAs have legally binding provisions

- Tariffs to zero,
- Beyond TRIPs,
- Beyond AD,
- Beyond CVM,
- Beyond Customs cooperation, GATS, TRIMs,
- Investment,
- Movement of Capital.
Membership & SDT

• Successful IOs turn lose-lose into win-win.
• Institutions & rules depends on the basis for cooperation.
• GATT:

<table>
<thead>
<tr>
<th>Nation B</th>
<th>High Tariffs</th>
<th>Low Tariffs</th>
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<td>High</td>
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<td>Low</td>
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<td>GATT</td>
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GATT answers

• Spillovers global, so membership global.
• Cooperation disciplines selfish behaviour, so SDT is a ‘gift’ and thus sensible politically and morally.
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.
**WTO 2.0 answers**

- Very different basis of cooperation

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<thead>
<tr>
<th>Developing nation government choices</th>
<th>Advance-tech firm choices</th>
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<tr>
<td>Strict</td>
<td>Engage</td>
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<td>No supply-chain industry</td>
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- Engage: Engage in supply-chain industrialisation.
- Don’t engage: No supply-chain industry.
Membership & SDT

• Spillovers not global, so logic of universal membership is weak.
  – Start big supply-chain traders.
  – Most WTO members not involved in supply-chain trade.

• SDT should not be included.
  – 1) SDT defeats the purpose of the cooperation (protectionism is destruction-ism);
Implications

- But why multilateral?
- Network externalities
  - 1) Better for MNCs
  - 2) Better for developing nations in supply chains
    - Less lock-in to one high-tech partner
  - 3) Better for nations wanting to join a supply chain
The big SCT exporters
Why new organisation? WTO 2.0

• Existing WTO is not suited;
  – Universal membership;
  – SDT in the ‘DNA’;
  – Most members have not ‘stake in the supply-chain game’.
WTO 2.0 & WTO 1.0 relationship?

• International law issues
The tight geographical clustering of manufactures export swings
Global supply-chain trade, 2009

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<th>Country</th>
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Mega Regionals

RTA trade coverage (% of world trade)
Trade & development changed

• Build versus join a supply chain.
Trade changed

Vertical specialisation index

Index of intra-industry trade

International trade politics changed

- Developing nations seek pro-supply chain disciplines.
- Unilateralism; BITs, FDI; deep RTAs.
Global manufacturing shares

- **Global manufacturing shares**

  - **1990:**
    - **G7:** 47%
    - **65%**
    - **China + Korea:** 4%
    - **17%**
    - **4%**
    - **5%**
    - **3%**
    - **1970:**
    - **1975:**
    - **1980:**
    - **1985:**
    - **1990:**
    - **1995:**
    - **2000:**
    - **2005:**
    - **2010:**

  - **US:**
  - **China:**
  - **Japan:**
  - **Germany:**
  - **Korea:**
  - **Italy:**
  - **UK:**
  - **France:**
  - **Thailand:**
  - **Turkey:**
  - **Poland:**

  - **World manufacturing share**

  - **World manufacturing share**

  - **Billions of US $**

  - **Years:**
    - **1970**
    - **1975**
    - **1980**
    - **1985**
    - **1990**
    - **1995**
    - **2000**
    - **2005**
    - **2010**
Regional clustering of stages

• Distance still matters (people still expensive to move)
  – Supply chains are regional not global; why?
  – Hypothesis: “Face-2-face” and “Face-2-machine” constraints.

Figure 1: North American and Europe auto supplier plants.