21st Century Regionalism

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RIETI
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Globalisation as 2 unbundlings

• Put 21st century regionalism into broad canvas of economic globalisation.
Pre-Industrial Revolution

CONSUMPTION & PRODUCTION + TRANSPORTATION = Consumption & production bundled

Very little trade
Globalisation’s First Unbundling

Transportation “glue” weakened

Coordination “glue” weakened
Estimated Transport costs, 1870 - 2000

Averge global trade cost measure

Global trade flow (right scale in logs)

Source: David, Meissner, and Novy (2011)
International commerce = goods crossing borders.

1. Trade disciplines required = fairly simple:
   GATT 1947.

2. Trade liberalisation = tariff cutting.
Globalisation’s Second Unbundling

ICT revolution $\Rightarrow$ 2nd unbundling

Steam power $\Rightarrow$ 1st unbundling

Coordination “glue” weakened by ICT revolution
ICT revolution indicators

- Log of telephone subscribers (fixed & mobile)
- Log number of internet hosts (right scale)

1985

1995

Source: Amador and Cabral (2008).
Number of Japanese auto and electrical machinery plants in East Asia, 1975 – 2004

### International input-output matrix

**1985**

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<tr>
<th>Region</th>
<th>Indonesia</th>
<th>China</th>
<th>Malaysia</th>
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**2000**

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Source: Baldwin (2006) “Managing the Noodle Bowl”
21st century trade more complex
Summary

• 21st century trade is more complex.
  – 20th century trade = goods made crossing borders.
  – 21st century trade = multi-directional (mostly regional) flows of people, goods, services, capital, and information.

• ICT is to 2nd as steam was to 1st,
  – Not mostly about trade costs, rather about coordinating production internationally.
Governance Gap

• 21\textsuperscript{st} century trade needs deeper disciplines.
• Early recognition & policy response (1986):
  – EU’s Single Market Programme.
  – US-Canada FTA.
  – Uruguay Round’s new issues.
• ICT revolution accelerates N-S unbundling ⇒
  – Need for new disciplines North-South.
  – WTO is otherwise occupied.
  ⇒ Governance gap.
Filling governance vacuum:
1. Explosion of BITs 1990s.
2. North-South deep RTAs.
3. Unilateral liberalisation (tariffs & pro-biz reforms).
Explosion of BITs in 1990s

- No. of Treaties Signed
- No. of Treaties Signed (Cumulative)
- FDI in Billion US$

Graph showing the increase in the number of treaties signed and foreign direct investment (FDI) in billion US$ from 1959 to 2007, with a significant rise in the 1990s.

Key points:
- 1985: Initial growth in treaties
- 1995: Significant increase in treaties and FDI

From 1959 to the mid-1990s, the number of treaties signed and the amount of FDI in billion US$ increased rapidly, reaching a peak in the 1990s.
North-South Deep RTAs

- US’s NAFTA-like agreements (after 1994)
- Japan’s EPA-like agreements (after 2007)
- EU’s Association agreements (after 1994).

Economic Partnership Agreement (EPA)

Free Trade Agreement (FTA)

- Trade in Goods
- Trade in Services

Investment,
Movement of People,
Government Procurement,
Competition Policy,
Bilateral Cooperation, etc.
Unilateral tariff liberalisation

Average tariff rates, developing nations, 1982 - 2003

Applied MFN tariffs (%)

1985
1992

1985
1992
Unilateral Pro-biz Reforms

• Some “import liberalisation” help you export and/or attract offshored factories.
  – Pro-FDI policies.
  – Pro-customs facilitation policies.
  – Pro business-establishment policies.
  – Pro ‘infrastructure services’ liberalisation.
Summary: RTAs Not About Tariff Preferences

• 20th century regionalism (tariff preferences) still matters:
  – A lot for small RTAs,
  – A little for big RTAs.

• FACTS:
Possible preference margins are low

Zero MFN tariff (% Total Imports)

MFN applied tariff (trade weighted average)

Possible preference margins are low

Source: Archarya, Crawford & Renard (2010)
Carpenter & Lendle (2010)

- Detailed tariff-line import and tariff data,
- covering almost 90% of world imports in 2008.

Results:
- 50% of trade over RTAs, but
- Only 16% eligible for preferences (due to zero MFN).
- Less than 2% imports have preferences over 10%.

ERGO: RTAs are not only about preferential tariffs.
Death of preferences

Preferential margins

- MFN=0%
- 0% (MFN>0%)
- 0 - 5%
- 5 - 10%
- 10 - 20%
- > 20%

Source: Carpenter & Lendle (2010)
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<th>MFN=0%</th>
<th>0% (MFN&gt;0%)</th>
<th>0 - 5%</th>
<th>5 - 10%</th>
<th>10 - 20%</th>
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<tr>
<td>Total</td>
<td>1.2%</td>
<td>47.3%</td>
<td>21.8%</td>
<td>18.5%</td>
<td>7.5%</td>
<td>2.4%</td>
<td>1.4%</td>
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<tr>
<td>Total (ex intra-EU)</td>
<td>0.7%</td>
<td>52.3%</td>
<td>30.3%</td>
<td>11.0%</td>
<td>3.9%</td>
<td>1.3%</td>
<td>0.5%</td>
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Conceptual frameworks
Traditional regionalism v 21st regionalism

• Traditional view: RTAs = tariff preferences

• 21st regionalism: RTAs = disciplines underpin 2nd unbundling
Difference without distinction?

• Why we care about regionalism:
  – Economic inefficiency from discrimination
  – Injustice and power asymmetries
  – Threats to support for multilateral liberalisation
Traditional view: preferential tax economics

Smith’s certitude = Preference-getter wins.

Haberler’s spillover = third nations lose.

Viner’s ambiguity = Preference-giver might lose.
Received wisdom thinking

Vinerian economics & implied political economy

Krugman: “Is bilateralism bad?”

Bhagwati: “Termites in the system”

Summers: “I like all the ‘isms”
Regulation economics, not tax economics

• 21\textsuperscript{st} century regionalism not about preferences, so Vinerian economics is moot or insufficient.

• Regulation economics far more complex than tax economics.
  - Frictional barriers (BBBs).
  - Entry restrictions.
21st c. Regionalism: Different economics

- 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}

- Domestic entry liberalisation
  - Incumbents v entrants; not home vs foreign.
  - Discrimination very difficult.

- Property right assurances
  - Ditto
Regulation economics, not tax economics

Should policy be in WTO?

- Tariffs = strong logic for centralisation at global level (MFN better than RTA).
- Regulation = mixed logic for centralisation.
  - “Fiscal federalism”: e.g. competition policy? Bank regulation? Telecomms regulation?
Injustice & power asymmetries

• Deep RTAs worse than shallow RTAs (power p.o.v.).
  – 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.
• 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 (cont’d)

- Should we 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.
• Thank you for listening.

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