

21st Century Regionalism

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RIETI

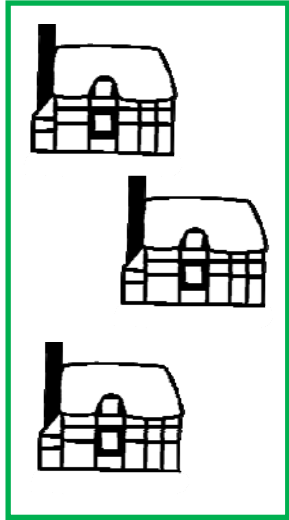
Tokyo, 2 February 2011

Globalisation as 2 unbundlings

- Put 21st century regionalism into broad canvas of economic globalisation.

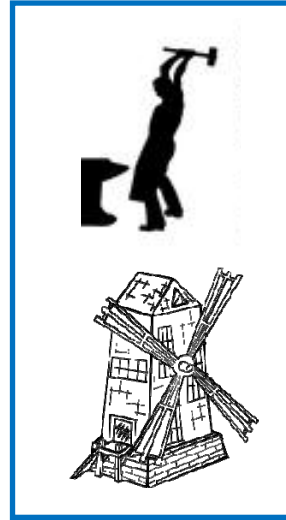
Pre-Industrial Revolution

CONSUMPTION



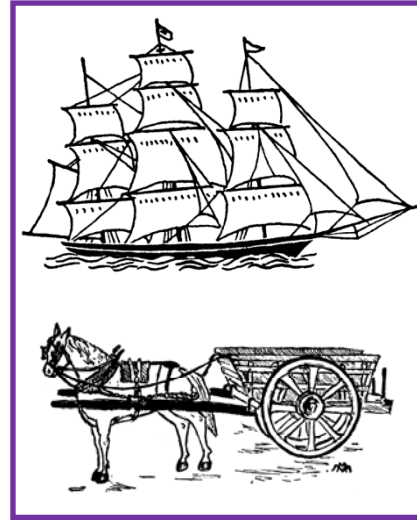
&

PRODUCTION

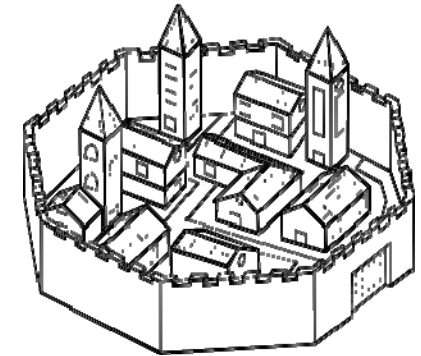


+

TRANSPORTATION



=

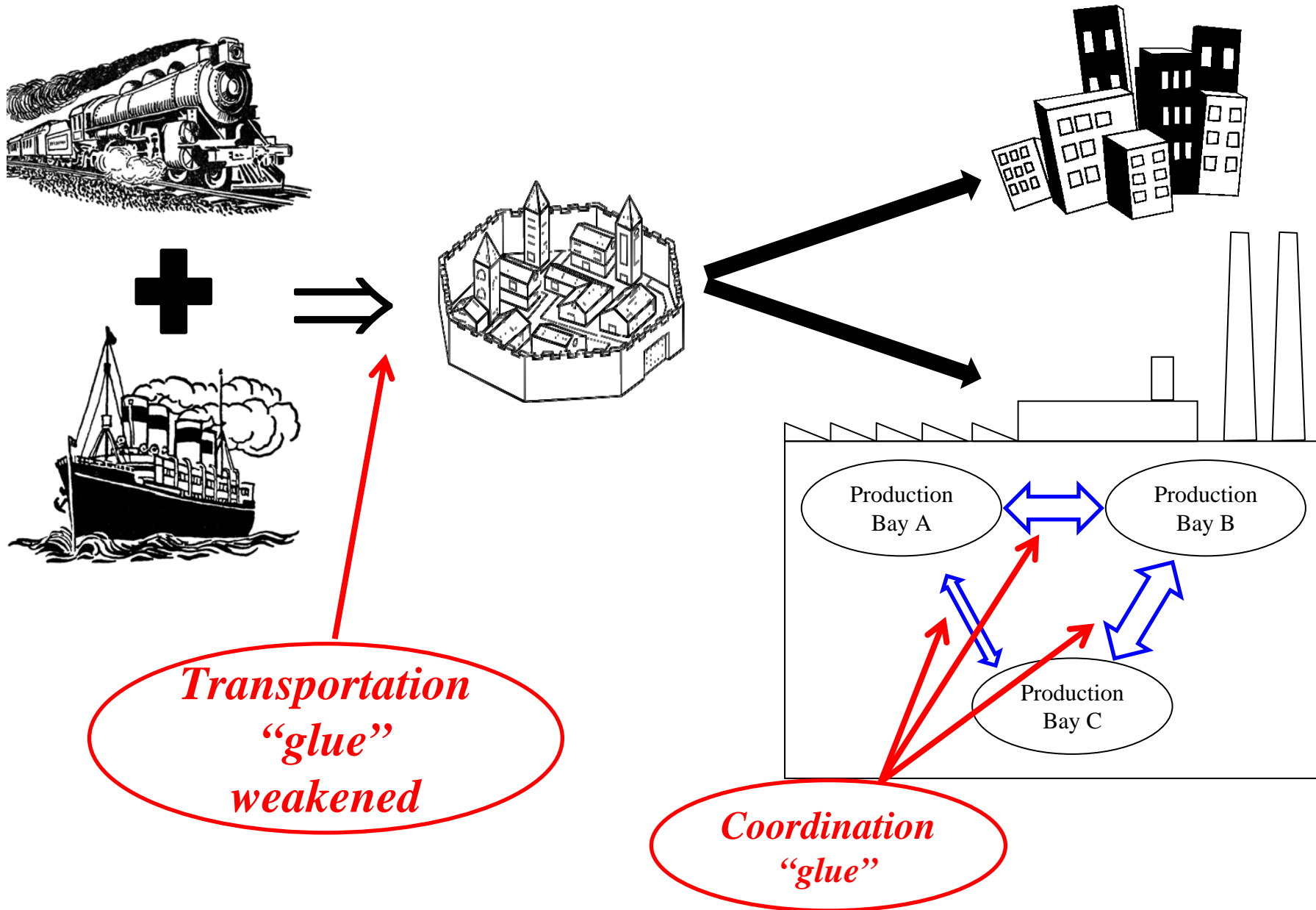


*Consumption
& production
bundled*

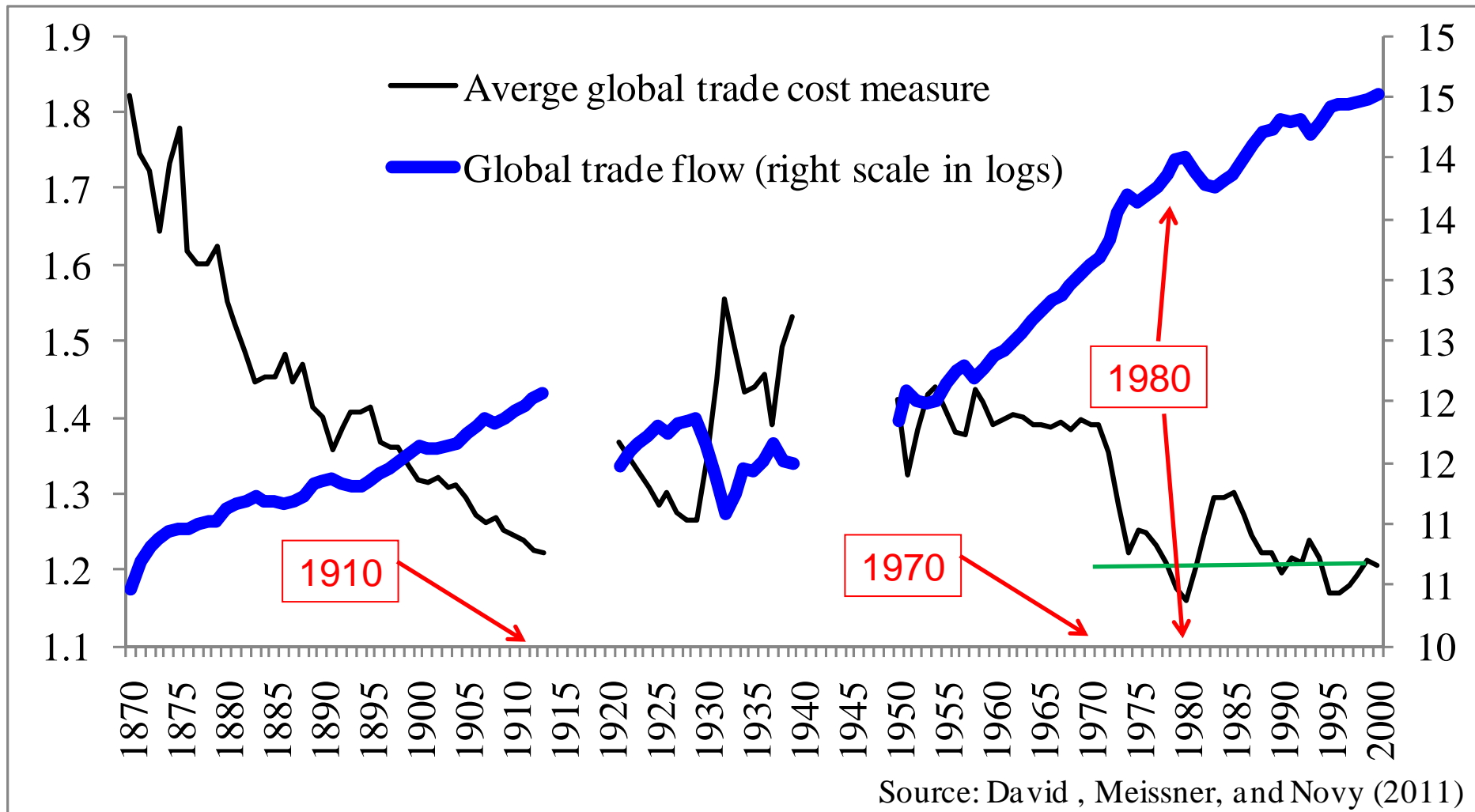


*Very little
trade*

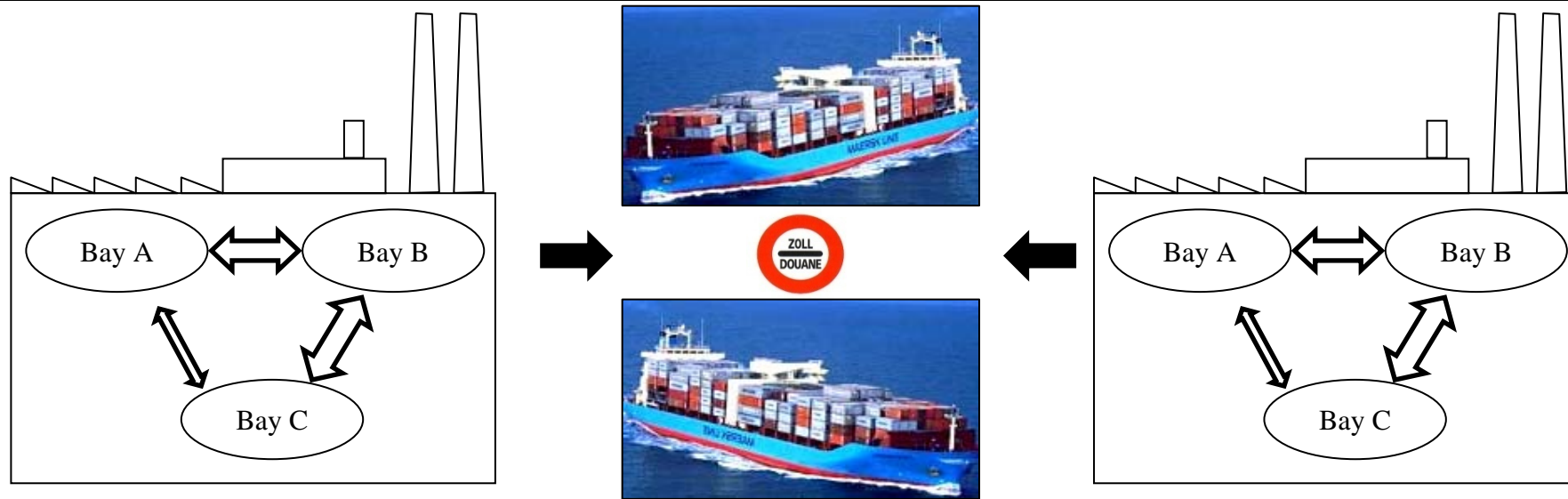
Globalisation's First Unbundling



Estimated Transport costs, 1870 - 2000



20th trade & trade governance



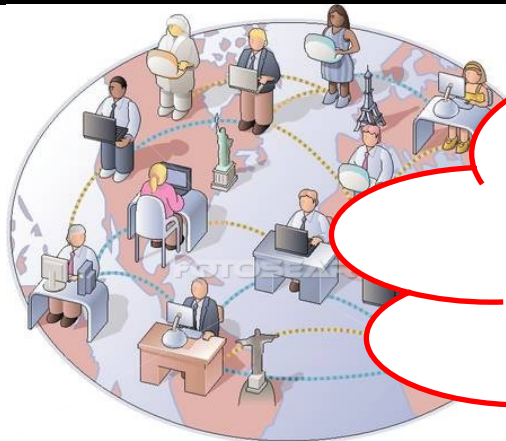
- International commerce = goods crossing borders.

1. Trade disciplines required = fairly simple:

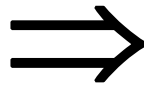
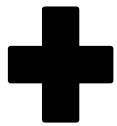
GATT 1947.

2. Trade liberalisation = tariff cutting.

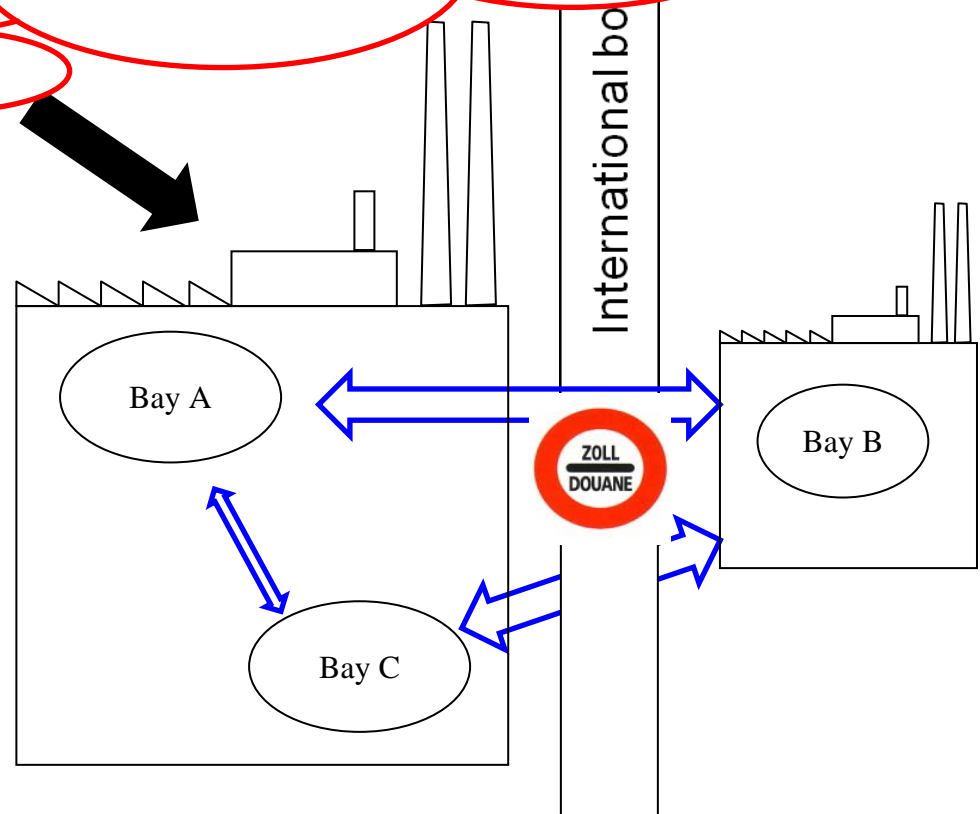
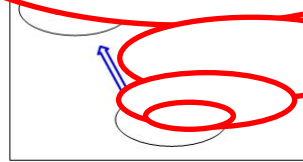
Globalisation's Second Unbundling



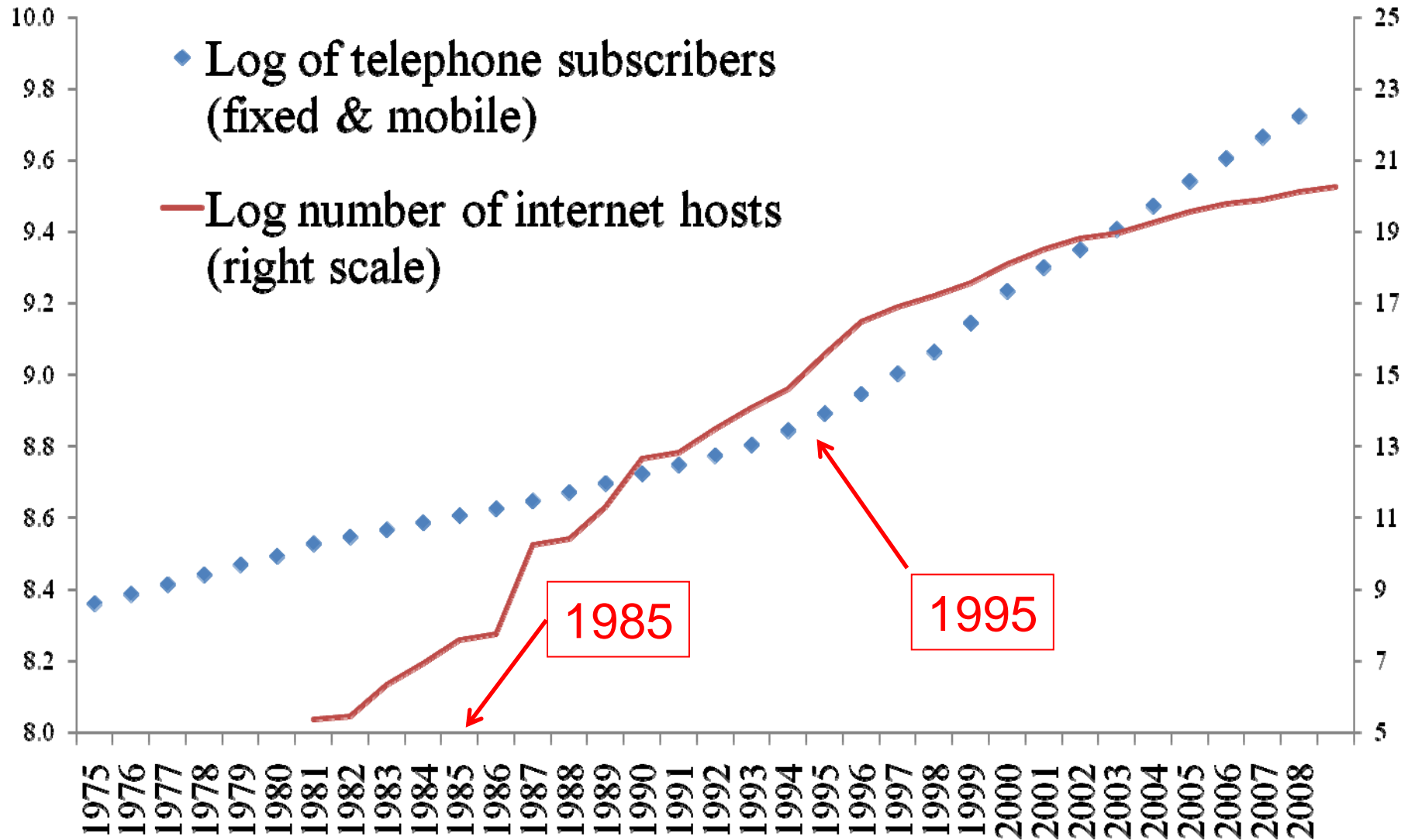
ICT revolution \Rightarrow 2nd unbundling
Steam power \Rightarrow 1st unbundling



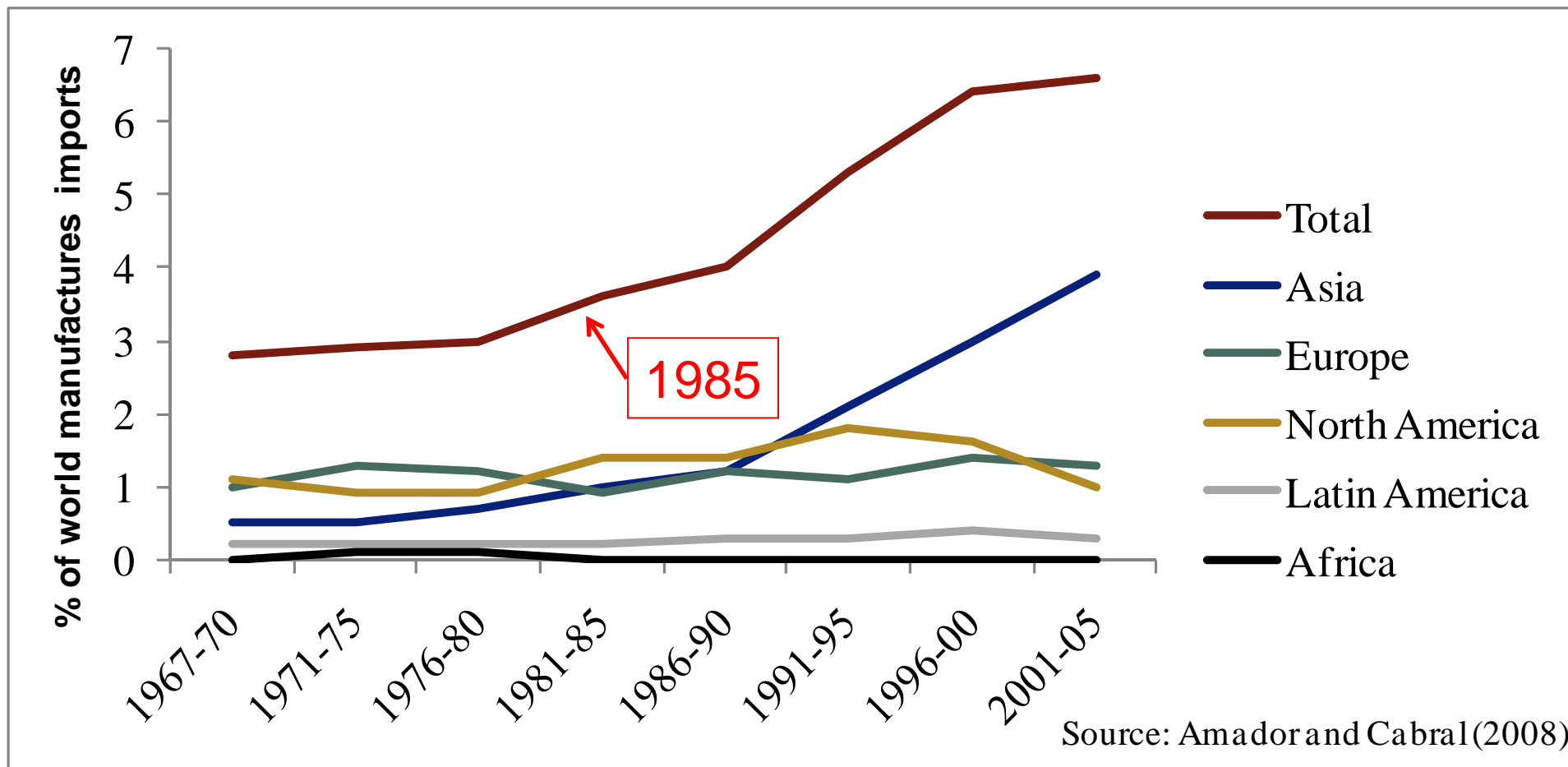
*Coordination
"glue" weakened by
ICT revolution*



ICT revolution indicators

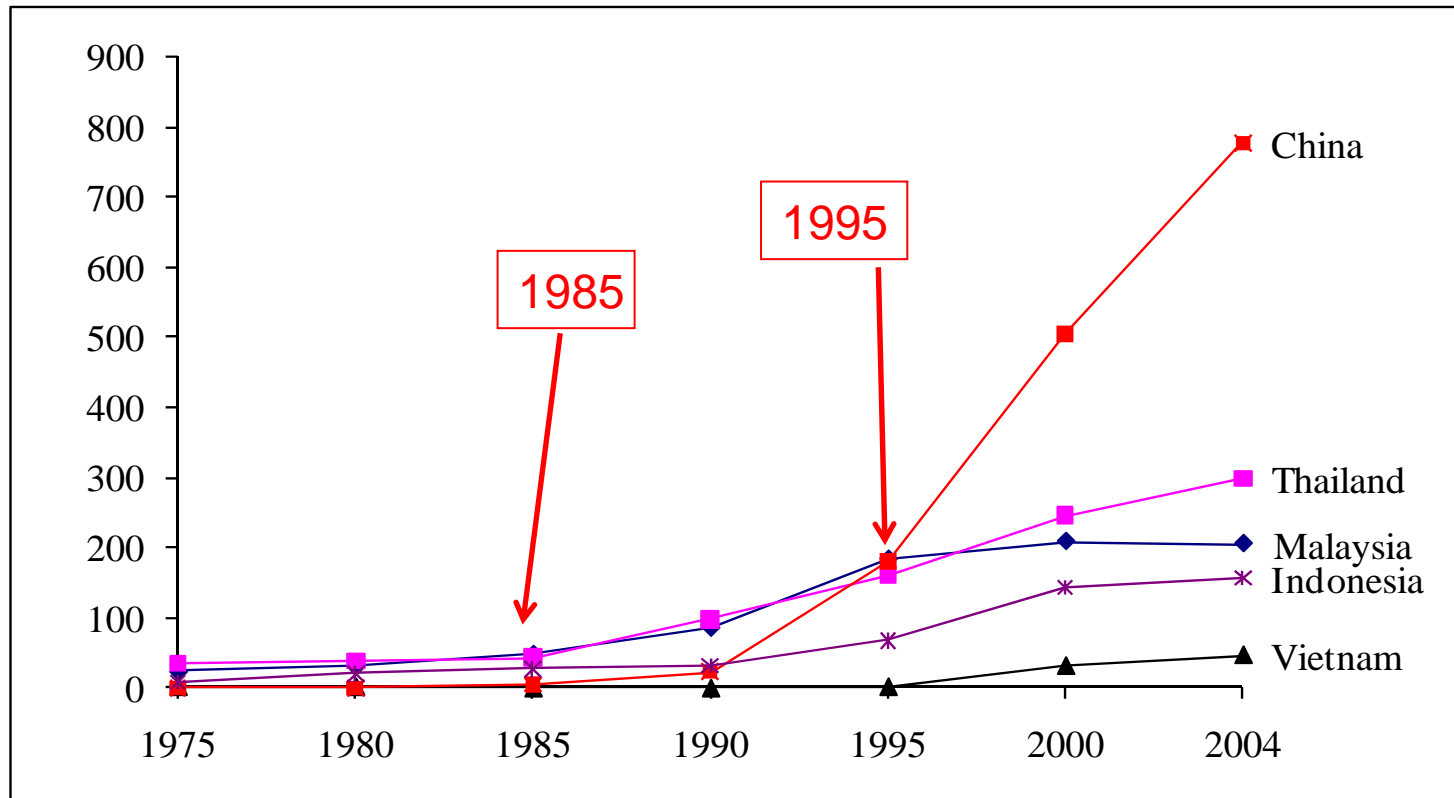


Outward processing trade, 1967 – 2005.



Source: Amador and Cabral (2008).

Number of Japanese auto and electrical machinery plants in East Asia, 1975 – 2004



- Source: Fujita and Hamaguchi (2006).

Widening and deepening of Factory Asia, 1985 and 2000

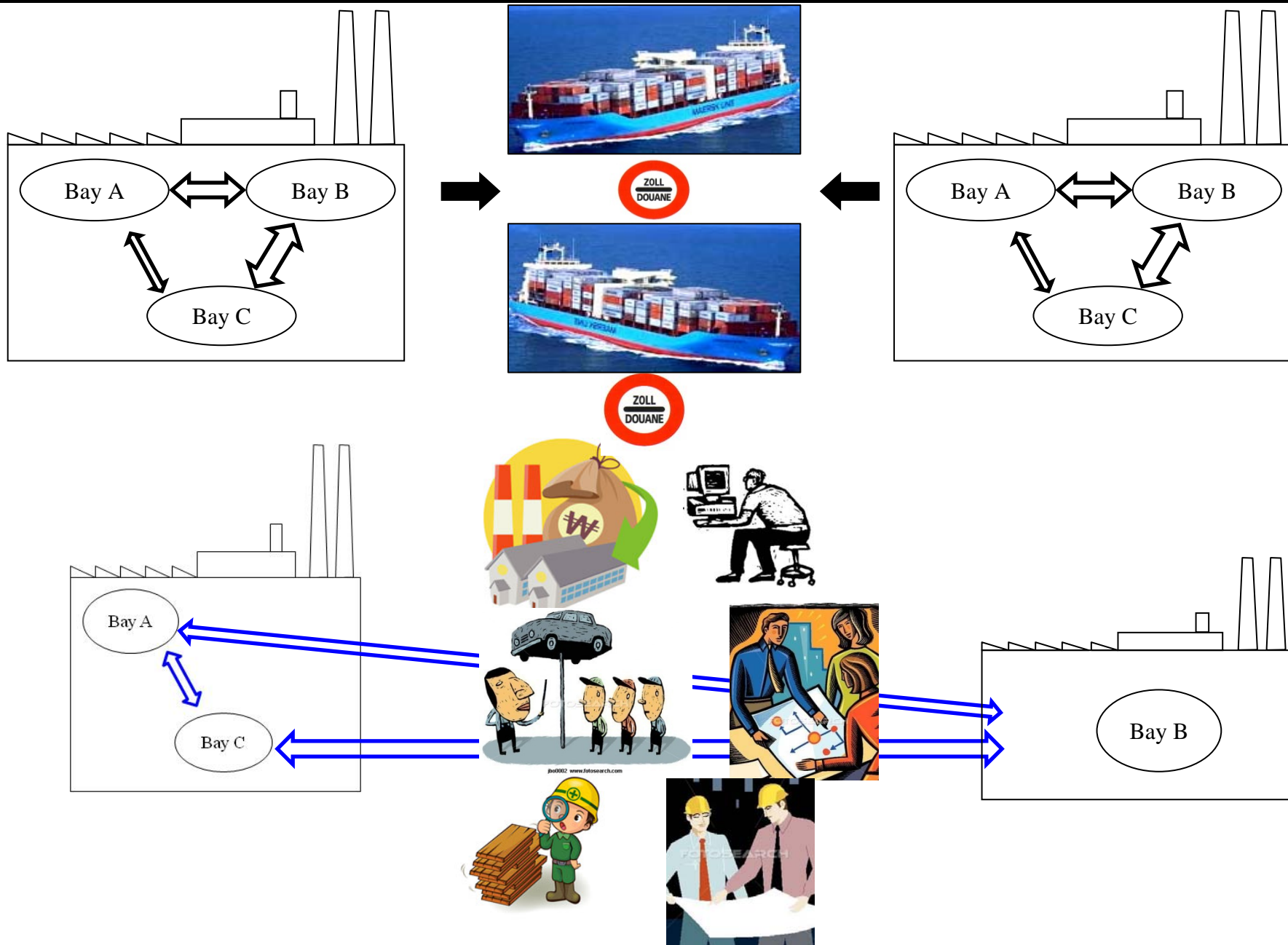
International input-output matrix

1985	China	Indonesia	Malaysia	Philippines	Thailand	Singapore	Taiwan	Korea	Japan
Indonesia						8%			
Malaysia						16%			
Philippines									
Thailand									
China				2%		14%			
Taiwan						3%			
Korea									
Singapore		3%	7%						
Japan	3%	12%	14%	4%	9%	12%	7%	8%	
RoW		15%	19%	19%	14%	11%	10%	16%	8%

2000	China	Indonesia	Malaysia	Philippines	Thailand	Singapore	Taiwan	Korea	Japan
Indonesia						2%			
Malaysia				3%	4%	12%	2%		
Philippines									
Thailand			4%	3%		3%			
China		2%	3%		4%	5%	2%		
Taiwan			5%	5%	3%	3%			
Korea	2%	3%	4%	8%	3%	4%	4%		
Singapore			13%	6%	4%				
Japan	2%	7%	15%	20%	16%	19%	14%	7%	
RoW	4%	16%	20%	20%	17%	38%	15%	11%	4%

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

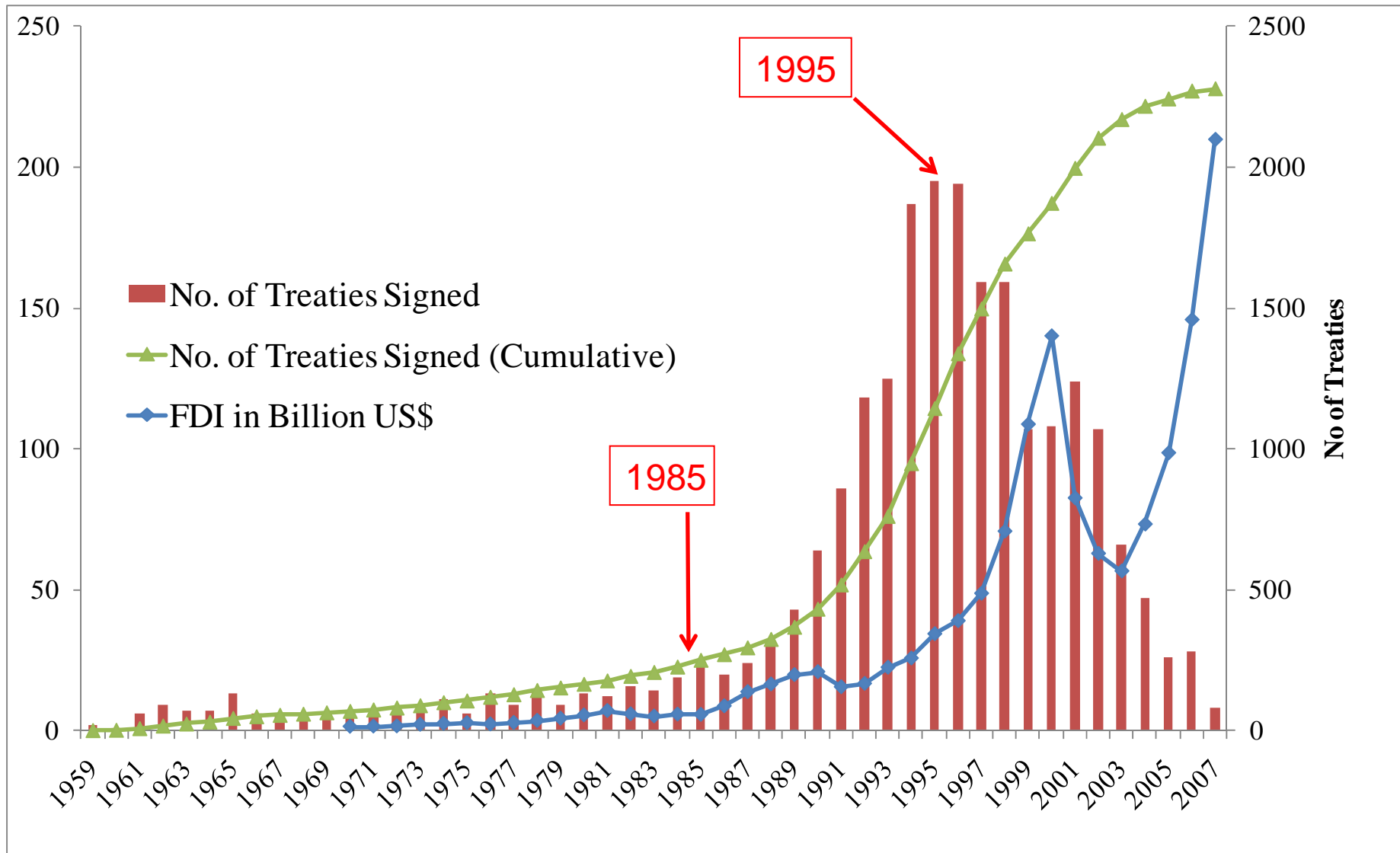
- 21st century trade needs deeper disciplines.
- Early recognition & policy response (1986):
 - EU's Single Market Programme.
 - US-Canada FTA.
 - Uruguay Round's new issues.
- ICT revolution accelerates N-S unbundling ⇒
 - Need for new disciplines North-South.
 - WTO is otherwise occupied.
 - ⇒ Governance gap.

21st century regionalism

Filling governance vacuum:

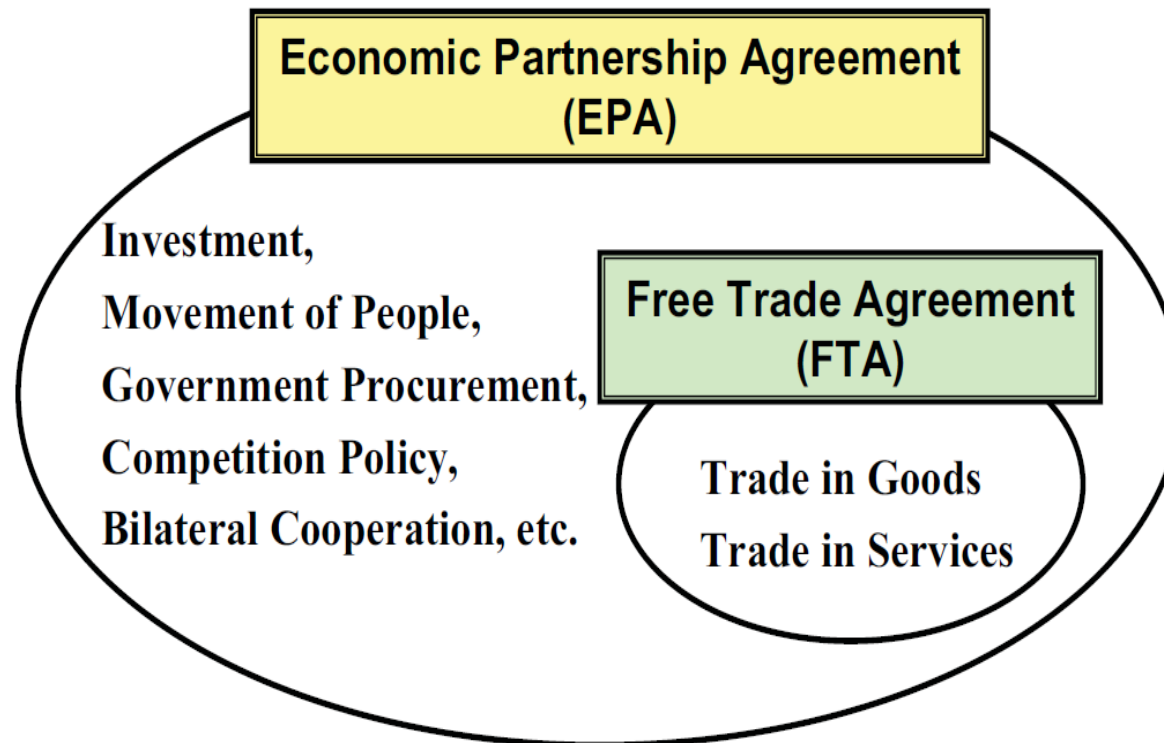
1. Explosion of BITs 1990s.
2. North-South deep RTAs.
3. Unilateral liberalisation (tariffs & pro-biz reforms).

Explosion of BITs in 1990s

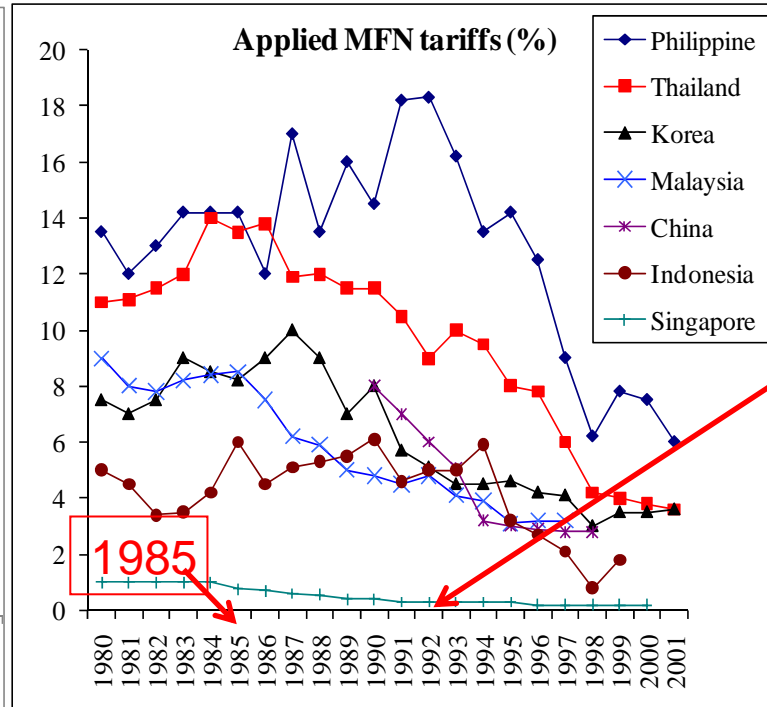
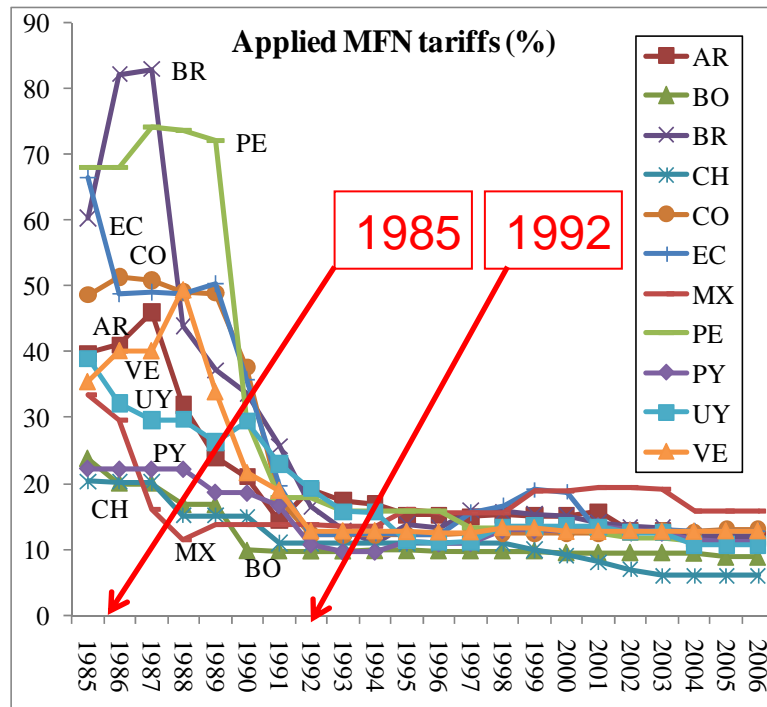
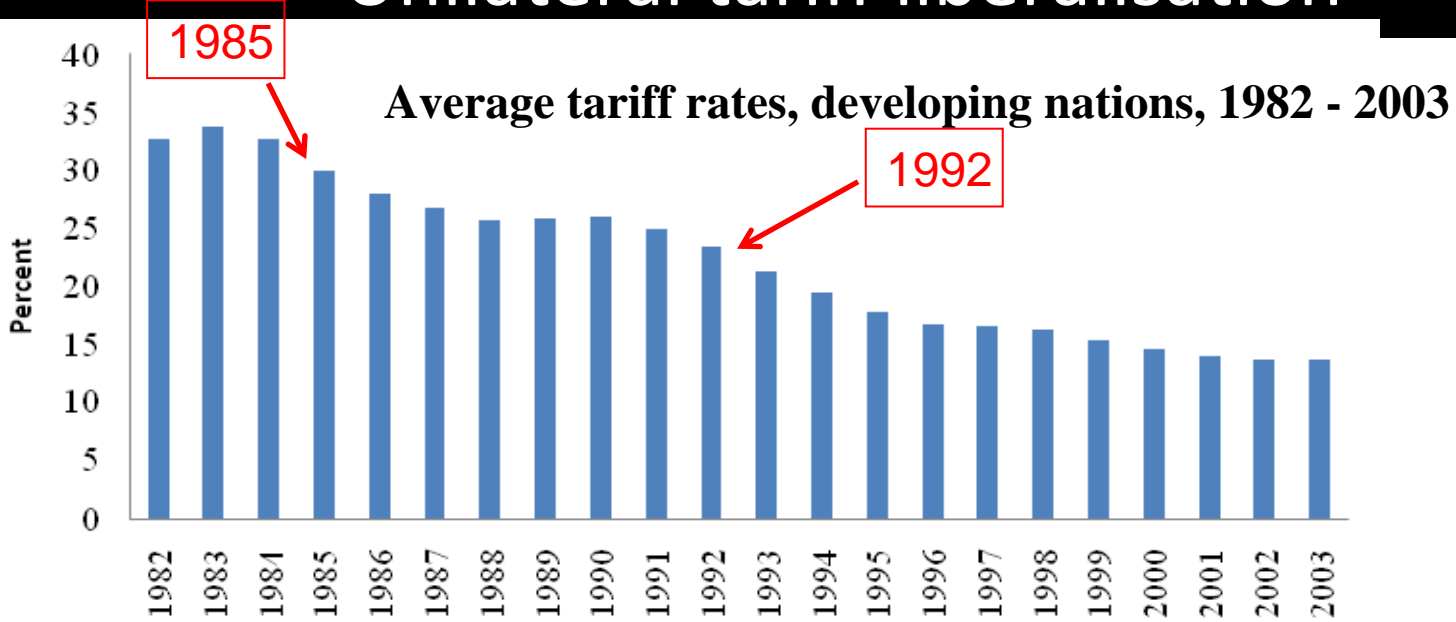


North-South Deep RTAs

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



Unilateral tariff liberalisation



Unilateral Pro-biz Reforms

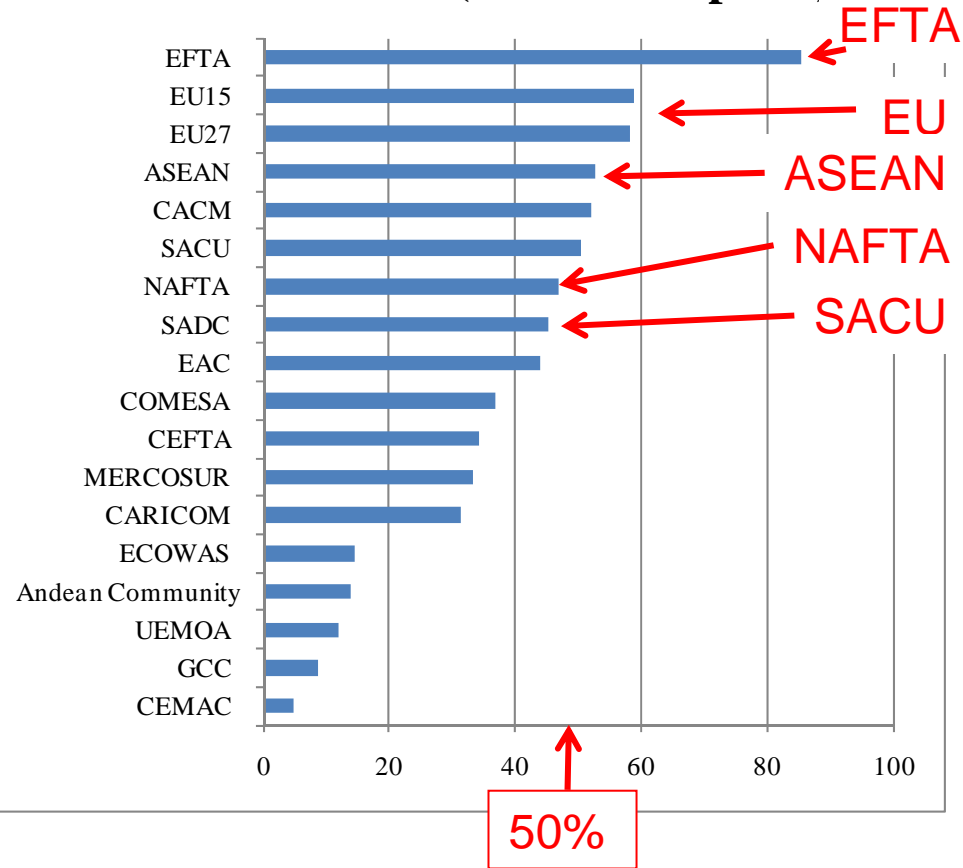
- Some “import liberalisation” help you export and/or attract offshored factories.
 - Pro-FDI policies.
 - Pro-customs facilitation policies.
 - Pro business-establishment policies.
 - Pro ‘infrastructure services’ liberalisation.

Summary: RTAs Not About Tariff Preferences

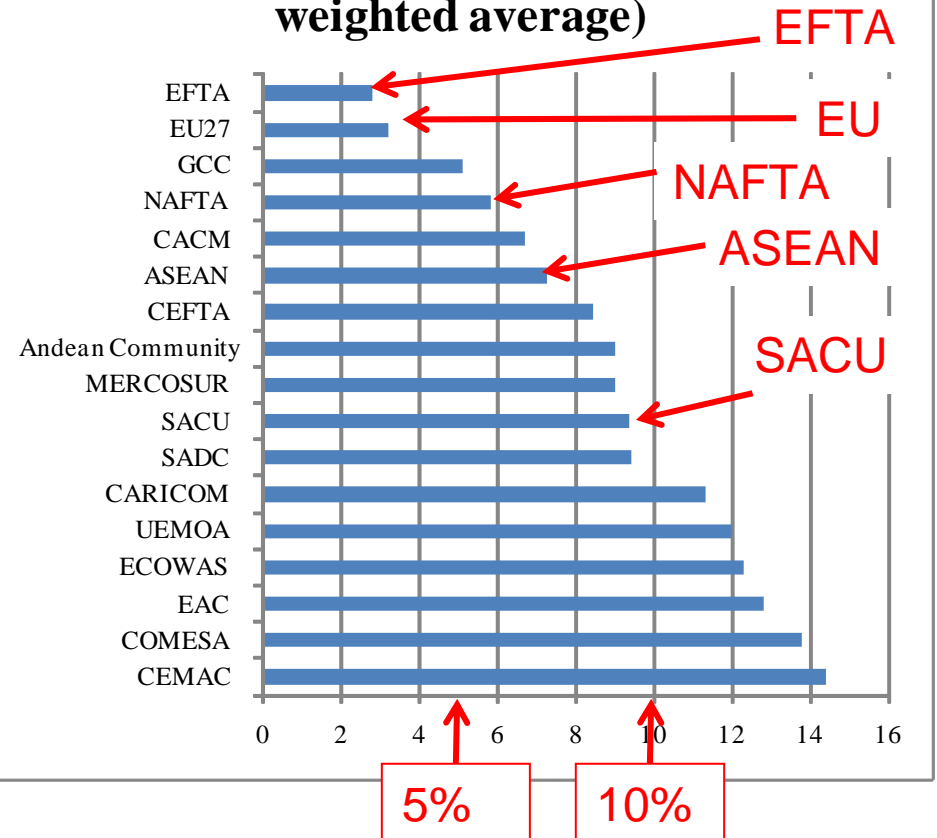
- 20th century regionalism (tariff preferences) still matters:
 - A lot for small RTAs,
 - A little for big RTAs.
- FACTS:

Possible preference margins are low

Zero MFN tariff (% Total Imports)



MFN applied tariff (trade weighted average)

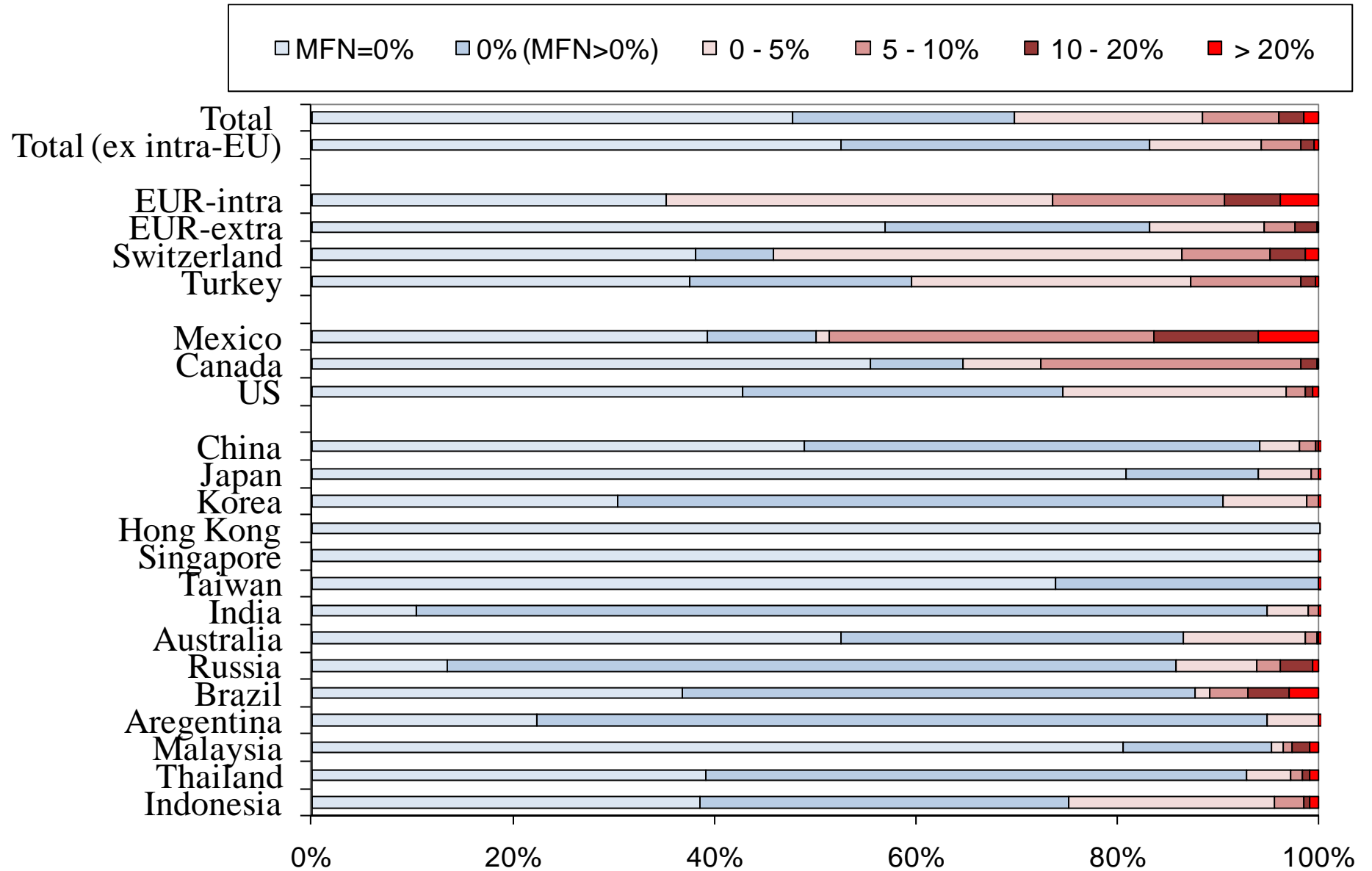


Detailed Data

- 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



Numbers

	unknown	MFN=0%	0% (MFN>0 %)	0 - 5%	5 - 10%	10 - 20%	> 20%
Total	1.2%	47.3%	21.8%	18.5%	7.5%	2.4%	1.4%
Total (ex intra-EU)	0.7%	52.3%	30.3%	11.0%	3.9%	1.3%	0.5%

Conceptual frameworks

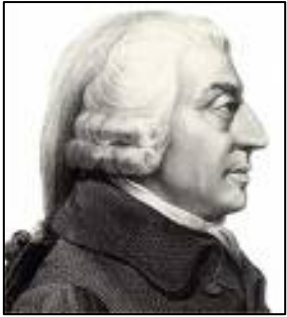
Traditional regionalism v 21st regionalism

- 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

- 21st 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?

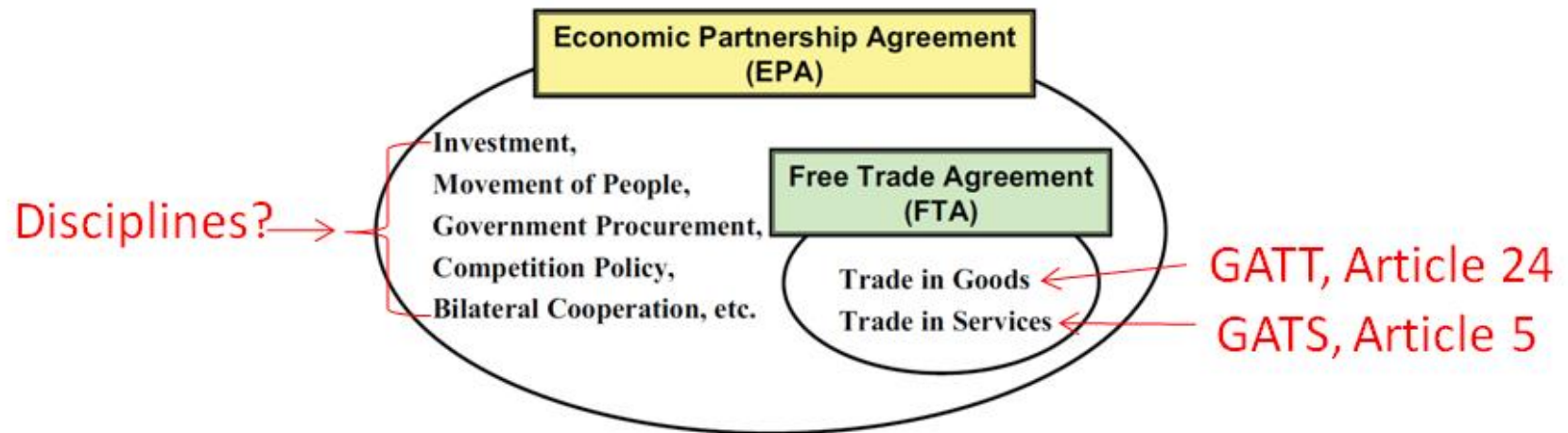
3. Unilateral tariff cutting = hole in WTO fuel tank.

Sum up

- 1st unbundling:
 - GATT & RTAs mainly about tariffs.
- 2nd unbundling:
 - 21st century regionalism mainly about BBBs
 - Politics: factories for reform
- Key questions 21st 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 centrality restored):
 - WTO disciplines updated to match 21st century trade.
- Plan B (WTO centrality eroded):
 - WTO unreformed, RTAs & BITs continue to lead.
 - Drift back towards a 19th 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.
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