Multilateralising 21st Century Regionalism

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Talk based on:

And
Multilateralising Regionalism: 20\textsuperscript{th} vs 21\textsuperscript{st} century

Basic ‘logic thread’ of talk:
• 20\textsuperscript{th} & 21\textsuperscript{st} century globalisation are different,
• So 20\textsuperscript{th} & 21\textsuperscript{st} century trade are different,
• So 20\textsuperscript{th} & 21\textsuperscript{st} century RTAs are different,
• So 20\textsuperscript{th} & 21\textsuperscript{st} multilateralisation are different.

Main message:
- Mistake to think about MR21 in same terms as MR20.
- More economic & legal research needed.
**Multilateralising regionalism**

- Basic thrust: Regionalism is here to stay (old debate is moot), so think about how to reduce tariff discrimination from RTAs.
- Much progress: Rules of origin, rules of cumulation, integration of bilateral RTAs.
Multilateralising regionalism: 20\textsuperscript{th} & 21\textsuperscript{st} century RTAs

- 20\textsuperscript{th} century RTAs mostly about tariff preferences.
  - MR is mostly about reducing discrimination.
    - Extend tariff preferences, rules of origin, rules of cumulation.

- 21\textsuperscript{st} century RTAs are ALSO about deeper disciplines that support ‘global value chains’.
  - Many ‘deep’ RTA provisions are non-discriminatory by nature, or much less obviously discriminatory.
    - More like ‘biased multilateralism’ than ‘preferential’.
  - Decimation technology weak: Nationality of firms, capital & services?

- This is key premise of my paper.
  - Paper tries to think thru implications for policy & analysis.
GVC Revolution

G7 nations’ share of global GDP, 1820 – 2010.

1820, 22%
1888, 67%
2010, 50%


1990, 65%
G7, 47%

Source: unstats.un.org; 6 risers = Korea, India, Indonesia, Thailand, Turkey, Poland
Global GDP shares, 1960-2012

Post-1990:
- G7 share loss goes to 10 developing nations.
- RoW see little change.

China, Brazil, Mexico, Poland, India, Turkey, Russia, Korea, Indonesia, Venezuela
People in poverty (under $2/day)

Post 1993
- Hi-middle poverty plummets.
  - 650 million fewer poor!
- Others’ poverty keeps rising.
21st century regionalism
Starts late 1980s, early 1990s

- Number of offshoring and supply-chain provisions in RTAs
- Number of RTAs

- New BITs signed
- FDI

Applied tariffs, simple mean, all goods (%)
- Middle East & North Africa
- South Asia
- Sub-Saharan Africa
- East Asia & Pacific
Preference margins are small

Import shares by preference margins, selected nations

Source: Carpenter & Lendle (2010)
20th vs 21st century globalisation: 3 cascading constraints

Cost of moving:

- **Goods**: High
- **Ideas**: High
- **People**: High
  
  Pre-globalised world

**Steam revolution**

- **Goods**: Low
- **Ideas**: High
- **People**: High

1st unbundling

**ICT revolution**

- **Goods**: Low
- **Ideas**: Low
- **People**: High

2nd unbundling
20th century comparative advantage

- Goods = ‘bundle’ on national knowhow, labour, capital, institutions, etc.

- National economies only connected via competition in goods markets.
21st century comparative advantage

1) Supply-chain linkages: Cross-border flows of goods, know-how, ideas, capital & people.
2) Doing business abroad: Application of tangible & intangible assets in developing nations.

- Goods = mixture of national knowhow, labour, capital, institutions, etc. (e.g. hi-tech + low wages).
- National economies connected via much richer flows: knowhow, goods, services, people, capital, etc.
Why it matters

• OLD: Study national performance looking at national factors.
  – ‘Team Japan’ versus ‘Team Germany’
  ⇒ Regress growth/exports/etc on national right-hand side variables.

• NEW: Study national performance looking at regional and national factors.
  – ‘Factory Asia’ versus ‘Factory North America’
  ⇒ Regress growth/exports/etc on national & regional right-hand side variables and/or allow interactions depending upon supply-chain exposure.
21\textsuperscript{st} century trade needs different disciplines

“Trade-investment-services-IP nexus”

1) “Supply-chain disciplines”

\textit{Necessary trade \& service links}

Connecting factories
- Trade policy barriers;
- Transportation services;
- Business mobility;
- Communication services.

2) “Offshoring disciplines”

Doing business abroad
- International investment;
- Application of home’s technology abroad;
- Local availability of business services.
21st century regionalism: Disciplines as a package

- Supply-chain and offshoring disciplines work best when packaged together.
- 21st century RTAs are a convenient package.
  - Hi-tech firms like the package;
  - Developing nations want to join GVCs.
    - “Deep RTAs” = 21st century RTAs is solution.
- WTO stuck on Doha, so 21st century regionalism:
  1. Explosion of BITs 1990s.
  2. Deep RTAs.
  3. Unilateral liberalisation in developing nations.
What are 21\textsuperscript{st} century RTA provisions?
## 21st century RTA provisions: Offshoring & Supply-Chain Disciplines

### Examples of supply-chain disciplines in RTAs

<table>
<thead>
<tr>
<th>1. Customs cooperation.</th>
<th>Provision of information; publication on the Internet of new laws and regulations; training</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Beyond WTO GATS liberalisation.</td>
<td>Liberalisation of trade in services</td>
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<td>3. FTA industrial.</td>
<td>Tariff liberalization on industrial goods; elimination of non-tariff measures</td>
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<tr>
<td>4. Visa disciplines.</td>
<td>Business visa, etc.</td>
</tr>
</tbody>
</table>

*Source: From WTO database on RTA provisions. My classification of provisions.*
### 21st century RTA provisions:
Supply-Chain & Offshoring Disciplines

#### Examples of offshoring disciplines in RTAs

<table>
<thead>
<tr>
<th></th>
<th>Disciplines</th>
<th>Examples</th>
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<tbody>
<tr>
<td>1</td>
<td>TRIMs</td>
<td>Provisions concerning requirements for local content and export performance of FDI</td>
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<tr>
<td>2</td>
<td>GATS</td>
<td>Liberalisation of trade in services</td>
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<td>3</td>
<td>TRIPs</td>
<td>Harmonisation of standards; enforcement; national treatment, most-favoured nation treatment</td>
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<td>4</td>
<td>Competition Policy</td>
<td>Measures to proscribe anticompetitive business conduct; harmonisation of competition laws; establishment or maintenance of an independent competition authority</td>
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<td>5</td>
<td>IPR</td>
<td>Accession to international treaties not referenced in the TRIPs Agreement</td>
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<td>6</td>
<td>Investment</td>
<td>Information exchange; Development of legal frameworks; Harmonisation &amp; simplification of procedures; National treatment; dispute settlement</td>
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<td>7</td>
<td>Capital movement</td>
<td>Liberalisation of capital movement; prohibition of new restrictions</td>
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<td>8</td>
<td>Approximation of laws</td>
<td>Application of EC legislation in national legislation</td>
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Lack of discrimination technology for deep RTA provisions

- Supply-chain disciplines assure rapid movement of goods, ideas, people and capital.
- Goal of developing nation is to fosters supply-chain industrialisation.
- Discrimination is not usually useful.
- Discrimination is difficult to determine for:
  - Services, capital, firms, communication.
- Liberalisation often embedded in host nation regulations whose justification excludes discrimination.
Which deep RTA provisions matter? Revealed preference evidence from US RTAs (share with given provision)

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<th>Provision</th>
<th>US LE frq</th>
<th>US AC frq</th>
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<td>Visa and Asylum</td>
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<td>Political Dialogue</td>
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<td>Nuclear Safety</td>
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<td>Movement of Capital</td>
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<td>Money Laundering</td>
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<td>Mining</td>
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<td>Labour Market Regulation</td>
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<td>Innovation Policies</td>
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<td>Information Society</td>
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<td>Industrial Cooperation</td>
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<td>Illicit Drugs</td>
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<td>Illegal Immigration</td>
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<td>Financial Assistance</td>
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<td>Environmental Laws</td>
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<td>Energy</td>
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<td>Economic Policy Dialogue</td>
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<td>Data Protection</td>
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<td>Cultural Cooperation</td>
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<td>Consumer Protection</td>
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<td>Public Procurement</td>
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<td>FTA Agriculture</td>
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<td>Export Taxes</td>
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<td>CVM</td>
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Provision not in WTO 1.0 (maybe in WTO 2.0)

Provision in WTO 1.0 but deeper commitments in the RTAs

Source: WTO database on RTA provisions
Japan’s RTAs in WTO Database
RTAs: US, Japan, EU & RoW

Source: Baldwin (2012), “WTO 2.0”, CEPR Policy Insight
Only beyond WTO measures

- Visa
- Movement of capital
- IPR
- Investment
- Competition policy
Reverse trade diversion?!

Figure 13: Recent estimates of trade creation and trade diversion.
Source: Acharya et al. (2011).
More research needed

• Impact of various RTA provisions on trade in goods, services & investment?
  – Use WTO database on provisions.
  – Use WIOD or TiVa database on intermediates trade.
  – Use foreign affiliates sales or employment to measure investment effects.

• Identify RTA provisions with negative spillovers for third-nations.

• Look for network effects of RTAs.
Summary: 20th v 21st century regionalism

• Traditional view: RTAs = tariff preferences
  – Vinerian economics & simple political economy.

• 21st regionalism: RTAs = disciplines underpin 2nd unbundling
  – Vinerian analysis insufficient / irrelevant.
  – Regulation-economics, not tax-economics.
    • Fiscal federalism.

• NB: Basic political economy different:
  – “Factories for reform” not “exchange of market access”
Multilateralising regionalism: 20\textsuperscript{th} & 21\textsuperscript{st} century RTAs

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  – Many ‘deep’ RTA provisions are non-discriminatory by nature, or much less obviously discriminatory.
Proposed conceptual framework

NB:
- MR20 = reduce discrimination;
- MR21 = realise network externalities.

Key trade-offs determining optimal level of harmonisation & multilateralisation.

1. Diversity of preferences.
   - Favours little multilateralisation

2. Network externalities & scale economies.
   - Favours multilateralisation at higher-than-bilateral level.
Levels of multilateralisation

- **Harmonization cost**
  - **High**
    - National rules
    - Hub & spoke regionalism
    - Mega-regional or global multilateralisation
  - **Low**
    - Non-issue
    - Unilateral adoption of regional rules
    - Unilateral adoption of global rules

- **Gain from common rules**
  - Low
    - High but mostly regional
  - High and global
Some ideas (need help)

• Smart, young, flexible minds needed to find conceptual equivalent of ‘trade creation & diversion’ for supply-chain disciplines.

• NB: This could also be an update to the old Bagwell-Staiger ToT approach to trade agreements.
  – ToT only works directly for tariffs (I think).
  – Regulatory convergence, competition policy, capital flows, business mobility, IPR don’t seem to fit neatly.
Multi-tier multilateralisation

• HS analogy.
• WTO best-practice guidelines for RTAs.
  – North-North, North-South, South-South.
• Agree minimum principles as in GATS
  – Investment disciplines.
  – Infrastructure service openness.
  – Deeper IPR disciplines.
Legal research agenda

• How different are the deep provisions in existing RTAs?
• Can a ‘lowest common denominator’ be identified?
Where to start?

• Investment rules.
• Customs cooperation
  – WTO Trade facilitation package would be good start.
• Thank you for listening.
• Please look at:
  VoxEU.org
  “Research-based policy analysis and commentary by leading economists”