SESSION 3:
New regional trade architecture, systemic coherence and development

DEVELOPMENTS IN REGIONALISM
THREE INSIGHTS AND AN IMPLICATION

Dr Theresa CARPENTER
Executive Director
Centre for Trade and Economic Integration
Graduate Institute, Geneva
Developments in Regionalism
Three insights and an implication

Dr Theresa Carpenter
Executive Director, Centre for Trade and Economic Integration
Graduate Institute, Geneva
3 insights and an implication

Insights:
1. The nature of trade has changed since the Doha Round was launched
2. RTAs are no longer primarily about tariffs
3. Regulatory convergence – insights from the “informal international lawmaking project”

Key questions:
1. (How) can deep RTAs be multilateralised?
2. What is the impact of the megaregionals on the MTS?
The nature of trade
Nature of trade: 20th vs 21st century trade

Goods crossing borders

Factories crossing borders: Goods, know-how, ideas, capital & people

"Trade-investment-services-IP nexus"
Factories crossing borders need extra governance

1) "Supply-chain disciplines"
Connecting factories:
Assurances for cross-border flows of goods, services, ideas, capital, technicians, etc.

2) "Production network disciplines"
Doing business abroad
Assurances for tangible & intangible assets, local business conditions, etc.
20th vs 21st century trade

20th century trade: Mostly about tariff preferences.
- Goods crossing borders.
- Agreements help firms sell goods.

21st century RTAs: Mostly about underpinning GVCs.
• Factories crossing borders
  • Richer, more interconnected flows of goods, services, capital, IP and technicians.
• Agreements help firms make goods as well as sell goods.
Multilateralising regionalism: 20<sup>th</sup> & 21<sup>st</sup> century RTAs

- **20<sup>th</sup> century RTAs** mostly about tariff preferences.
  - MR is mostly about reducing discrimination.
    - Extend tariff preferences, rules of origin, rules of cumulation.

- **21<sup>st</sup> 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?

- Try to think thru implications for policy & analysis.
Today’s RTAs not mostly about tariff preferences
Possible preference margins are low

Source: Archarya, Crawford & Renard (2010)
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 or exclusion).
  – Less than 2% imports have preferences over 10%.

• ERGO: RTAs are not only about preferential tariffs.
Preference margins are small

Import shares by preference margins, selected nations

Source: Carpenter & Lendle (2010)
If not preference then what?

• Today’s deep RTAs are about
  – underpinning global value chains
  – regulatory convergence
Motivation for regulatory convergence

Harmonization cost

High

Low

Low

High

National rules

Mega-regional or global multilateralisation

Non-issue

Spontaneous adoption of global rules

Gain from common rules
Multilateralising 21C RTA provisions

Harmonisation costs

- High
- Medium
- Low

Gains from common rules

- Low
- Medium
- High

Business mobility disciplines

Capital movement; IP; competition policy

Infrastructure service liberalisation; Investment disciplines

Customs cooperation
Economic impact of 21C RTAs and megaregionals

• Towards excluded parties
  – Political motive for discrimination is weaker
  – Lack of discrimination technology
**Discrimination – more difficult in 21C RTAs**

- Political motive for discrimination is weaker
  - 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.
  - Once you’ve changed domestic laws & regulation, why also grant market power to RTA partner firms?

- Lack of discrimination technology
  - ALSO Discrimination is difficult to determine for:
  - Services, capital, firms, communication.
  - Many 21st century RTA provisions impinge on firms, services, capital, and knowhow.
  - Intrinsically hard to define nationality of these in modern world.
    - Easy ‘circumvention’ possible for most definitions.
  - Thus RTA provisions tend to be non-discriminatory.
  - Liberalisation often embedded in host nation regulations whose justification excludes discrimination.
Soft preferences work differently

Japan

-10% Regulation costs

US

-10% Regulation costs

nonTPP nations

-2% Regulation costs

Indonesia

-5% Regulation costs

TPP nations
Implication: Impact on WTO of Mega Regionals
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.
Mega-regionals – implications for WTO

• 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 20th century trade
  – Fragmented & exclusionary pillar for 21st century trade (old Quad de facto in charge).
Mega Regionals

RTA trade coverage (% of world trade)
Trade governance

• Today’s trajectory:
  ⇒ 21C RTAs and Mega-regionals will create parallel governance;
  ⇒ Fragmented & exclusionary system possible/likely
    ⇒ Run by old Quad.
    ⇒ BRICs outside

• Benign outcome: A 3-pillar WTS:
  – WTO, BITs, Mega-regionals.
Implications for WTO

• For traditional trade, WTO is in working well.
• Status quo is comfortable for WTO members whose trade is booming.
• On current trajectory, status quo will be destroyed by 2020;
  – mega-regionals & mega-bilats will have transformed world trade governance.
• 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.
Topline messages:

• Old regionalism concepts are mis-leading, or insufficient when thinking about 21st RTAs and megaregionals.

• Multilateralising 21st century regionalism is about maximising network externalities via common rules.

Questions:

1. Whose rules?
   - US, Japan, EU, China?
   - Developing country appropriateness?

2. Which rules need multilateralisation?
Thank you for listening