



**Multi-year Expert Meeting on Enhancing the Enabling Economic Environment
at All Levels in Support of Inclusive and Sustainable Development (2nd session)**

Towards an enabling multilateral trading system for inclusive and sustainable development

Geneva, 8 – 9 December 2014

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:

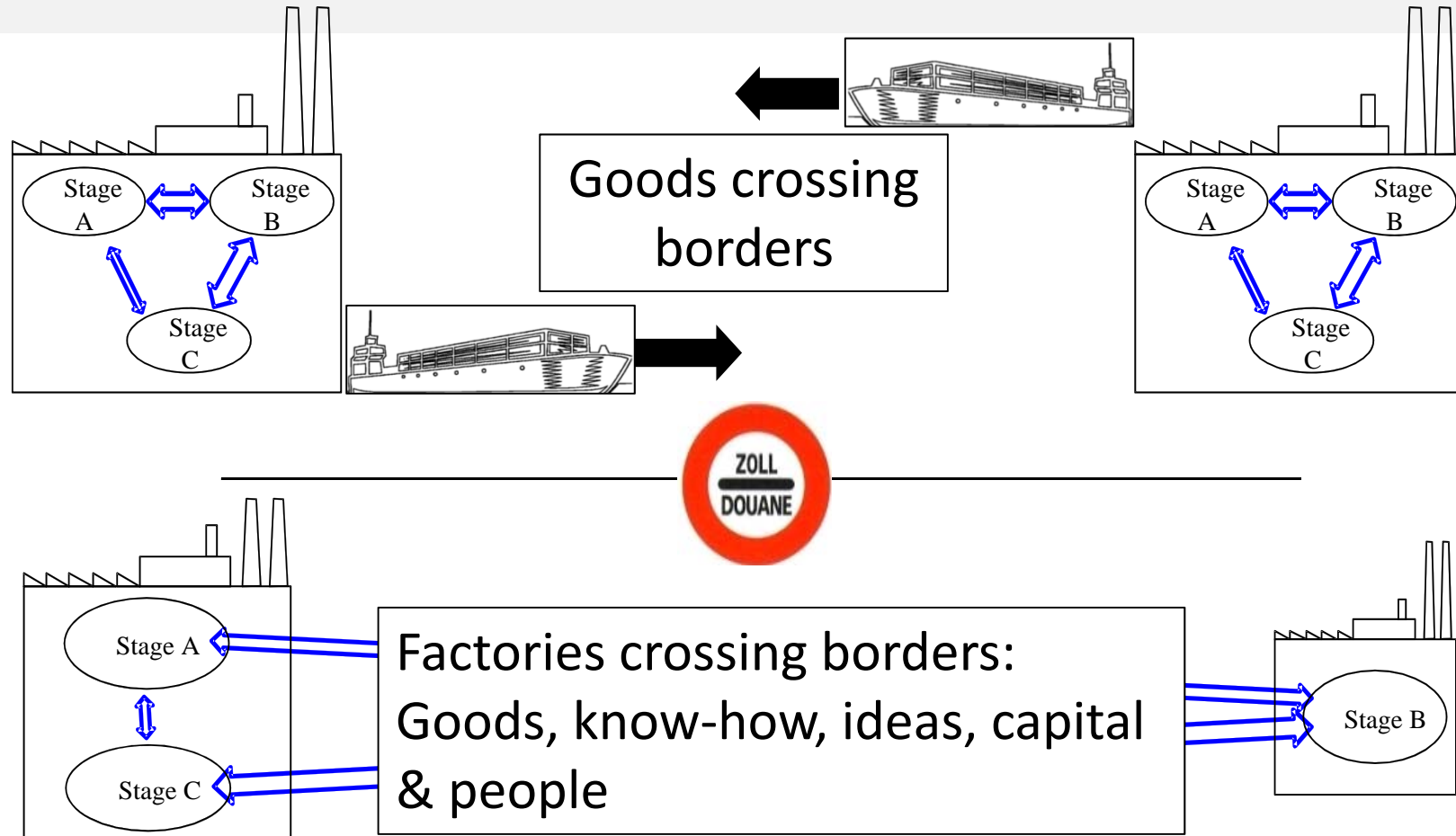
1. The nature of trade has changed since the Doha Round was launched
2. RTAs are no longer primarily about tariffs
3. Regulatory convergence – insights from the “informal international lawmaking project”

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



“Trade-investment-services-IP nexus”

Factories crossing borders need extra governance



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.*

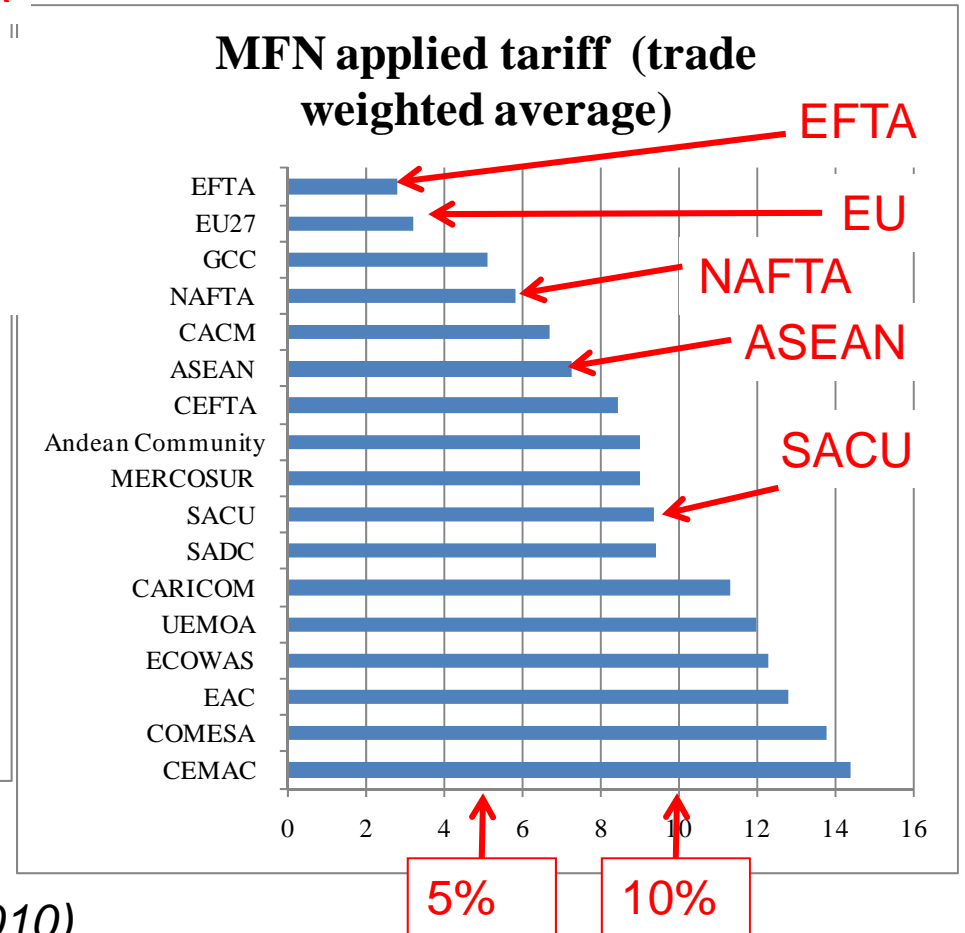
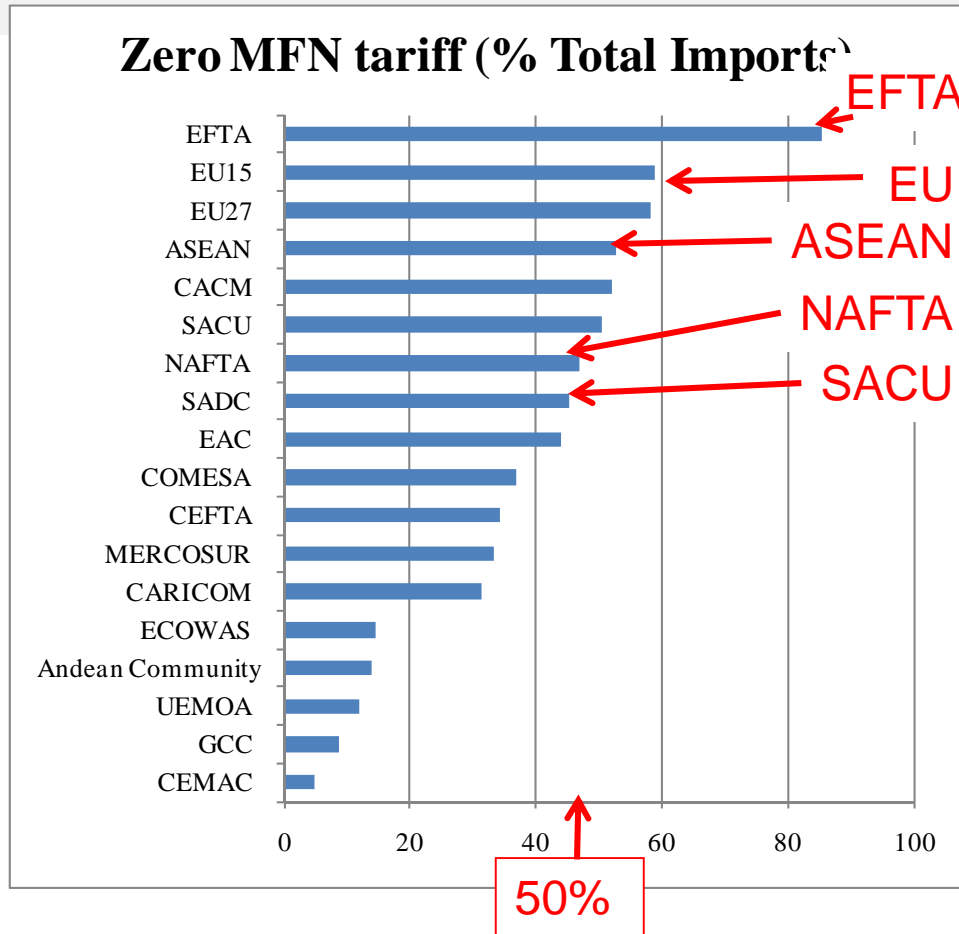
- Factories crossing borders
 - Richer, more interconnected flows of goods, services, capital, IP and technicians.
- Agreements help firms make goods as well as sell goods.

Multilateralising regionalism: 20th & 21st century RTAs

- 20th century RTAs mostly about tariff preferences.
 - MR is mostly about reducing discrimination.
 - Extend tariff preferences, rules of origin, rules of cumulation.
- 21st 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



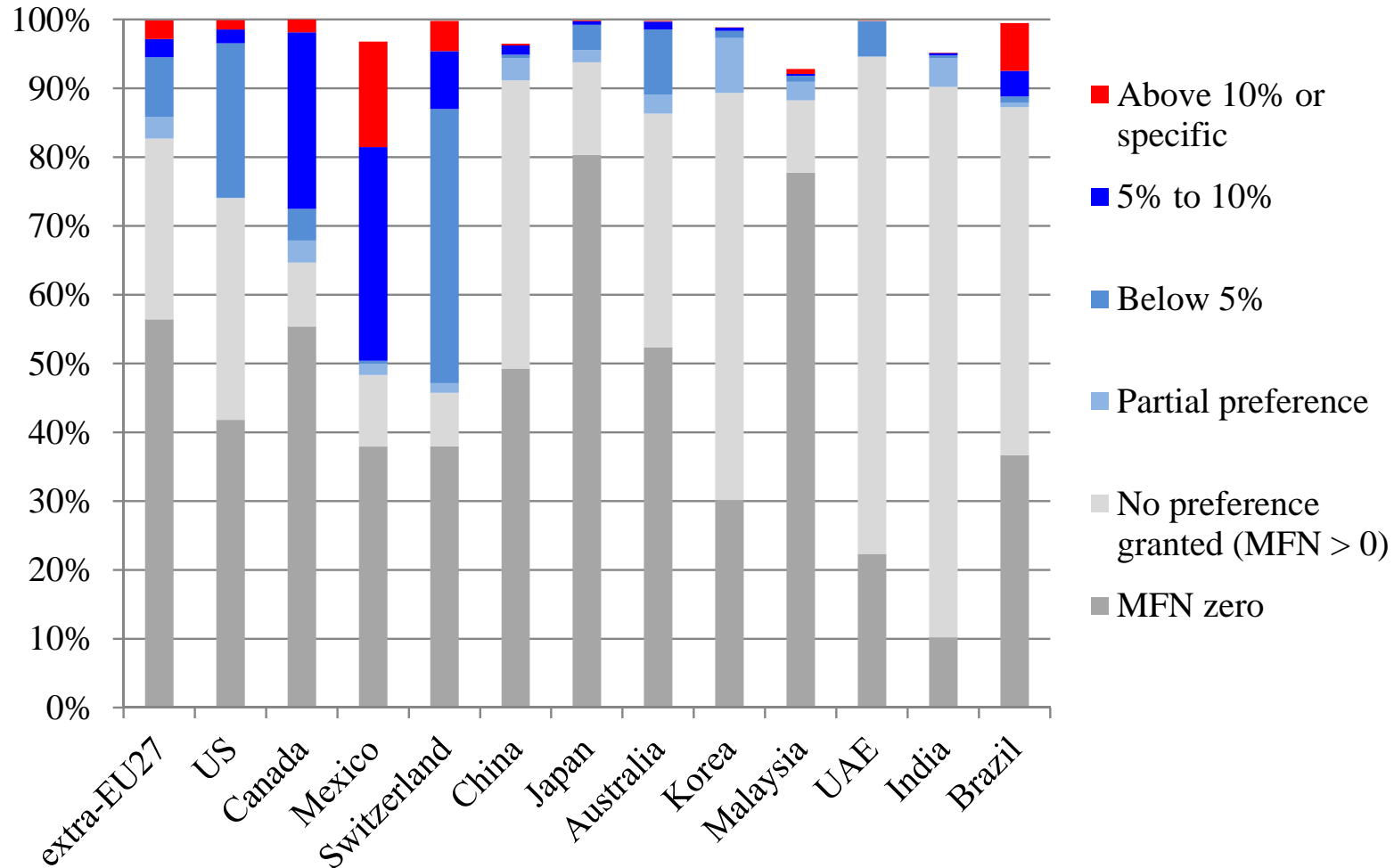
Source: Archarya, Crawford & Renard (2010)

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

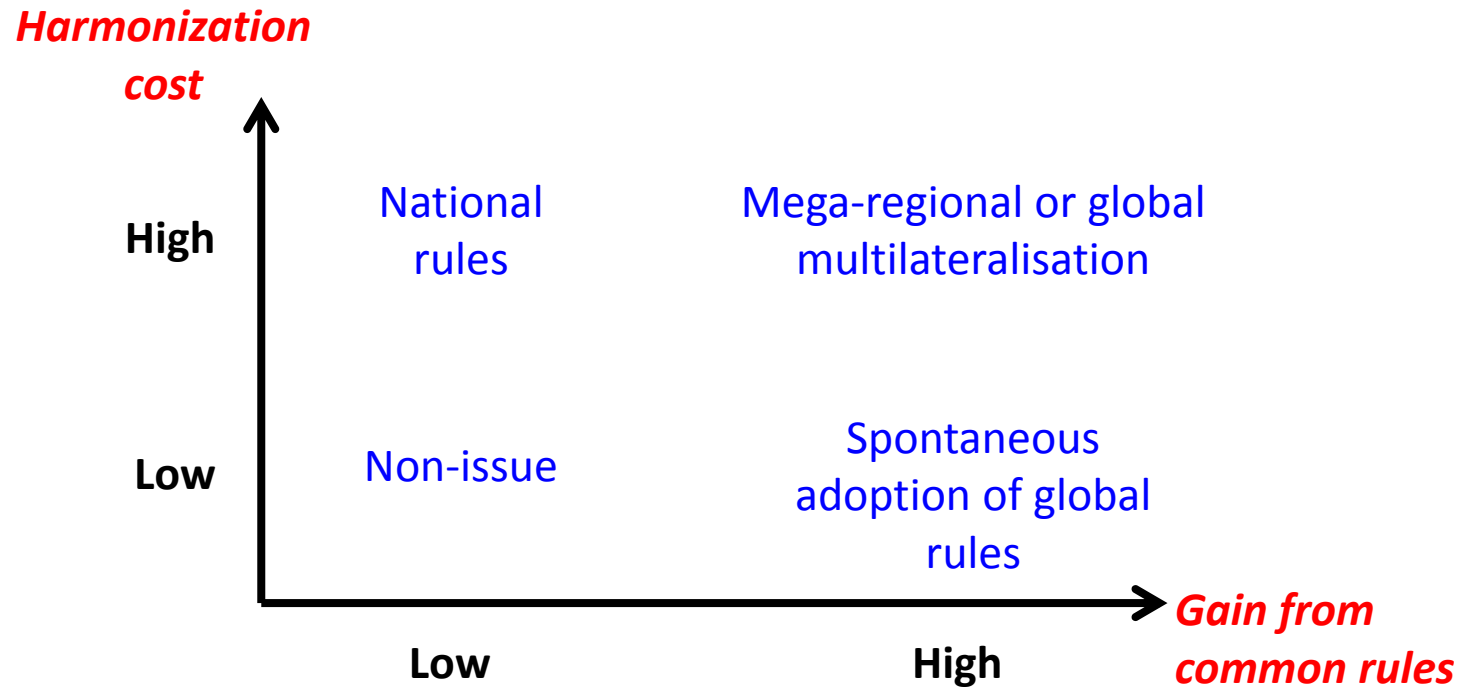


Source: Carpenter & Lendle (2010)

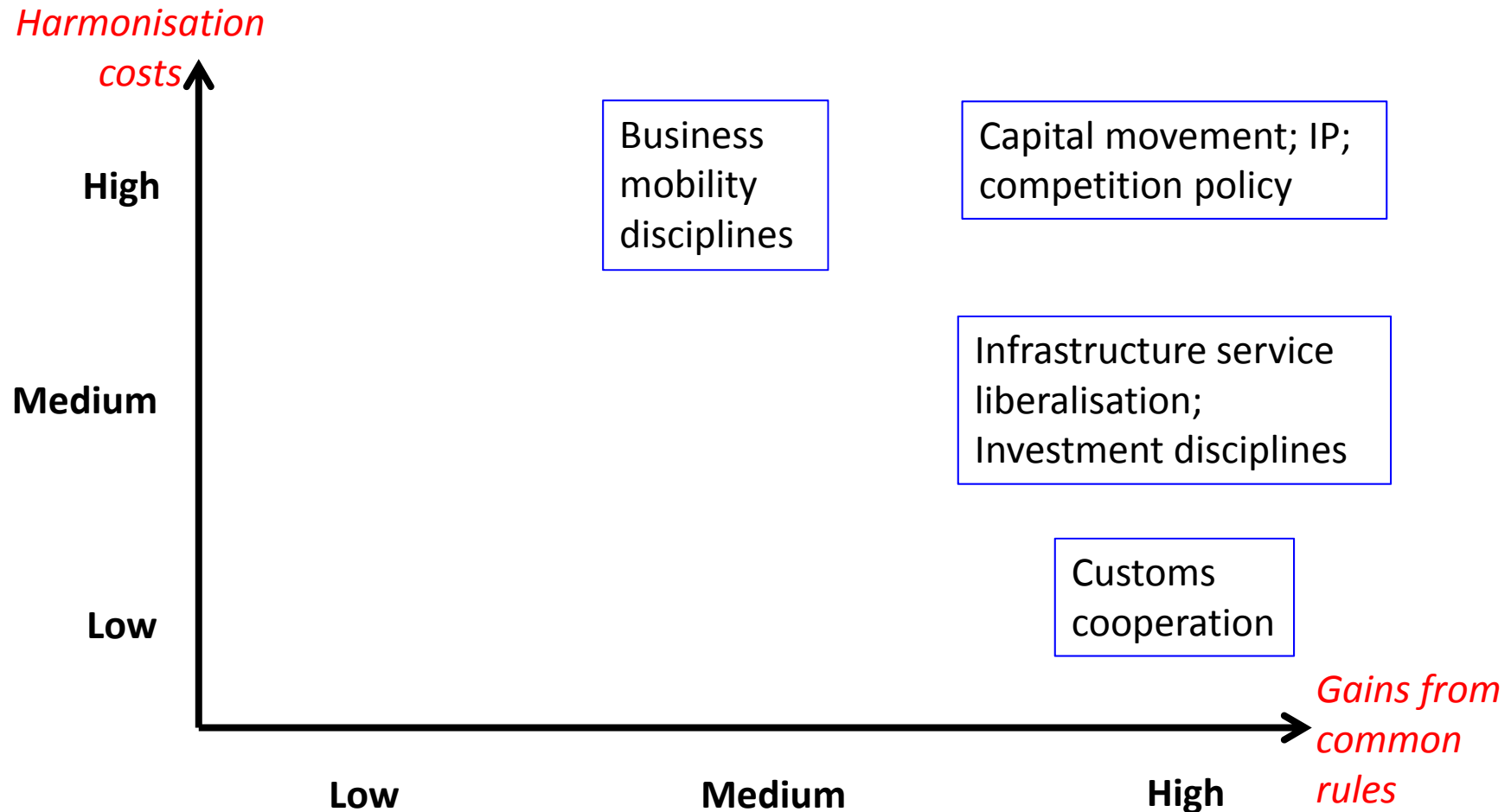
If not preference then what?

- Today's deep RTAs are about
 - underpinning global value chains
 - regulatory convergence

Motivation for regulatory convergence



Multilateralising 21C RTA provisions



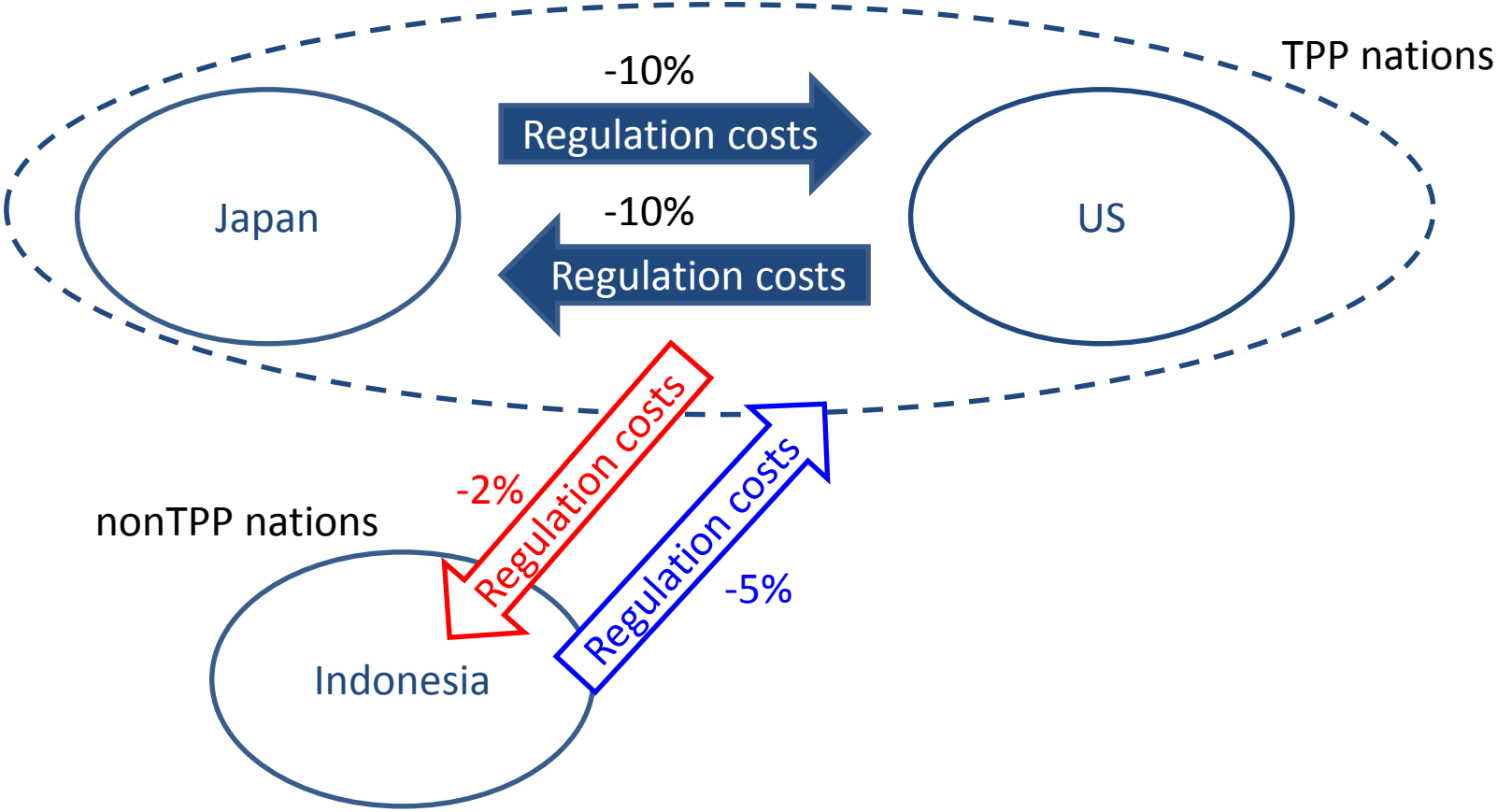
Economic impact of 21C RTAs and megaregionals

- 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



Implication: Impact on WTO of Mega Regionals

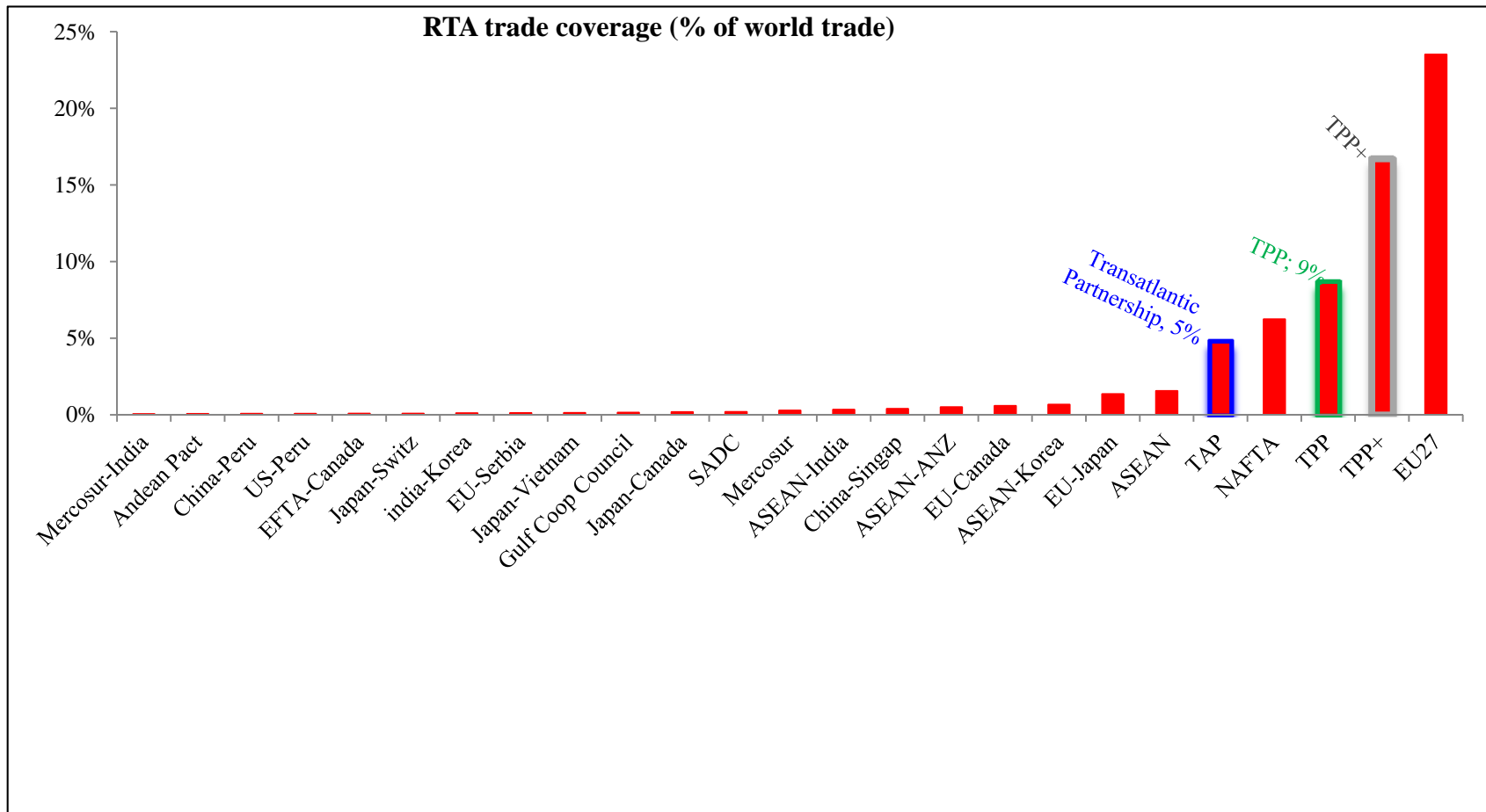
21st century regionalism: Disciplines as a package

- 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.

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



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 20th 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