

Mis-thinking globalisation:

The case for WTO 2.0

Richard Baldwin

Graduate Institute, Geneva & University of Oxford

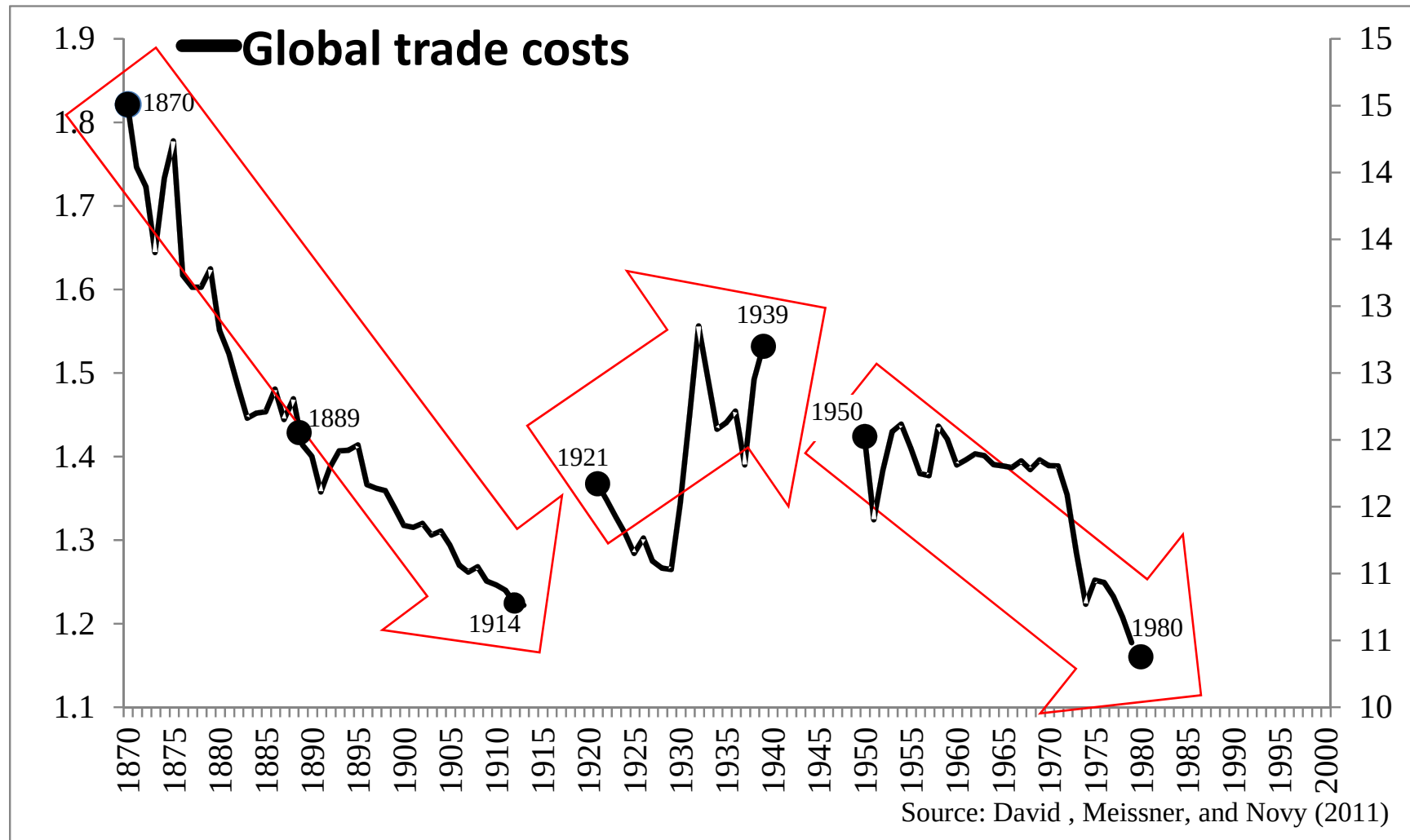
26 September 2012, WTO Forum

Mis-thinking globalisation

- Conventional view:
 - Globalisation = no trade to free trade, slowly.
- But pervasive sense that today's globalisation is different ...

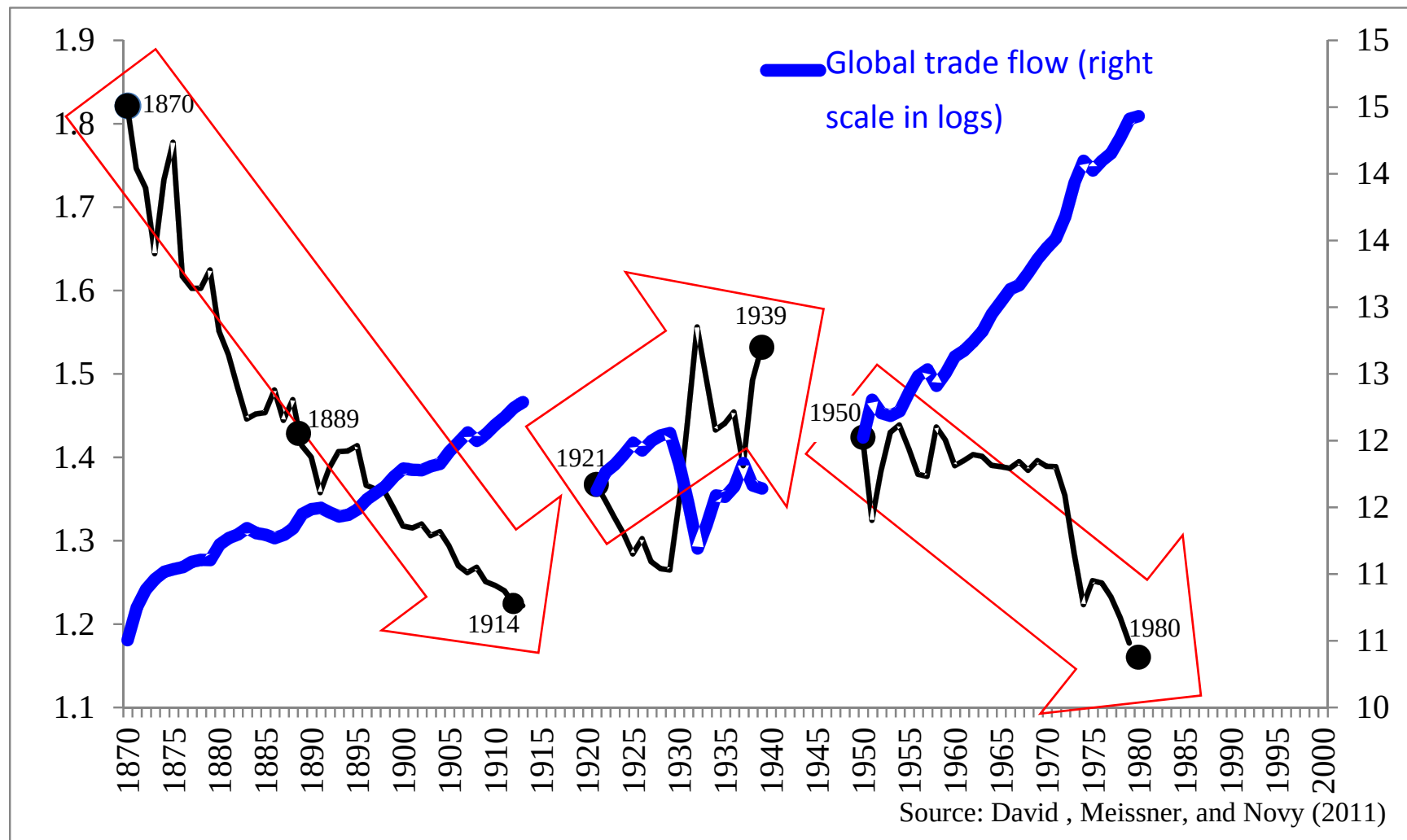
Conventional view:

Globalisation $\leftrightarrow$ trade costs (1870-1980)



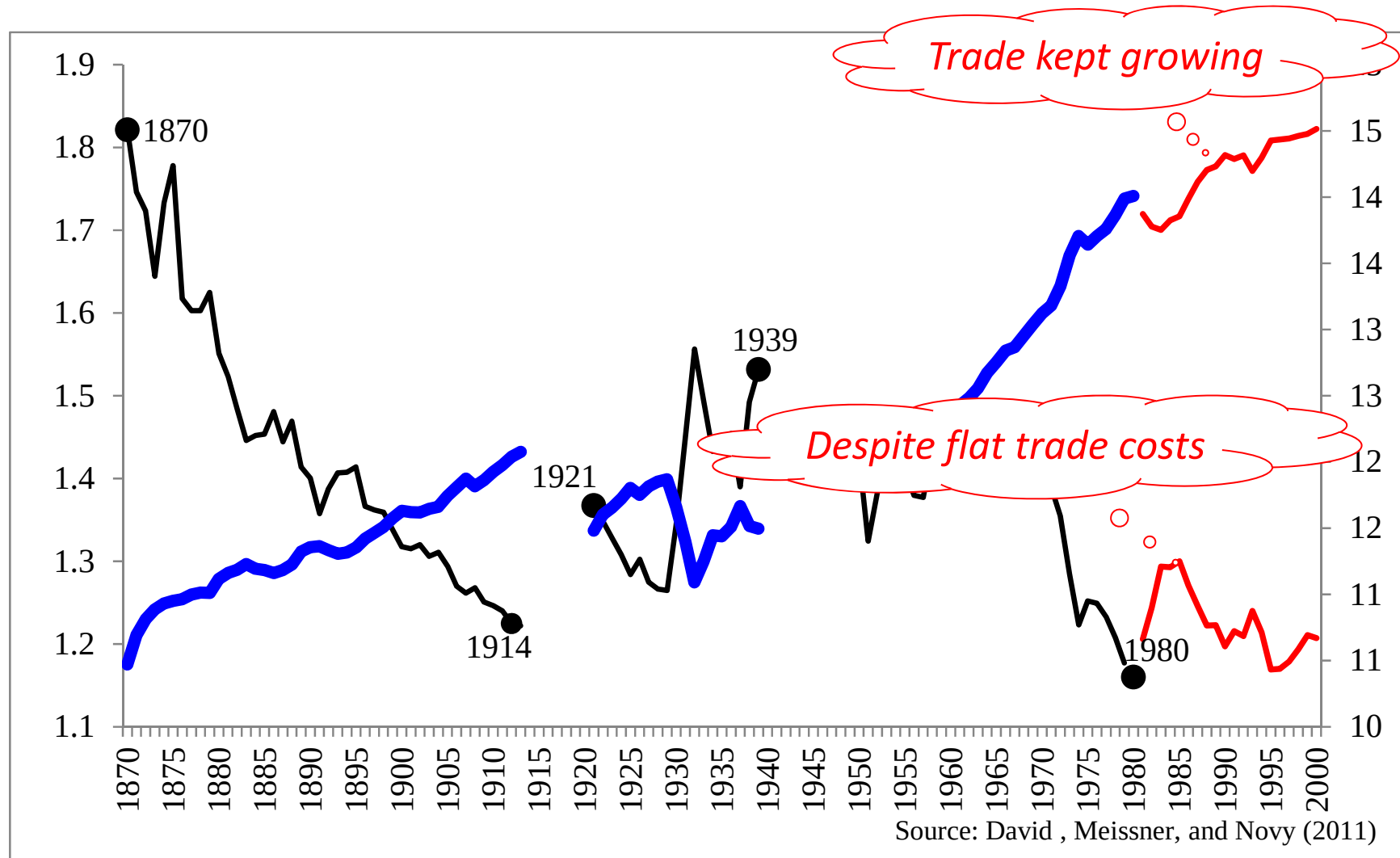
Source: Gravity model based estimates of trade costs (Jacks, Meissner, Novy 2011).

Conventional view (1870-1980): Globalisation all about trade costs

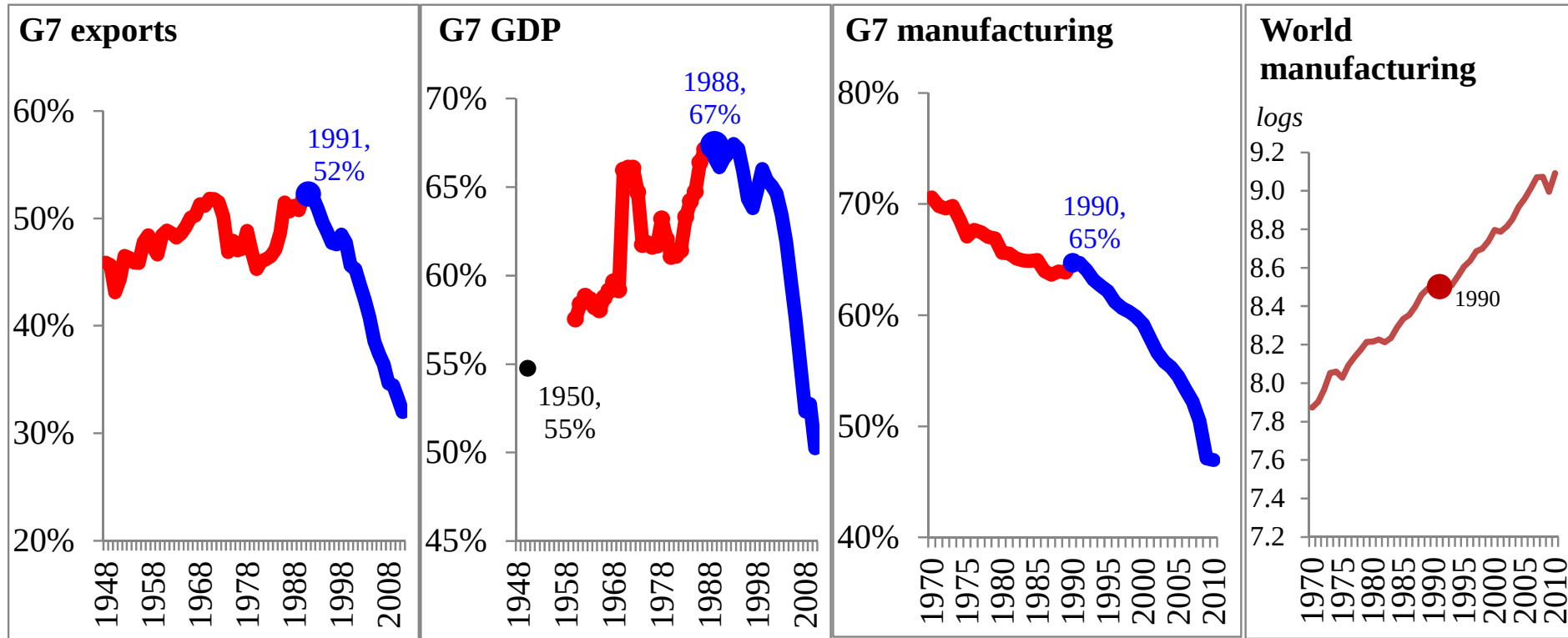


Source: Gravity model based estimates of trade costs (Jacks, Meissner, Novy 2011).

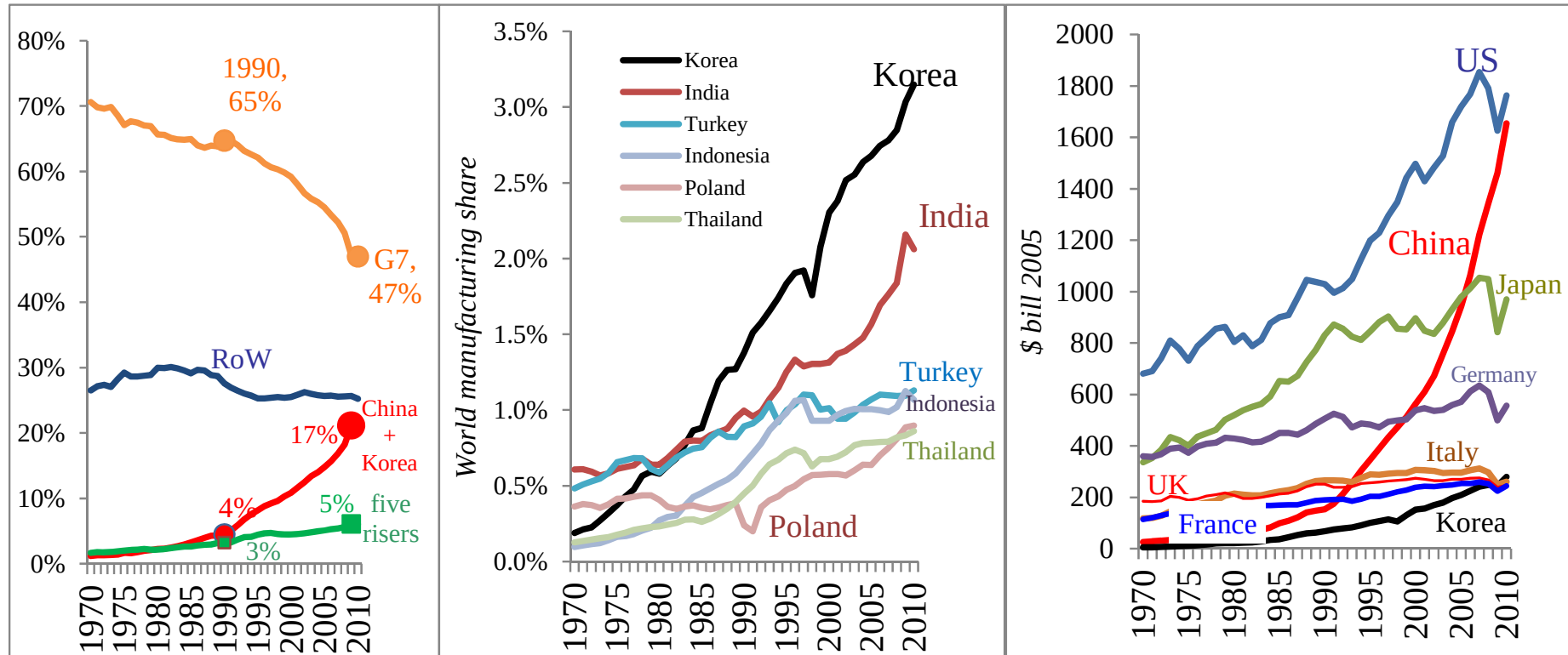
Then something changed...



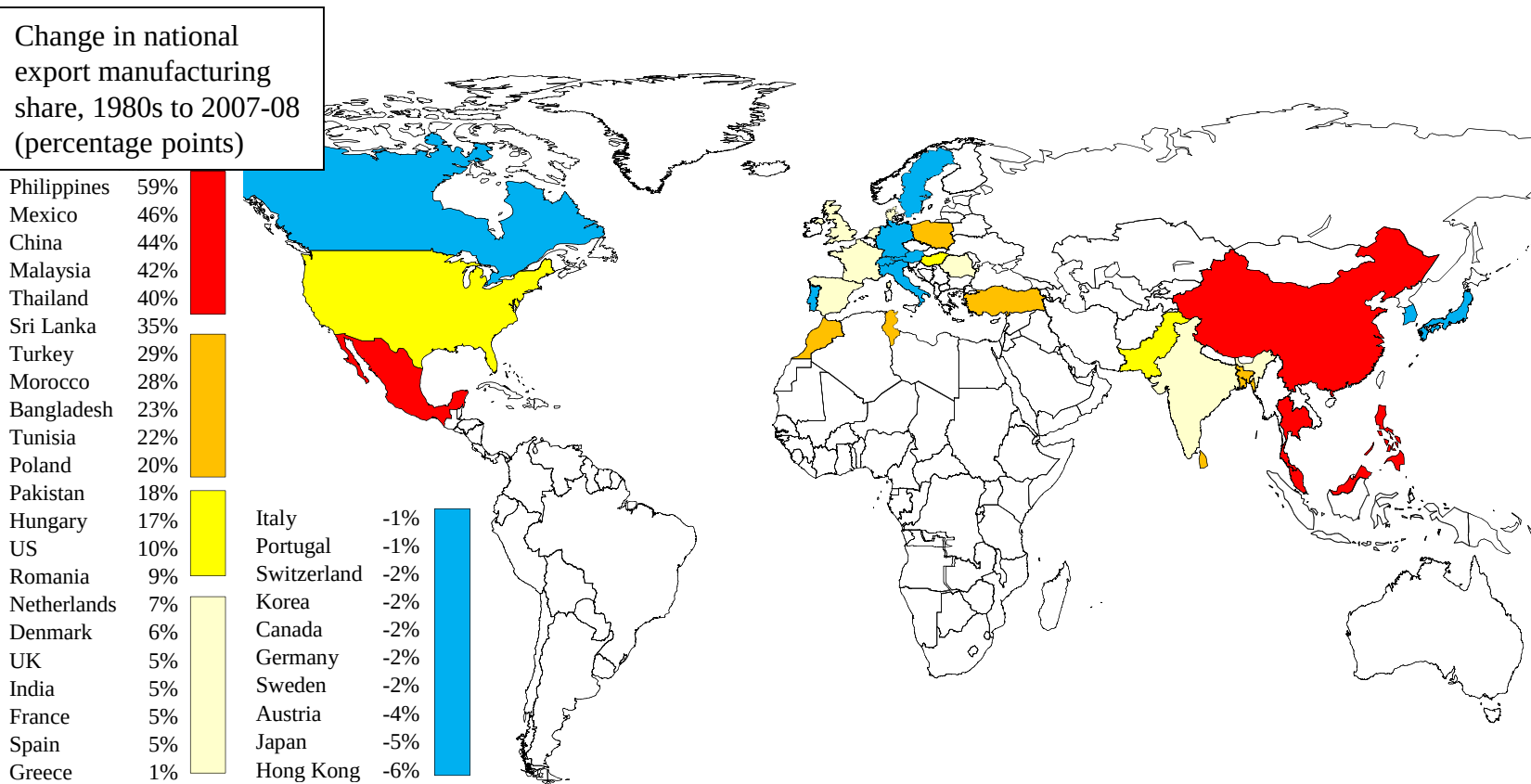
Globalisation impact changed



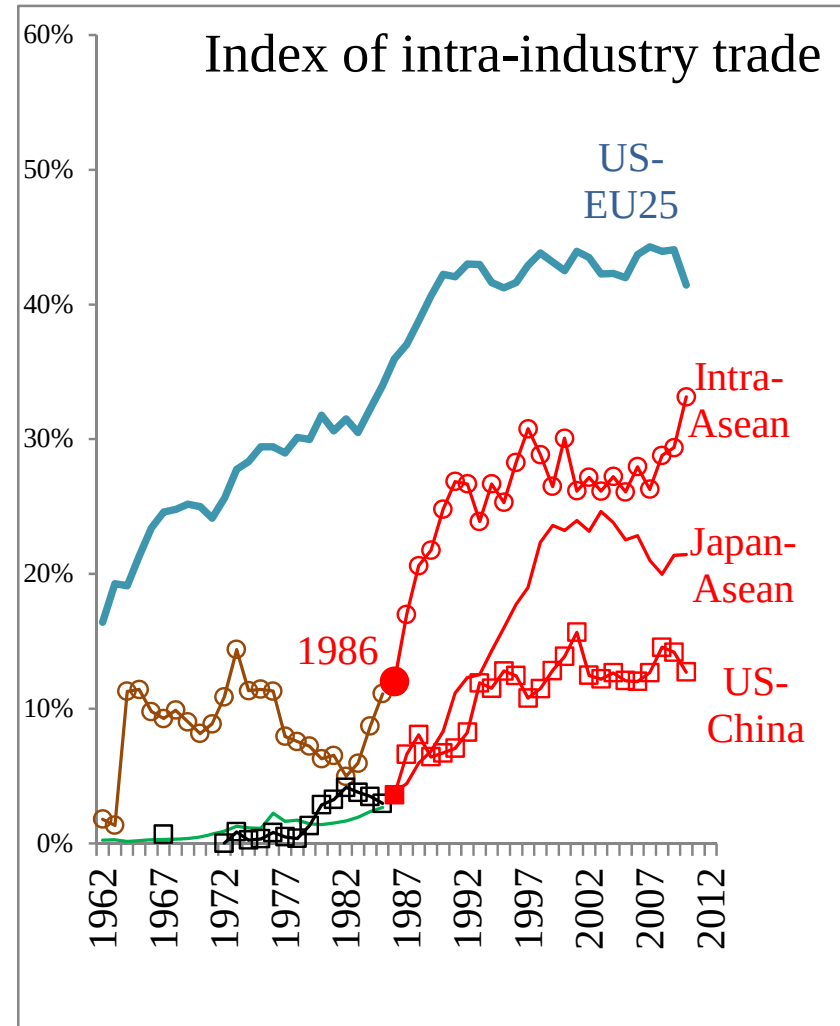
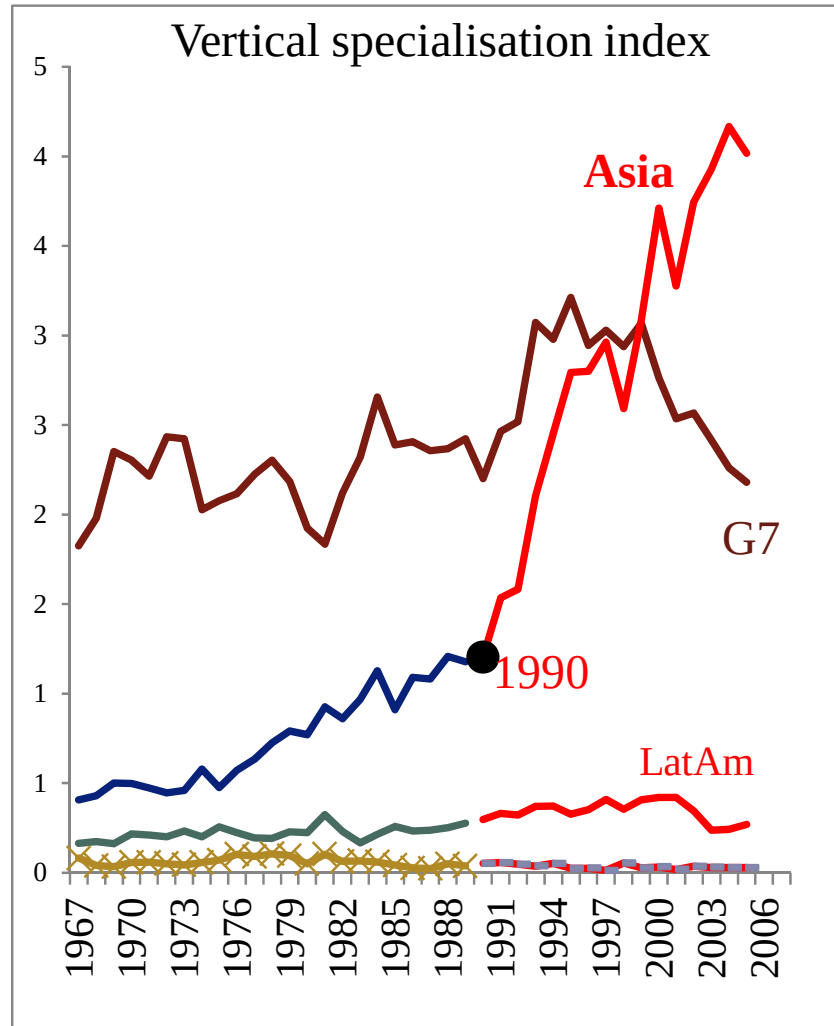
Global manufacturing shares



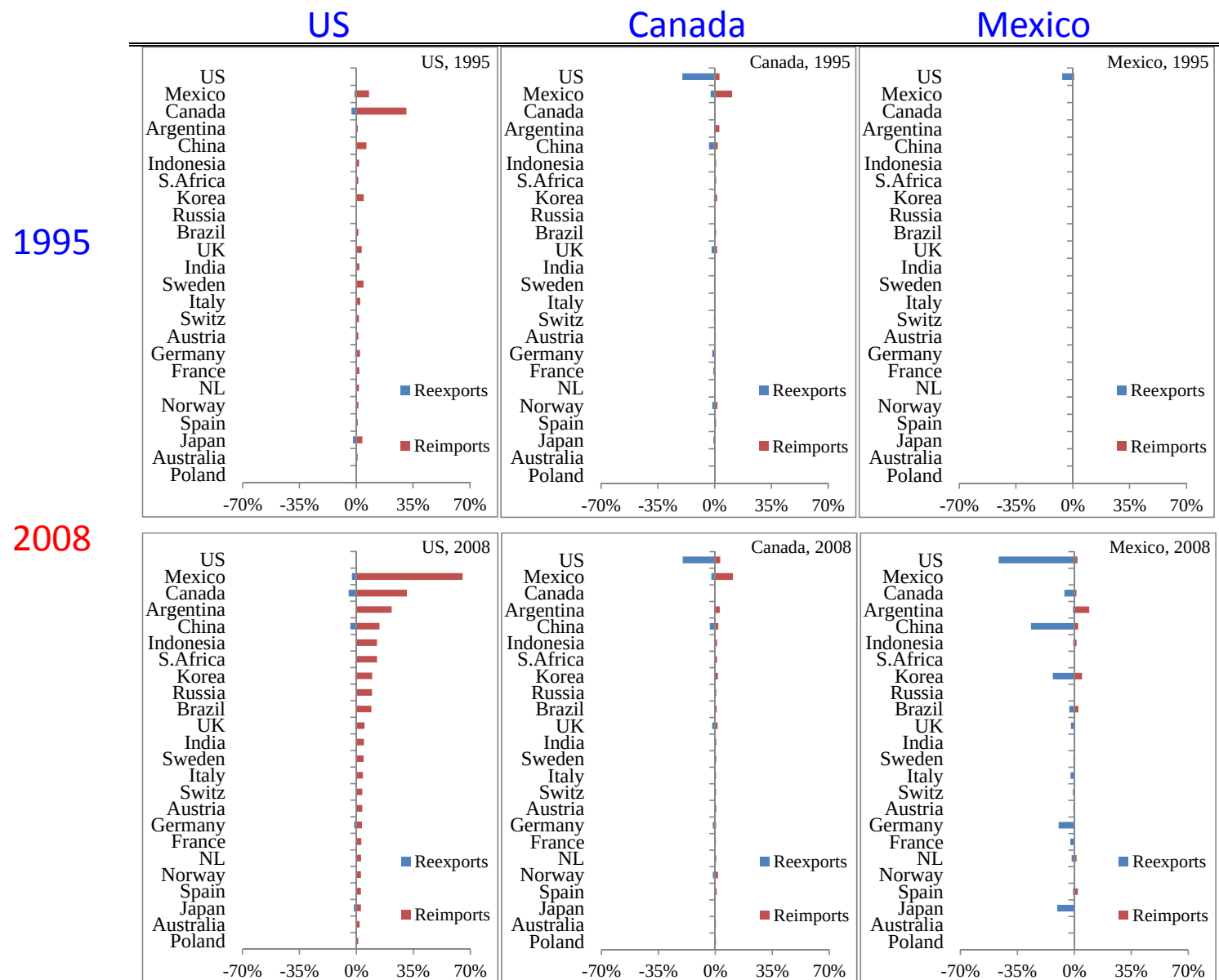
The tight geographical clustering of manufactures export swings



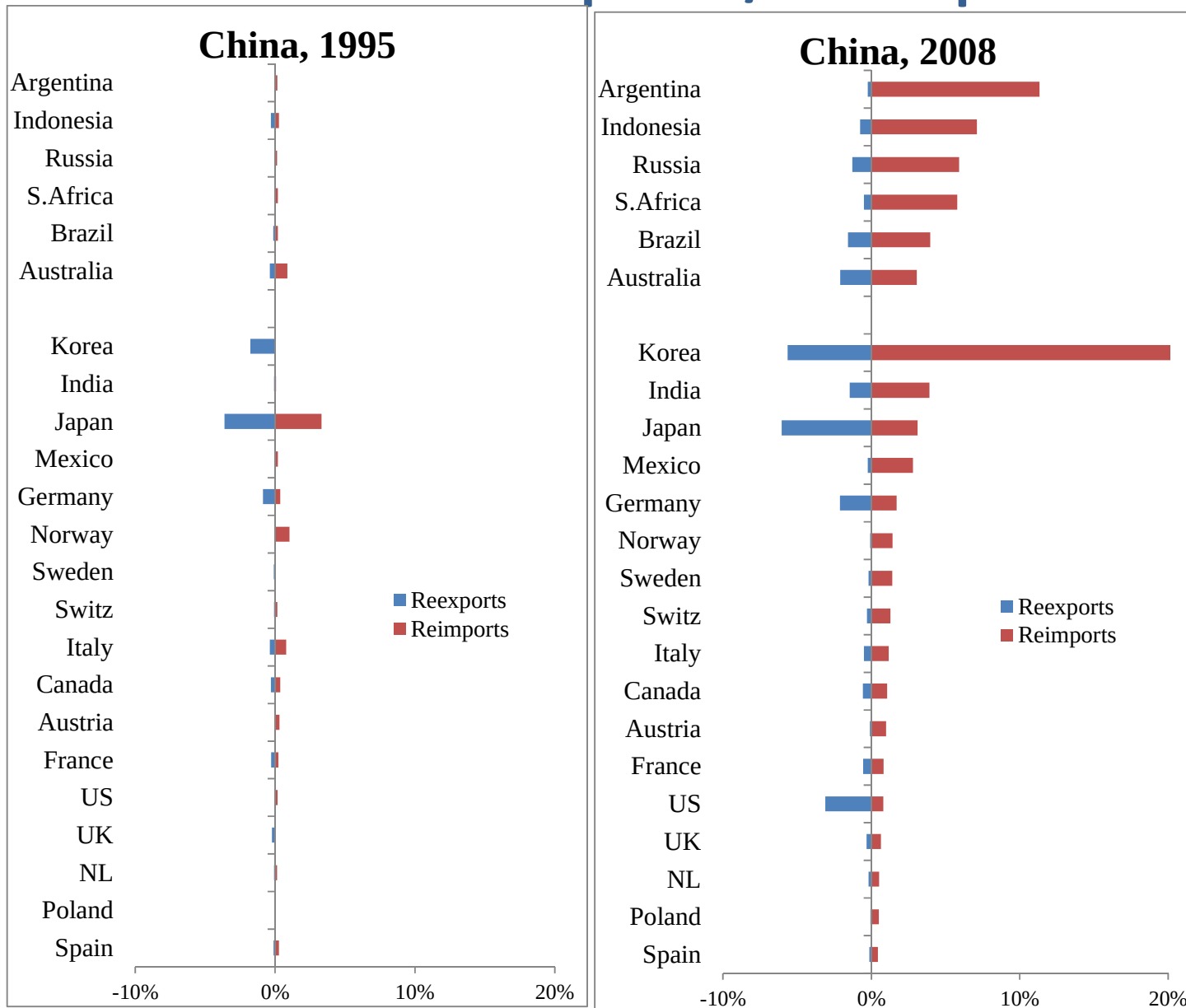
Trade changed



Reimporting/reexporting takeoff



Chinese reimport/reexport



Global supply-chain trade, 2009

L2P 09	UK	Germany	France	Italy	NL	Belgium	Austria	Poland	Czech	Denmark	Spain	Portugal	Finland	Greece	Ireland	Turkey	Sweden	Brazil	Russia	India	Indonesia	Australia	Taipei	China	Japan	Korea	US	Mexico	Canada	RoW
UK		0%			0%										0%											0%				1%
Germany	0%		1%	0%	0%		0%																	1%		0%				2%
France		0%																												1%
Italy																														1%
NL		1%				0%																								0%
Belgium		0%																												
Austria																														
Poland																														
Czech																														
Denmark																														0%
Spain																														0%
Portugal																														
Finland																														
Greece																														
Ireland																														0%
Turkey																														0%
Sweden																														0%
Brazil																														0%
Russia																														1%
India																														0%
Indonesia																														0%
Australia																														0%
Taipei																														0%
China		1%																								1%	1%	2%		4%
Japan																									1%	0%	0%		2%	
Korea																								1%					1%	
US	0%	0%													0%									1%	0%		1%	1%	4%	
Mexico																											1%			
Canada																											2%			
RoW	1%	1%	1%	1%	1%						0%					0%	0%	0%	1%	0%	0%	0%	0%	4%	2%					

“Factory Europe”

“Factory Asia”

“Factory NorAm”

Baldwin and Lopez-Gonzalez (2012)

Source: Baldwin and Lopez-Gonzales (2012).

Compare total vs supply-chain trade

I2P '09	UK	Germany	France	Italy	NL	Belgium	Austria	Poland	Czech	Denmark	Spain	Portugal	Finland	Greece	Ireland	Turkey	Sweden	Brazil	Russia	India	Indonesia	Australia	Taipei	China	Japan	Korea	US	Mexico	Canada	RoW	2009 total	gbr	deu	fra	ita	nld	bel	aut	pol	cze	dnk	esp	prt	fin	grc	irl	tur	swe	bra	rus	ind	idn	aus	twi	chn	jpn	kor	usa	mex	can	RoW																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																							
UK		0%													0%												0%				UK		1%	0%		0%		1%	1%																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																													

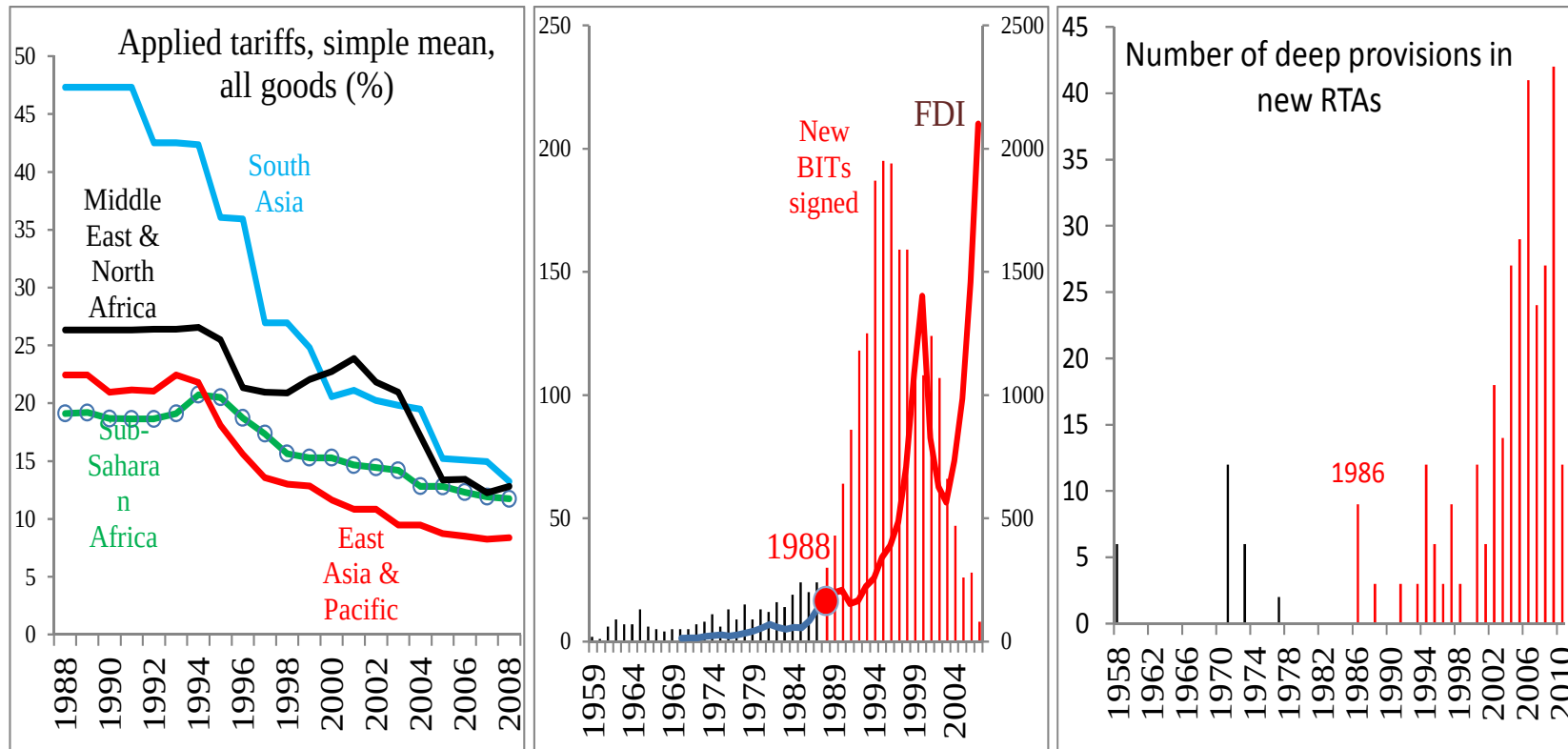
Supply-chain trade

Total trade

Source: Baldwin and Lopez-Gonzales (2012).

International trade politics changed

- Developing nations seek out liberalisation of policies that foster supply-chain industrialisation.
- Unilateralism on tariffs, Take-off in BITs, FDI, and soaring deep RTAs provisions



Trade governance changed

- Supply-chain trade needed new disciplines.
 - More interconnected policy; trade-investment-services-IP ‘nexus’
- Deep N-S RTAs around outsourcing HQ economies partly filled the gap.
 - US, Japan and Germany (EU).
- Mega-Regionals & mega-bilats start to harmonise the bilateral rules.
 - TPP, TAP (EU-US), EU-Canada, Japan-EU, Canada-Japan (old Quad + offshoring partners).
 - ISA?

WTO did not change

Looking forward

- Harmonised rules on supply-chain trade likely to be written by 2020;
- Most likely negotiated in mega-regionals & mega-bilats;
- WTO unlikely to be involved (DDA stuck).

So what is the future of the WTO?

Three premises

- For traditional trade, WTO is in excellent health.
- 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.

ERGO

- 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.

Case for WTO 2.0

- In future status quo, firms from 3 of the world's 4 manufacturing giants (US, China, Japan, and Germany) will have been involved in negotiating the harmonised supply-chain rules.
- The 3 will have to be convinced that multilateralisation will improve things.

Structure of WTO 2.0

- Key questions:
 - What structure (number of members, S&D, etc.)?
 - Which issues?
- Economic logic of S&D
 - Primarily import substitution industrialisation (ISI).
 - Secondly vulnerable groups.

Structure of WTO 2.0

- Production unbundling destroyed ISI, so much weaker economic rational for S&D for supply-chain rules.
- Logic for vulnerable groups unaffected.
- ERGO: Need WTO 2.0
 - WTO 1.0 keeps S&D, WTO 2.0 doesn't.

S&D in WTO 2.0: Politics

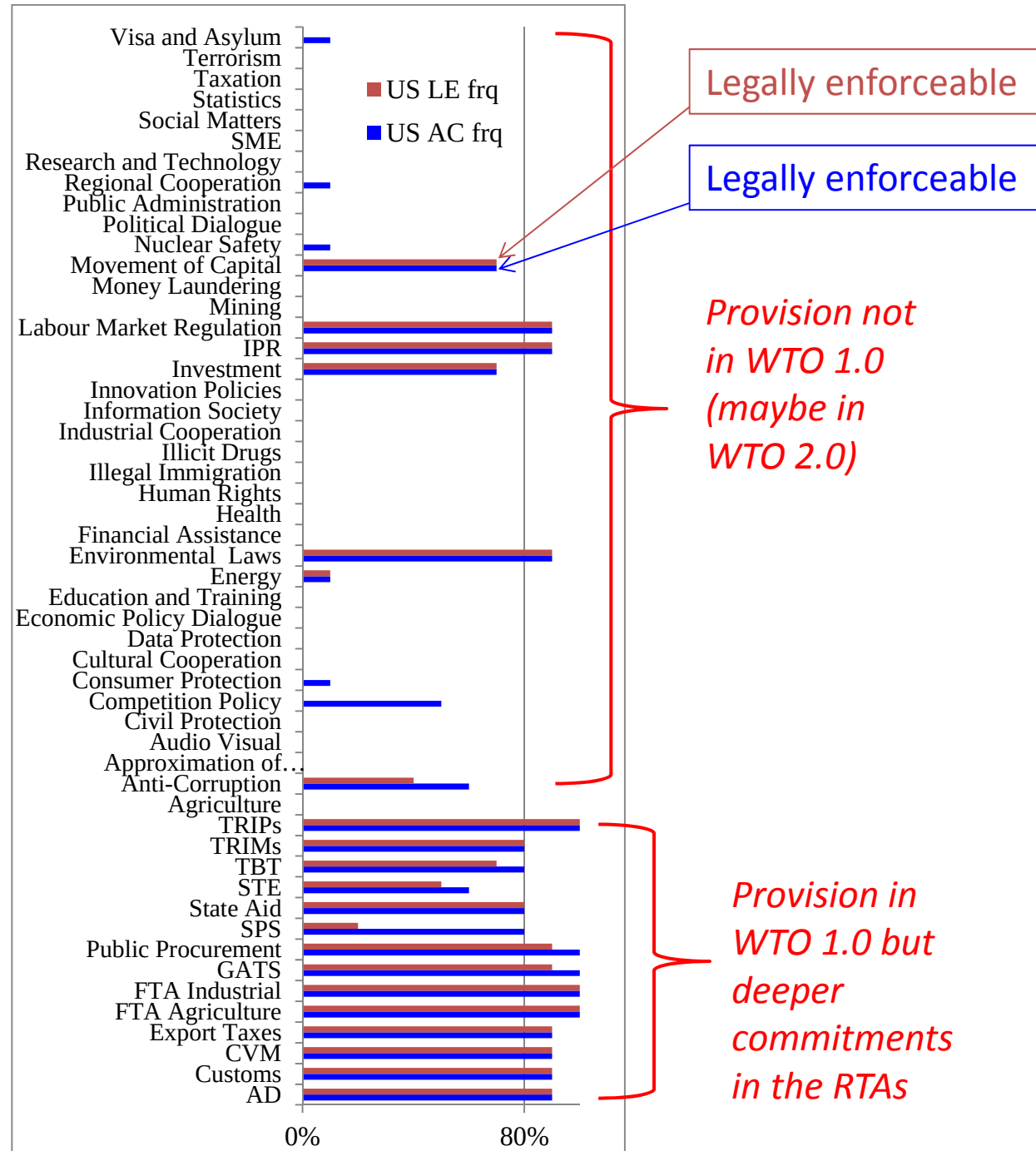
- US, inter alia, likely to demand elimination of special and differential treatment for all major supply-chain players as a price for multilateralising supply-chain trade rules.
- This cannot happen in WTO 1.0, so need WTO 2.0
 - (maybe World Supply Chain Organisation??)

Universal membership

- WTO 1.0 logic: free market most efficient
 - non-discrimination with universal members is natural implication.
- Supply-chain trade is more highly concentrated and not a ‘free market’ outcome.
- Logic of universality is weaker.
- Politics suggests membership only for those heavily engaged in supply-chain trade.

Which issues covered in WTO 2.0?

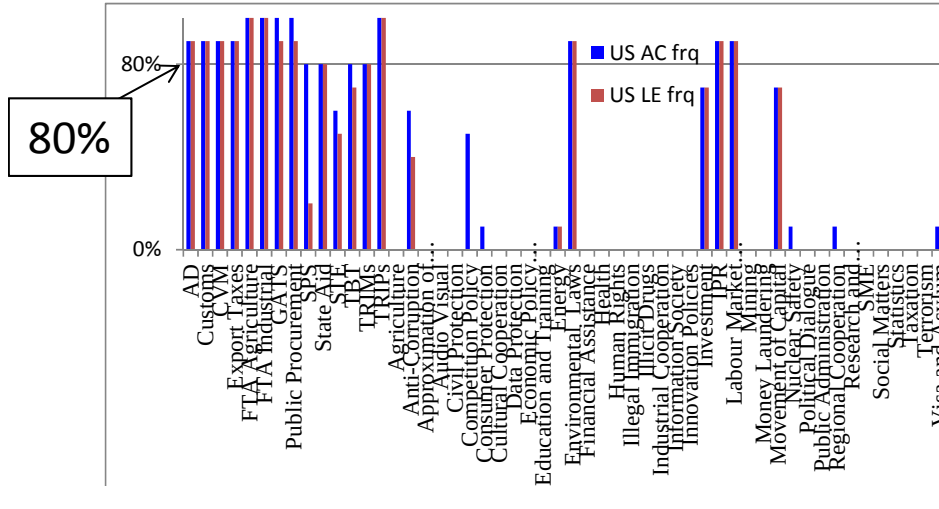
Which
issues
covered in
WTO 2.0?
Revealed
preference
evidence
from US
RTAs (*share
with given
provision*)



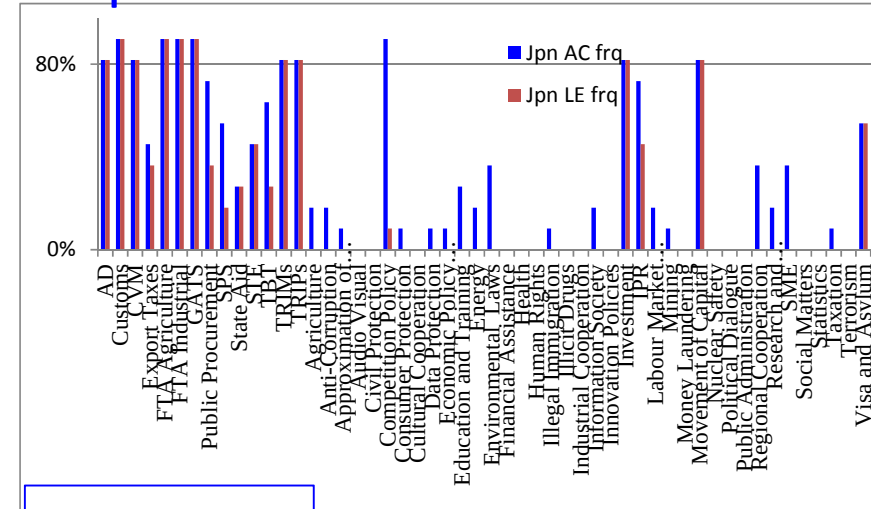
Source: WTO database on RTA provisions

Ditto for US, Japan, EU & RoW

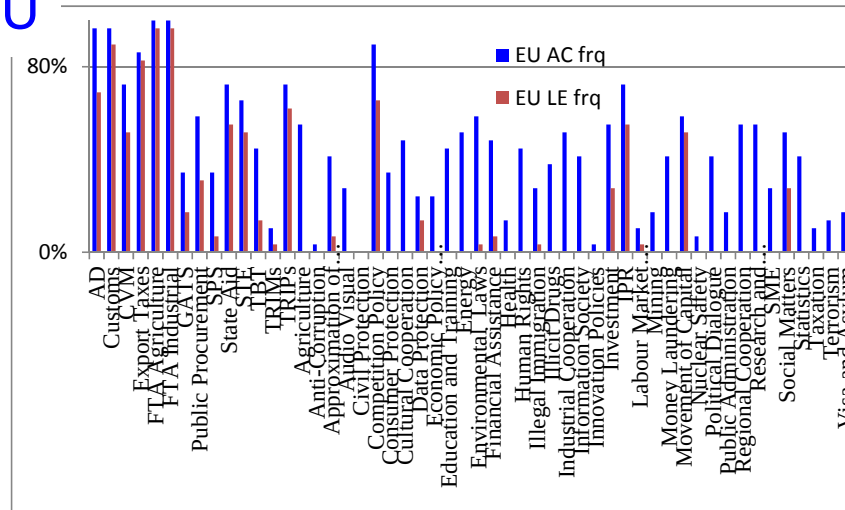
US



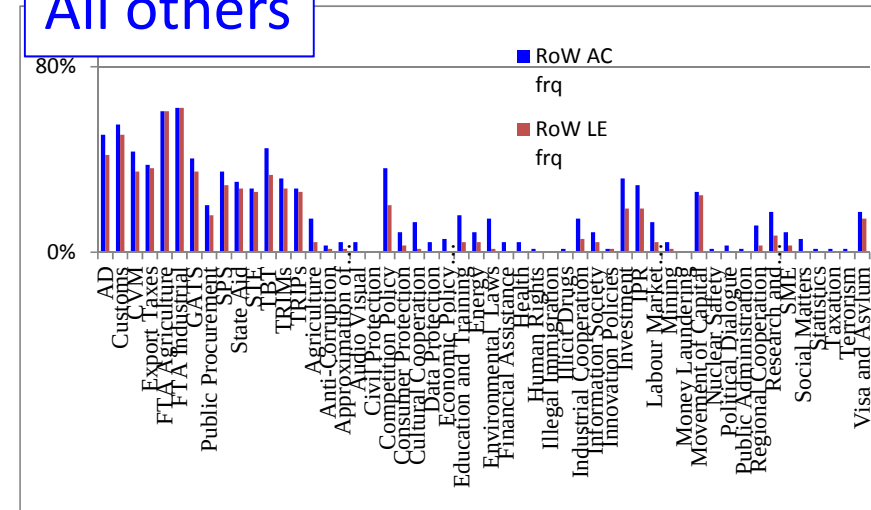
Japan



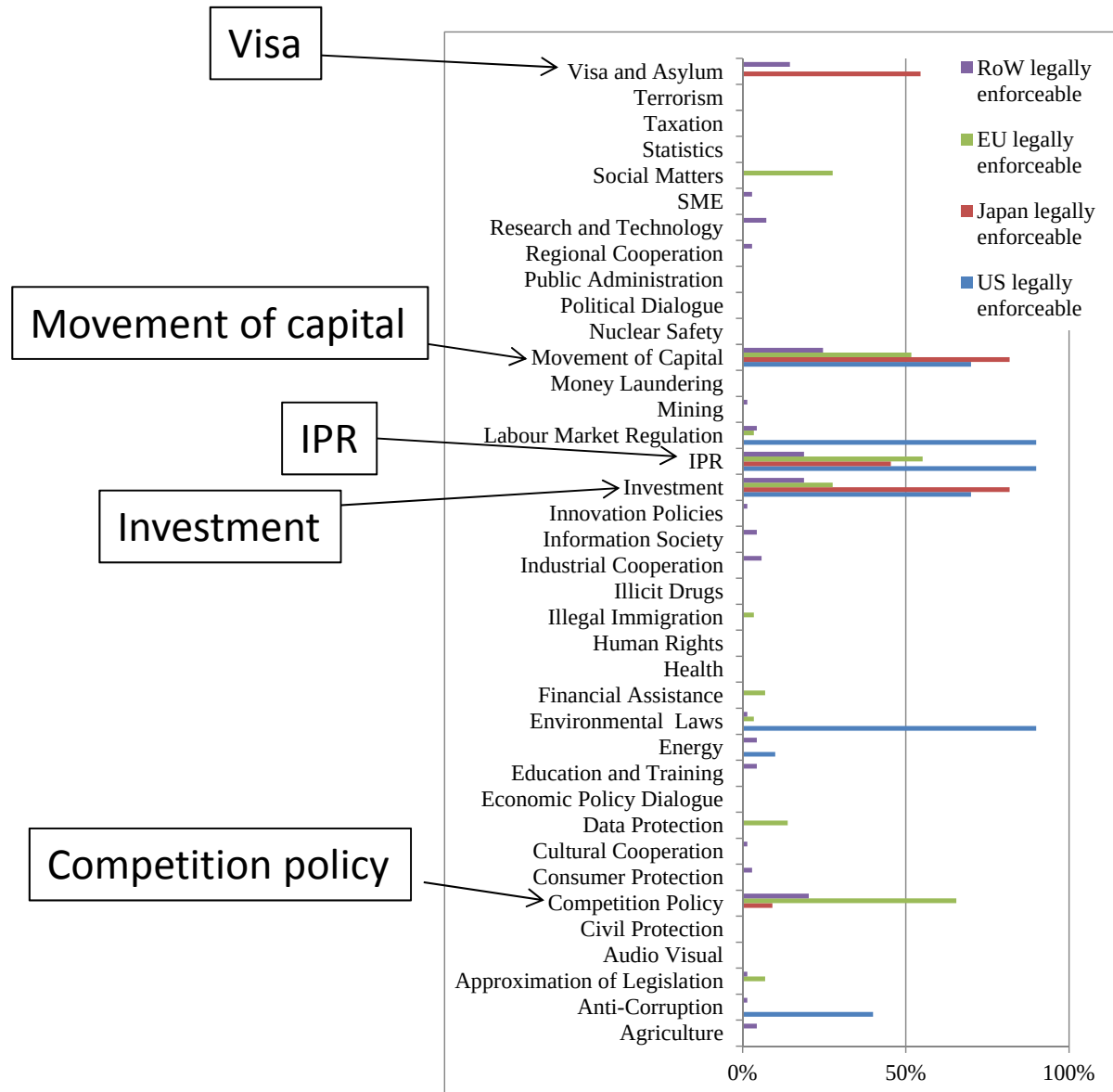
EU



All others



Only beyond WTO measures



At least 2/3rd of US & Japan RTAs have legally binding provisions

- Tariffs to zero,
- Beyond TRIPs,
- Beyond AD,
- Beyond CVM,
- Beyond Customs, GATS, TRIMs,
- Investment,
- Movement of Capital,

Don't have the answers!

Time to start thinking ahead on trade

- Global trade governance is at turning point.
- Status quo likely to evaporate by 2020.
- Need global thinking on what comes next.
- Voice of all nations needs to be added to the conversation among manufacturing giants.
- Design issues need research.
- Content issues need research.

Thanks for listening

- My paper “WTO 2.0” will be soon posted on

<http://www.voxeu.org/>