

Global trade governance & 21st century trade

Richard Baldwin

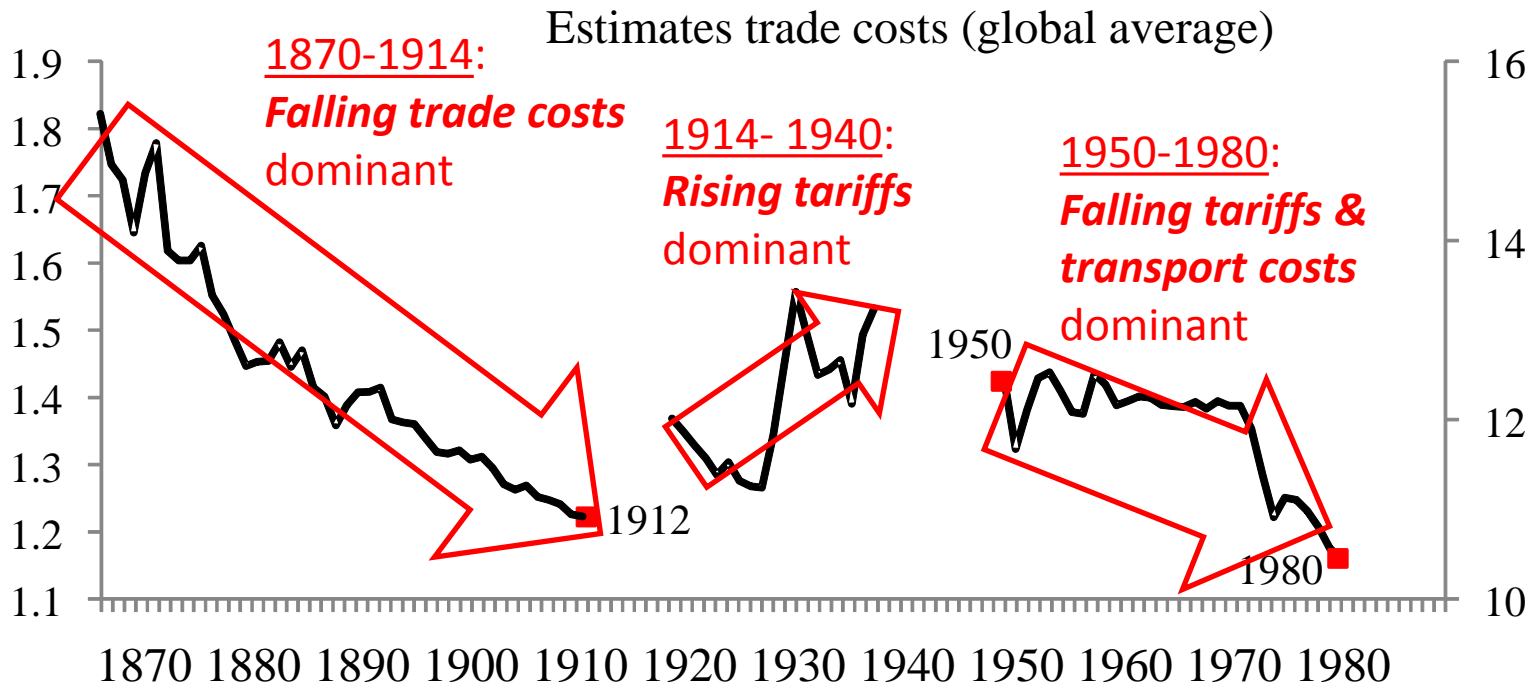
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Misthinking globalisation

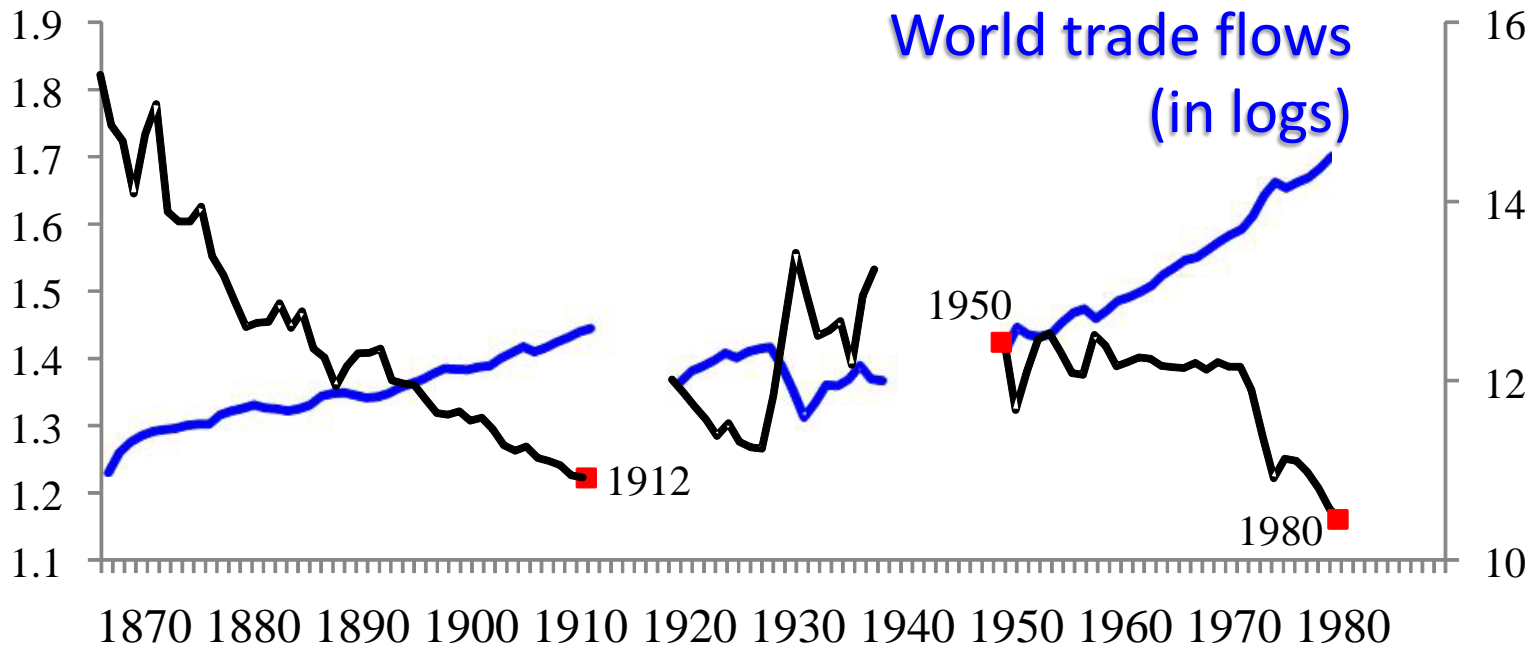
- Conventional: Globalisation = Autarky to free trade, slowly.
- But pervasive sense that today's globalisation is different ...

1870 – 1980:

Globalisation is all about trade costs



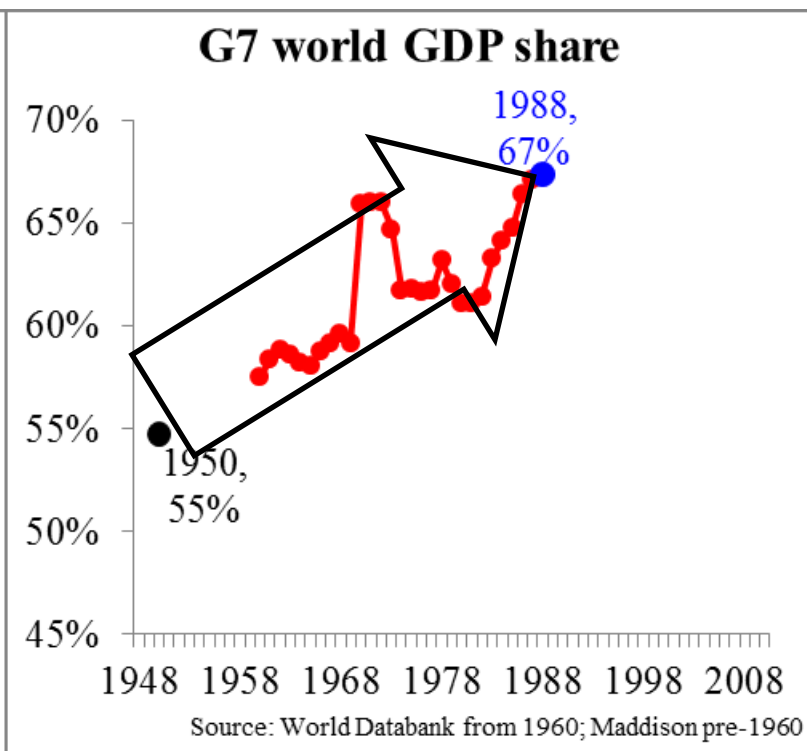
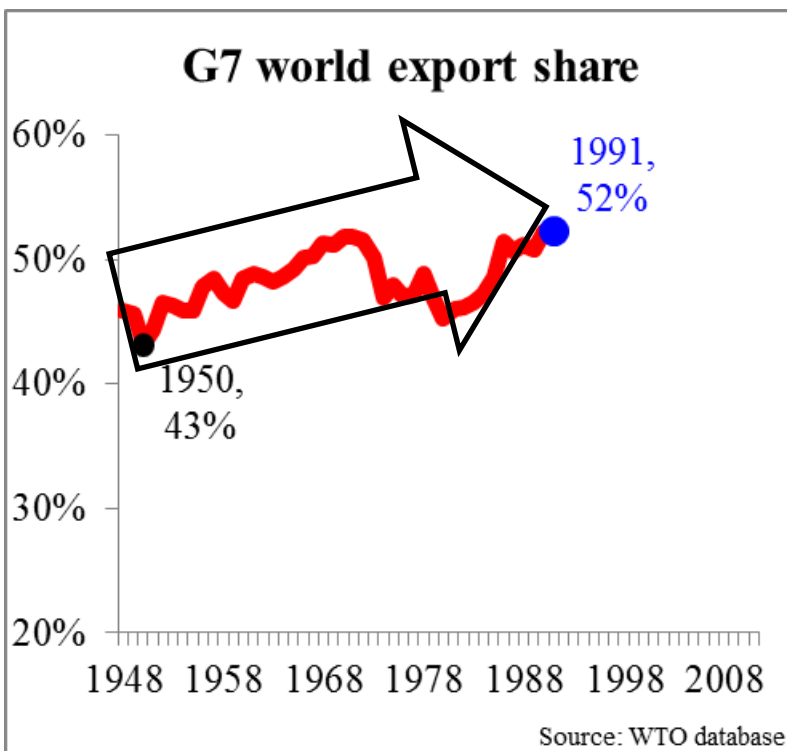
Globalisation = lower trade costs & more trade in goods



Classical trade theory developed

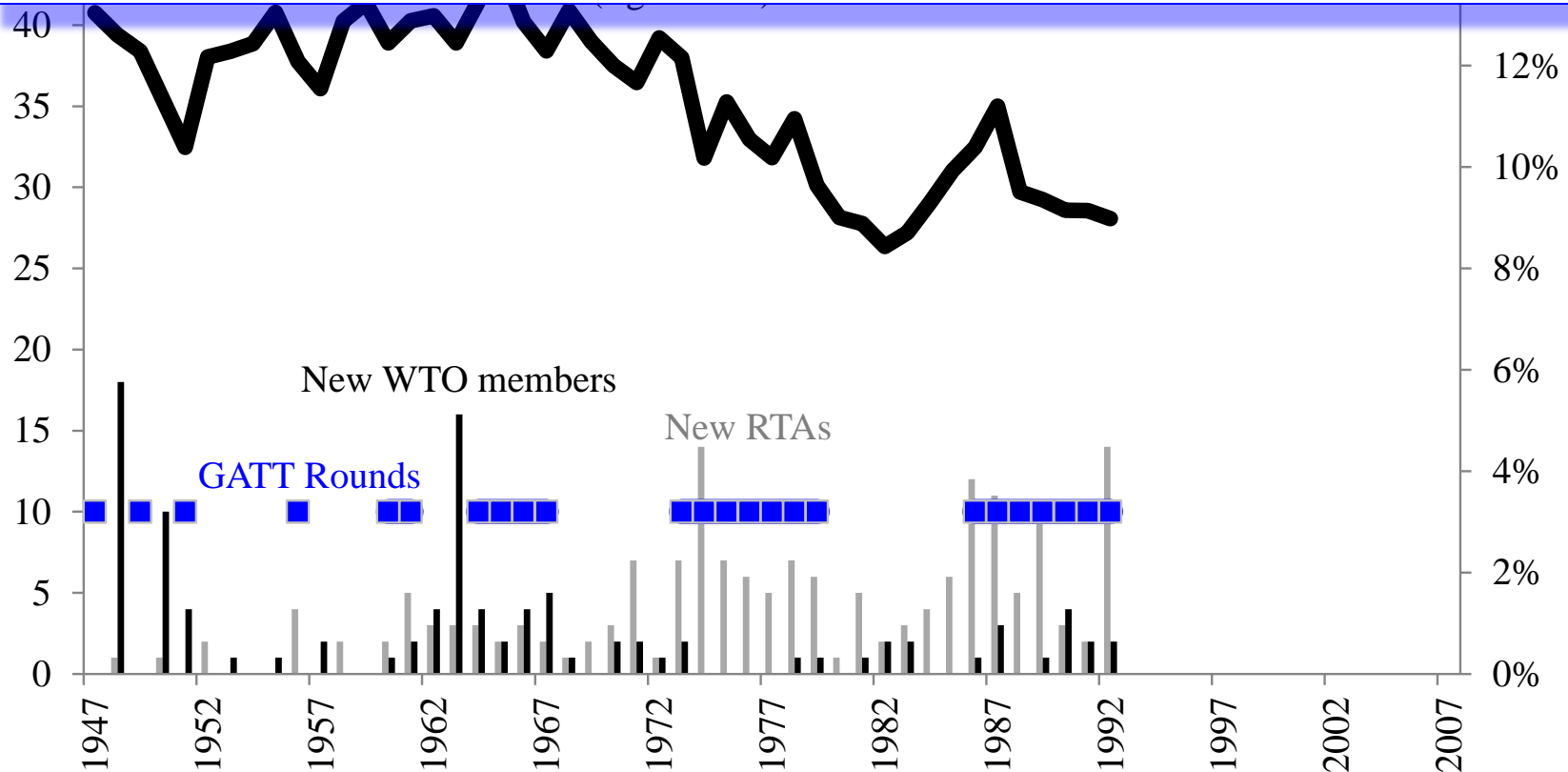
Neoclassical trade theory developed

Globalisation = G7's trade & income share rises



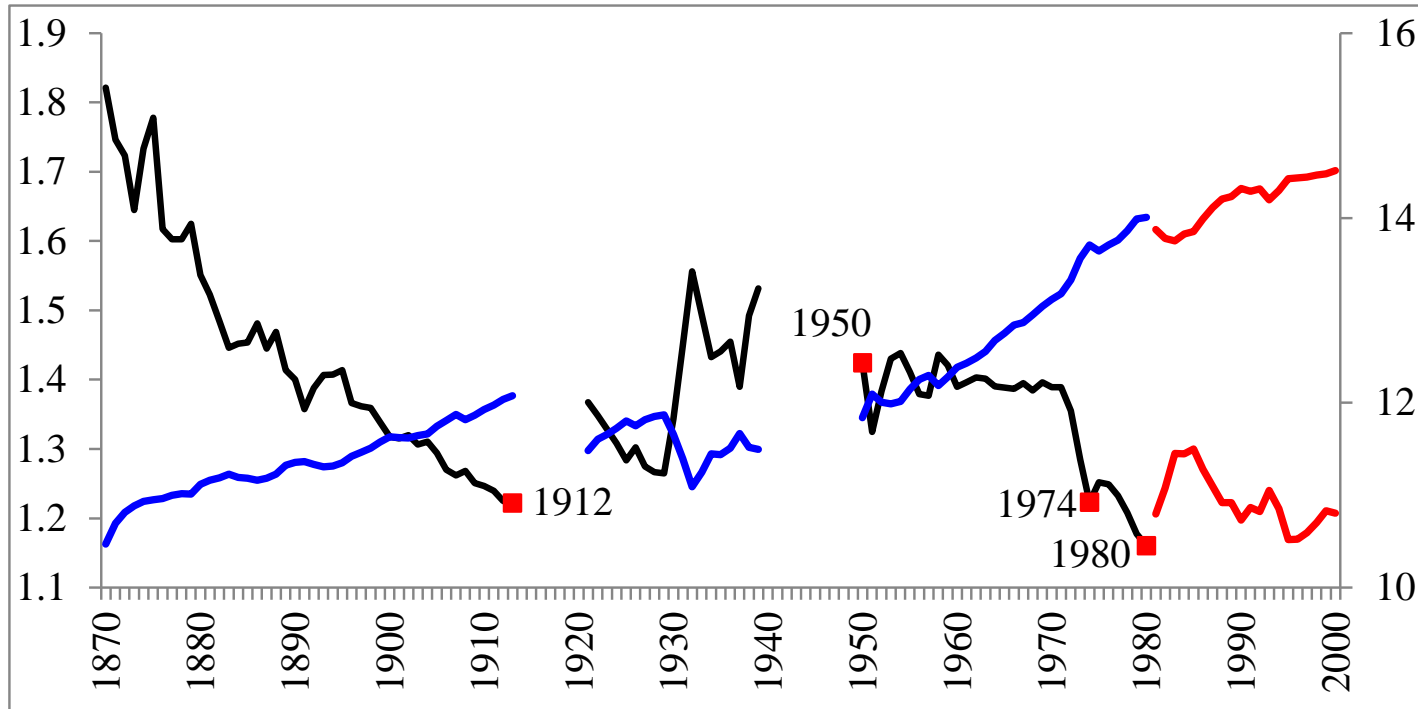
Globalisation =

- Tariff cutting by reciprocal negotiation.
- Rich nations cut tariffs; developing nations don't.
- GATT attracts new members.



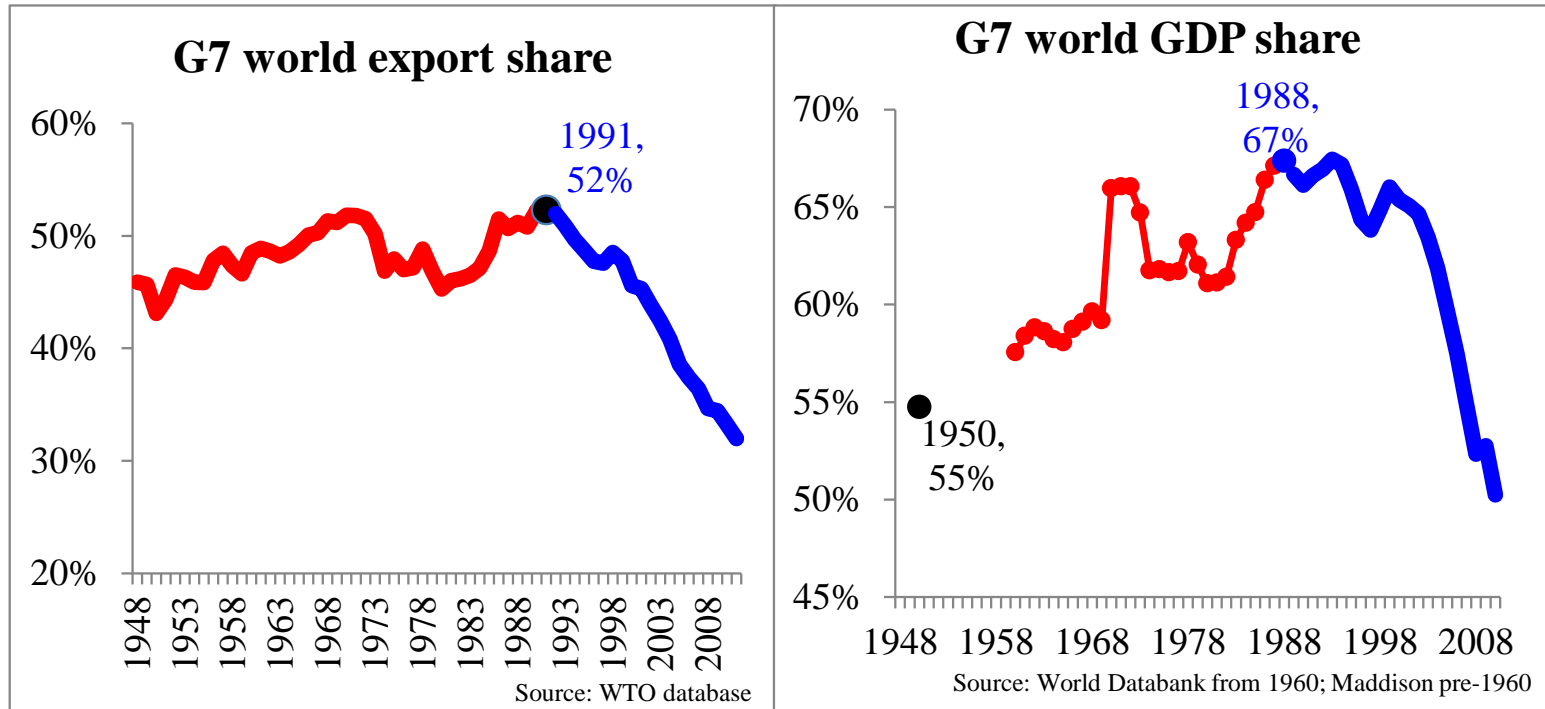
Something changed:

Trade costs fell little; trade kept growing



- ‘Distance puzzle’!
- Hummel cannot find the drop in transport costs!

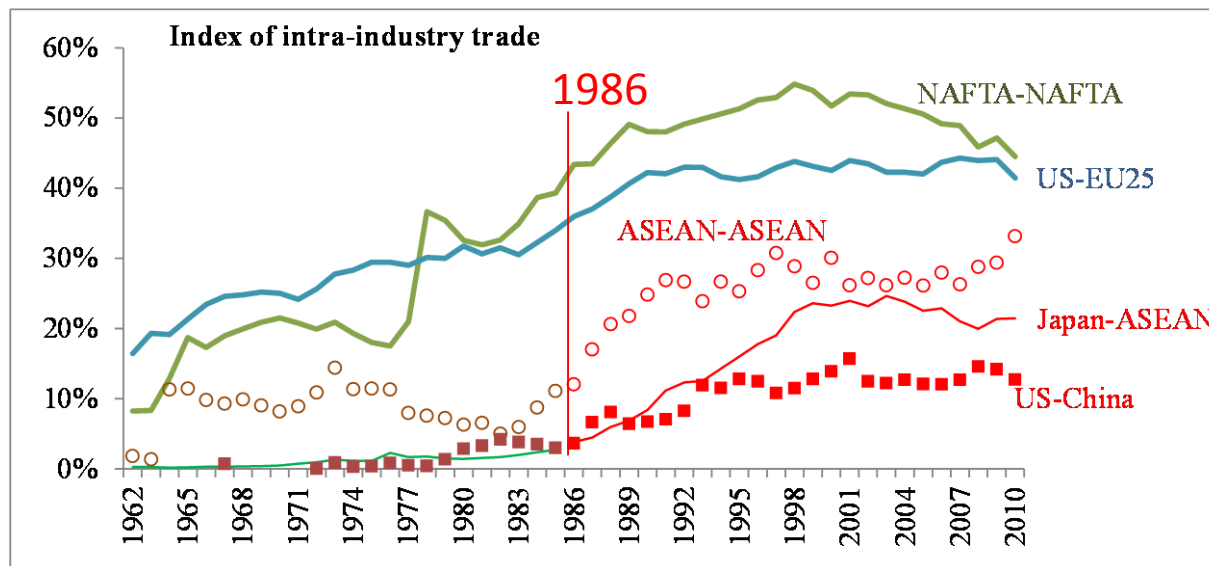
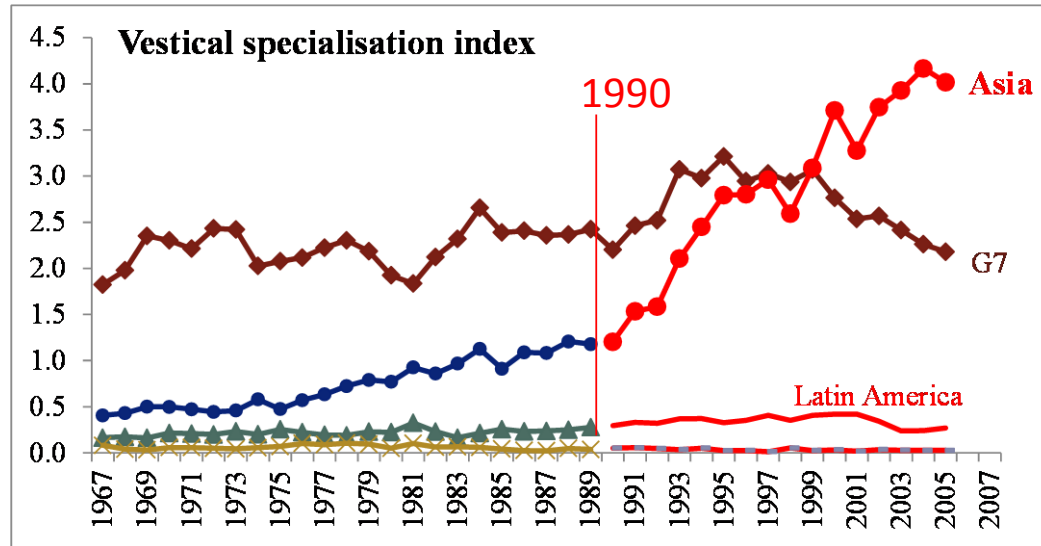
Something changed: *G7 world shares drop*



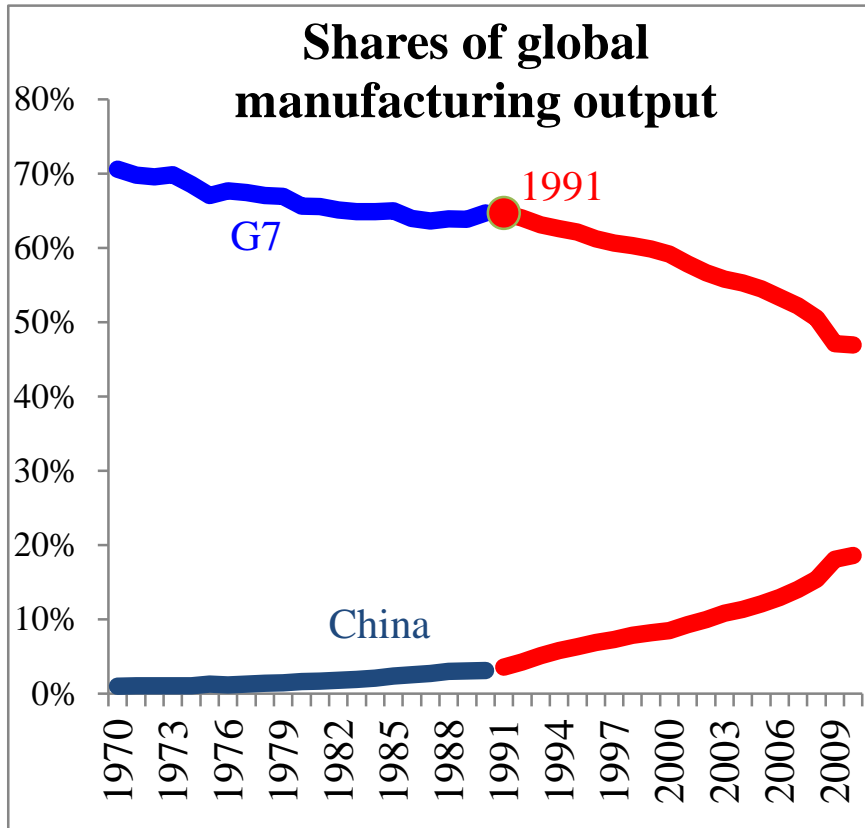
- “Emerging economies”!
- “East Asian miracle”!

Something changed:

Nature of North-South trade changes



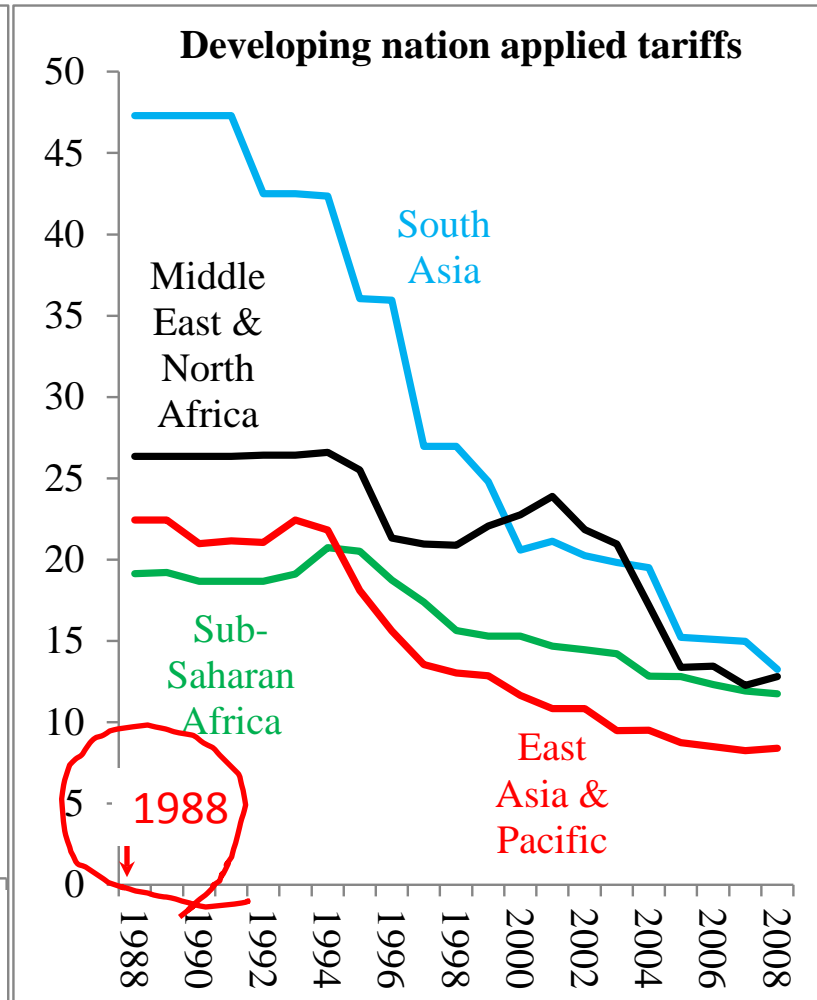
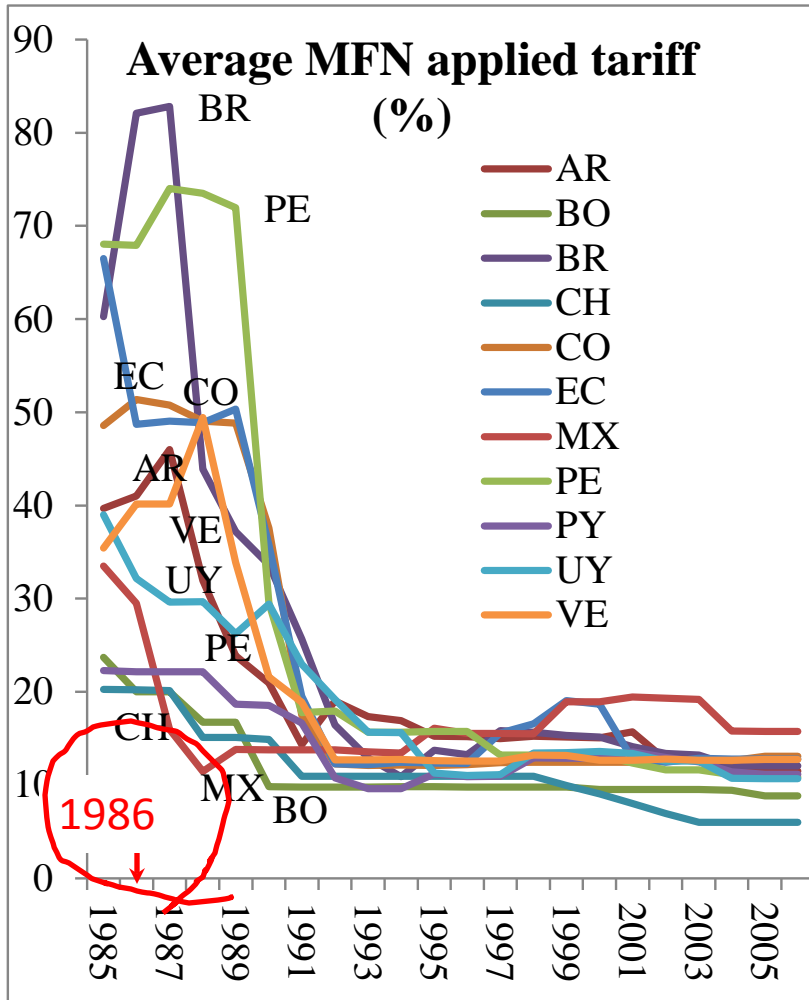
Something changed: Manufacturing spreads



- ‘Emerging markets’ invented; BRICs

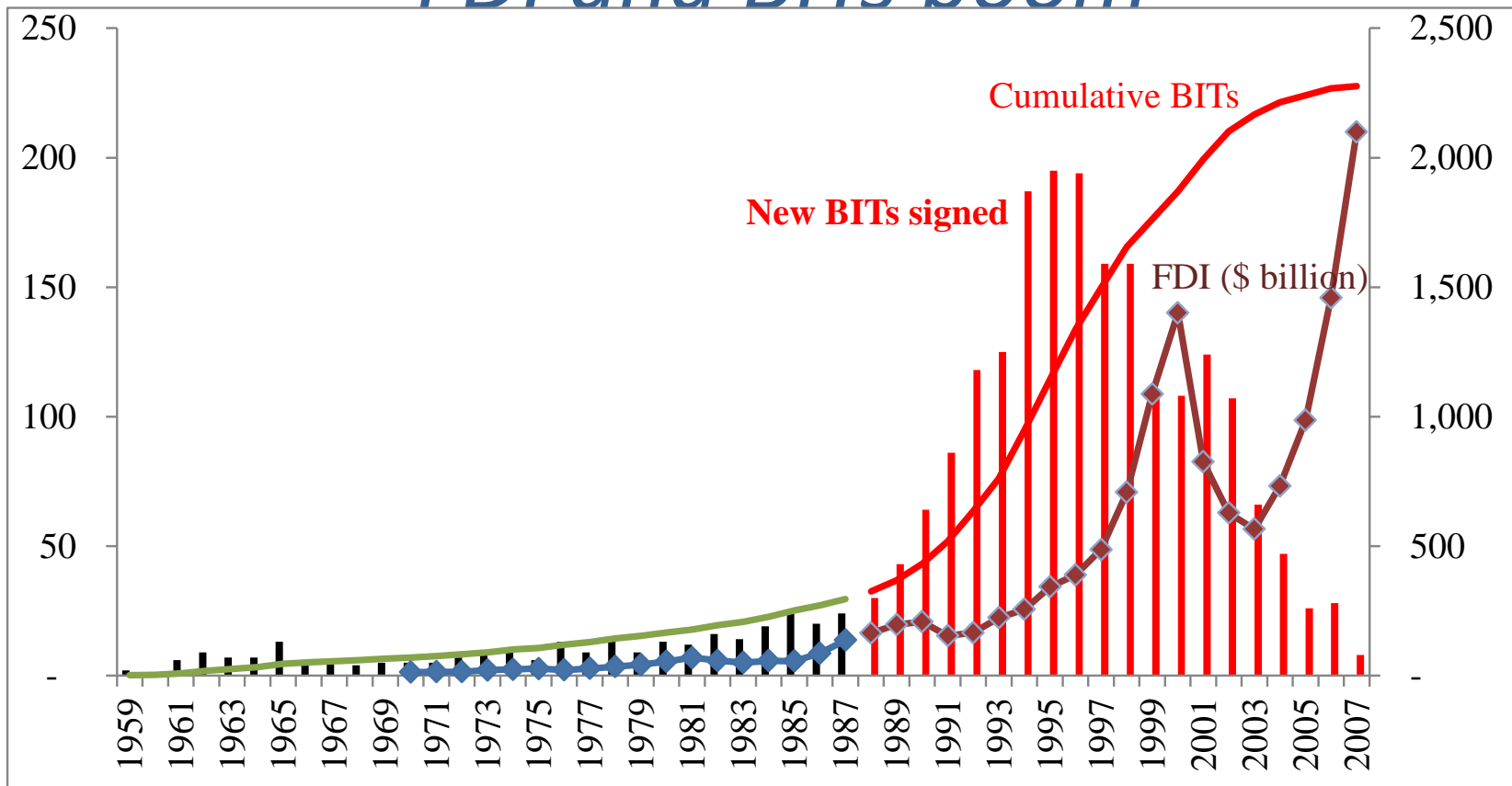
Something changed:

Developing nations unilateral cut tariffs



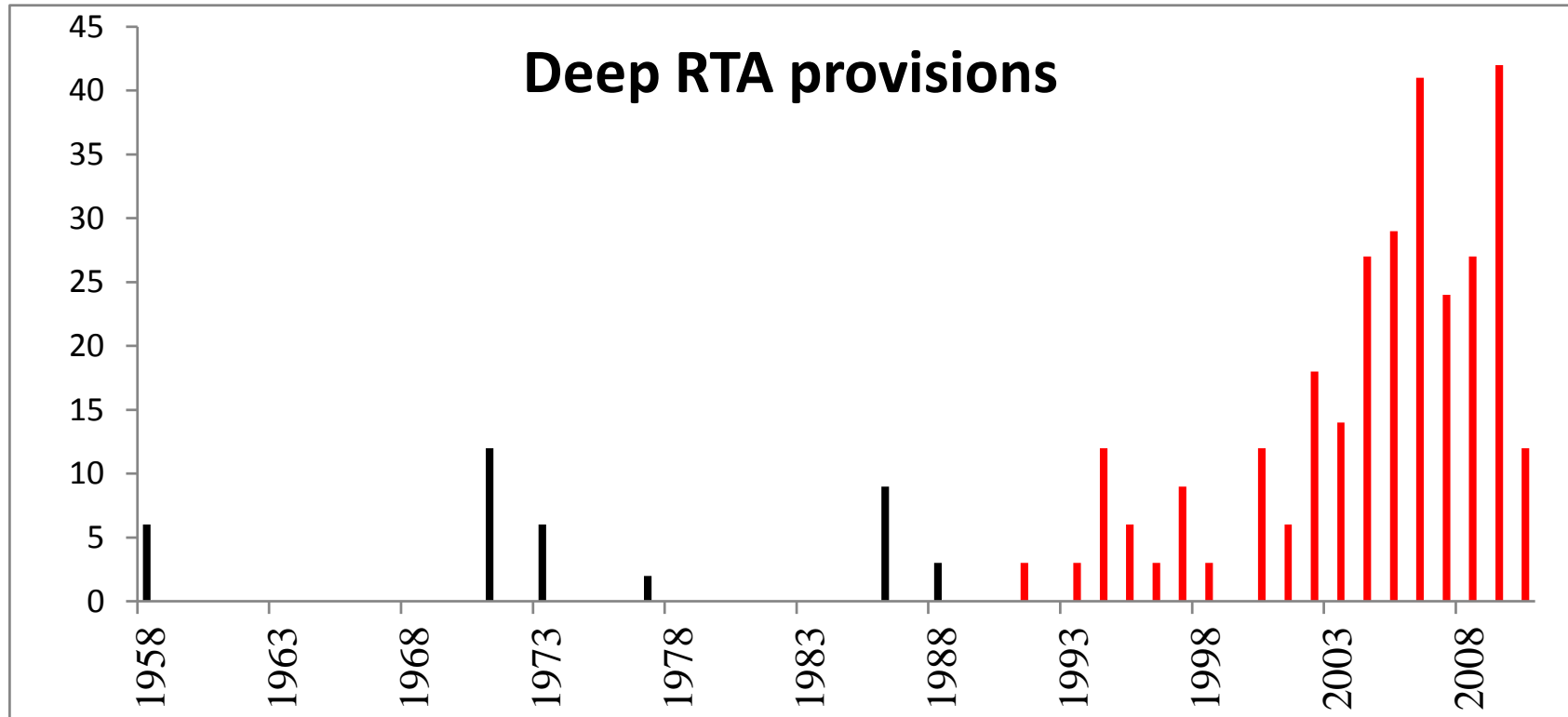
- Policy makers finally listen to trade economists!

Something changed: *FDI and BITs boom*



- FDI popularity booms with developing nations!
- They agree concessions to attract FDI (BITs)!

Something changed: *RTAs 'deep' provisions*

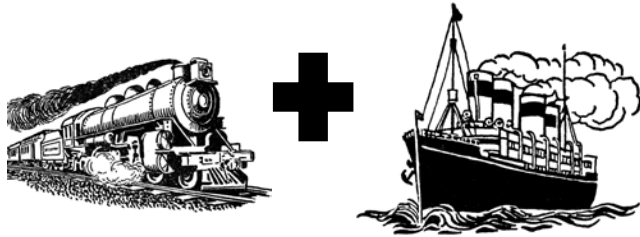


- RTAs include beyond WTO provisions:
 - Competition policy, IPR, investment, capital movements, etc.

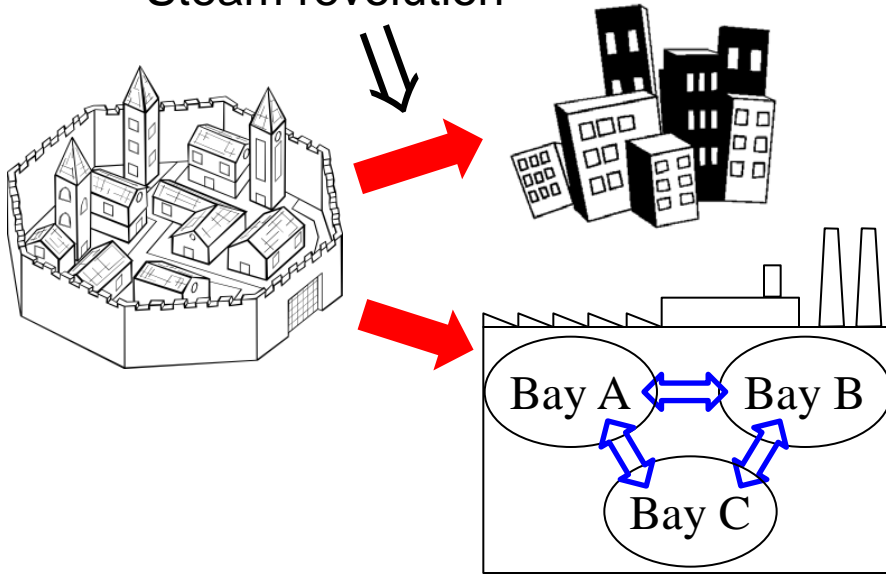
Globalisation as 2 unbundlings

- 1st unbundling = traditional view
- 2nd unbundling = '21st century globalisation'

1st unbundling

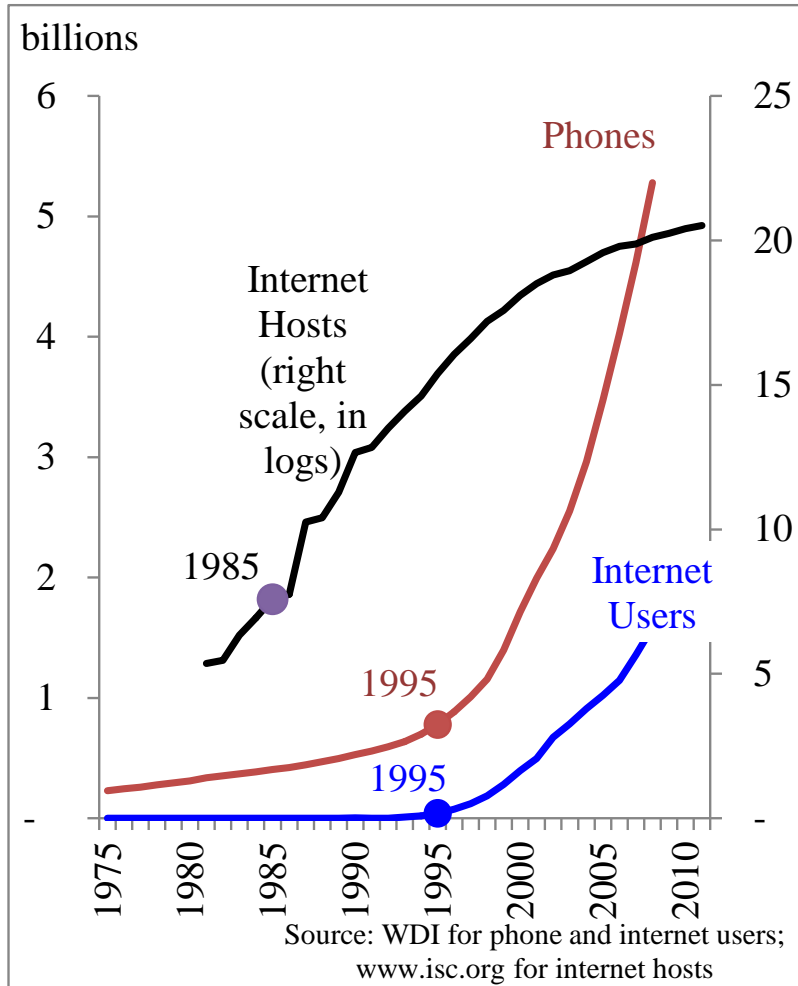


Steam revolution



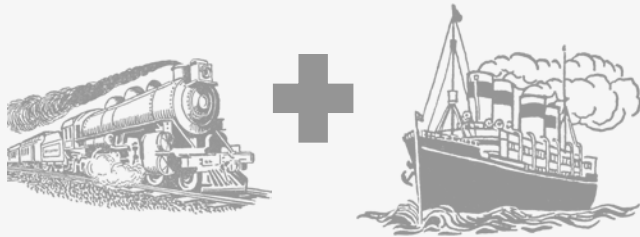
Global dispersion of production,
but local clustering into factories:
due to Coordination costs *not*
trade costs

Relaxing the coordination constraint

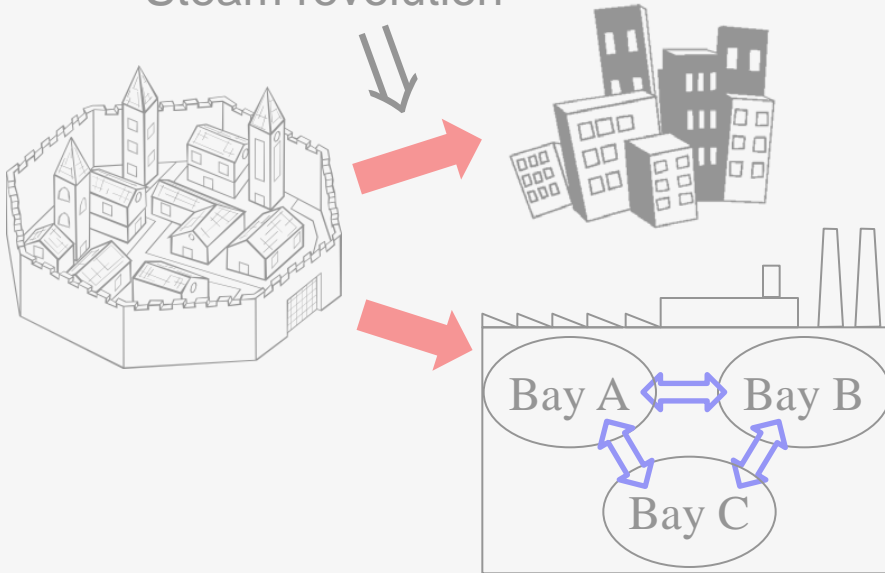


- ICT revolution seems to start between 1985 & 1995.

1st unbundling



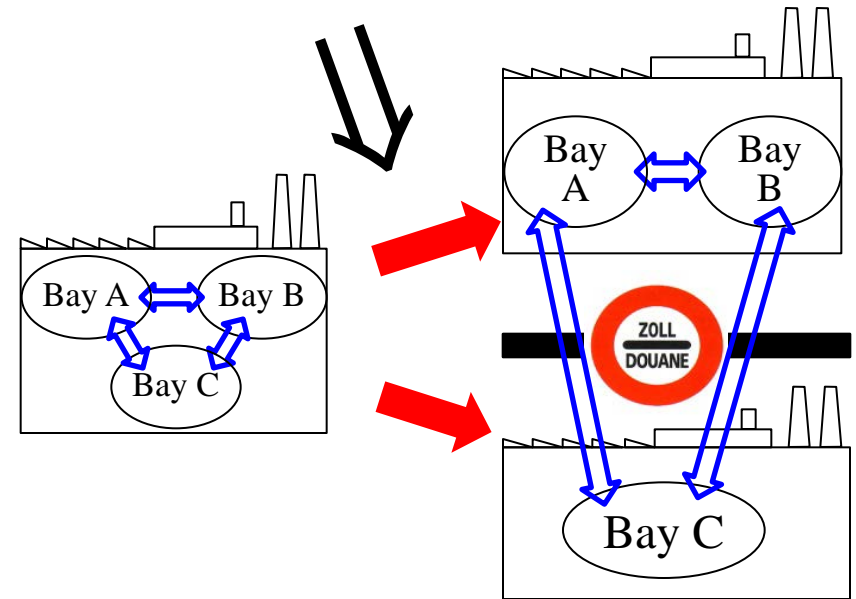
Steam revolution



Global dispersion of production, but local clustering into factories:
Coordination costs not trade costs

2nd unbundling

ICT revolution



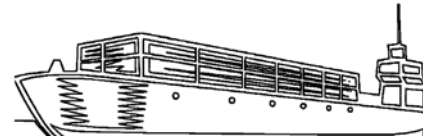
Dispersion of production stages, but regional clustering ('factory Asia', 'factory EU', etc.)

#1. International commerce transformed

20th century trade

Bay A

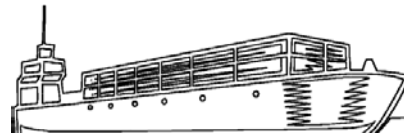
Bay B



Bay A

Bay B

Bay C



Bay C



21st century trade

Connecting factory & doing business abroad: The “trade-investment-services nexus”

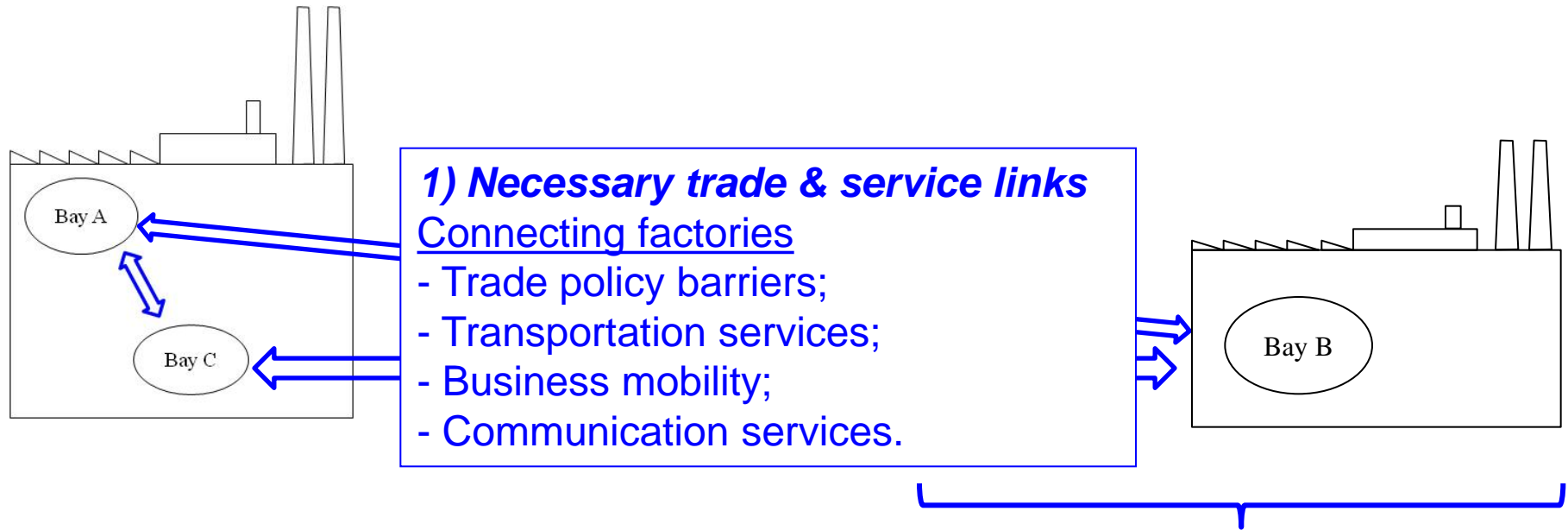
Bay A

- 1) Two-way flows of goods, ideas, technology, capital, and technicians.
- 2) Investment and application of technical, managerial and market know-how abroad.

Bay B

Bay C

#2. New governance demands



2) Necessary “Behind the border barriers” (BBB) reform
Doing business abroad

- International investment;
- Application of home’s technology abroad;
- Local availability of business services.

#3. Different political economy

- 1st unbundling political economy logic = exchange of market access.
- 2nd unbundling political economy logic = Northern factories for Southern reform.
 - Supply chains mostly regional, so deeper integration mostly regional.
 - No factories on offer in Geneva

Implications: Trade governance

- ‘Fact’ 1: Doha won’t finish this decade.
- Fact 2: Demand & supply for deeper discipline is huge.
 - Being filled outside the WTO.
- Implication: The WTO will not be involved in setting these ‘21st century trade’ rules.
- Plurilaterals: Services? Investment?
- Mega-regionals:
 - TPP may fail, but if not will be the template.

WTO scenarios

- HOT: WTO concludes DDA & turns to TPP-like discipline after 2020.
 - WTO centrality restored as rule keeper & judge.
- WARM: WTO continues central to 20th century disciplines, but irrelevant to 21st century disciplines.
 - “Marrakesh pillar” in multi-pillar global governance.
- COLD: WTO fails to update 20th century rules; fails to multilateralise 21st century rules & bicycle falls over.
 - Great Powers global trade governance: TPP, TransAtlantic Partnership? China bloc?

CGE call to arms

- 21st trade opens up the production function.
- GTAP has decades experience in this.
- There is not good, real data.
- Door open to lots of empirical studies on simulated data.
 - Political economy of unilateral tariff liberalisation;
 - Moving up the value chain;
 - Smile curve;
 - Mapping the world's supply chain trade.
 - Modelling deeper RTAs without trade diversion.