

Future of the Trading System

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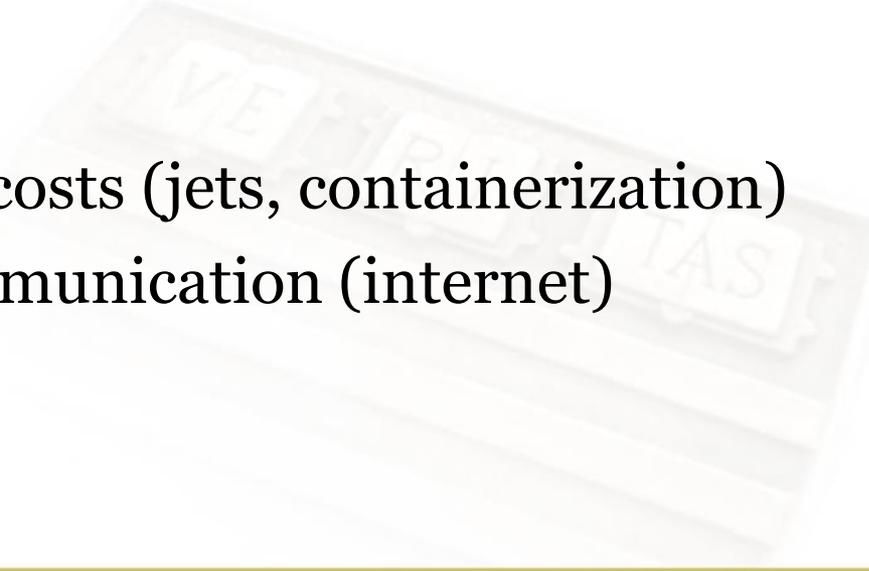


Over time, integration has increased on many fronts.

Policies

- Lower tariffs
- Deeper international trade agreements
- Liberalization of investment

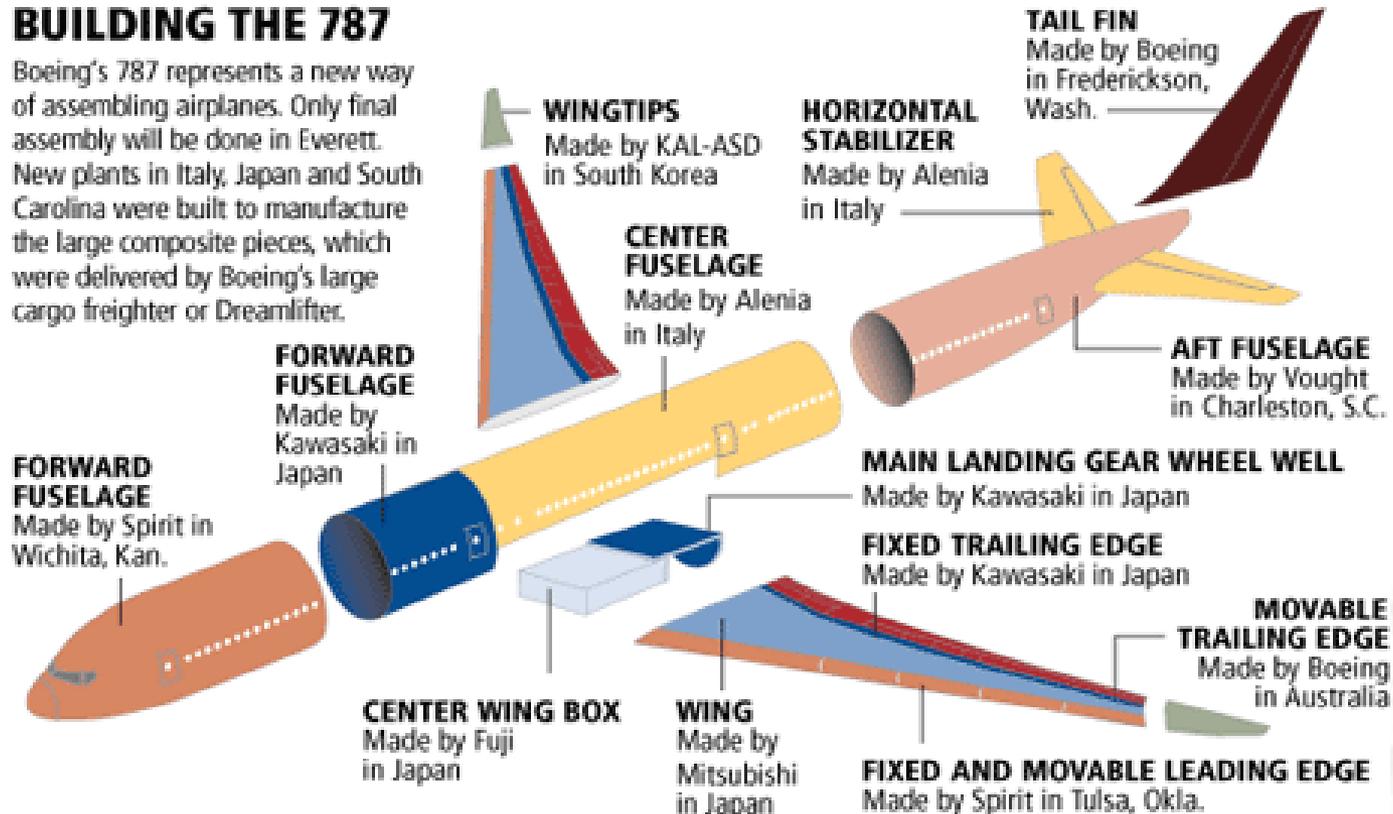
Technological change

- Reduced transportation costs (jets, containerization)
 - Costless and instant communication (internet)
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Companies want to reduce the costs of operating global supply chains.

BUILDING THE 787

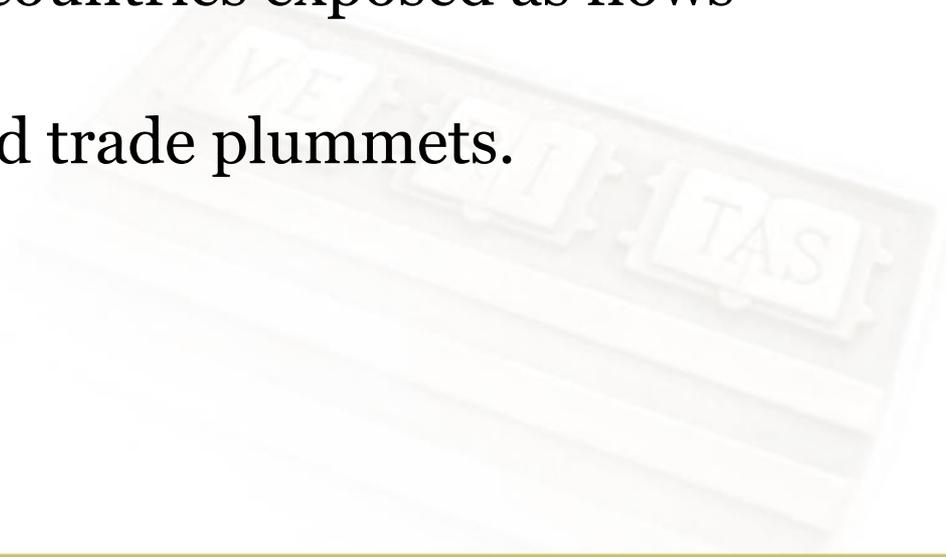
Boeing's 787 represents a new way of assembling airplanes. Only final assembly will be done in Everett. New plants in Italy, Japan and South Carolina were built to manufacture the large composite pieces, which were delivered by Boeing's large cargo freighter or Dreamlifter.



PARTS NOT SHOWN

Landing gear	Messier-Dowty	England	Passenger entry doors	Latecoere	France
Wing/body fairing	Boeing	Canada	Engines	GE	Evendale, Ohio
Landing gear doors	Boeing	Canada	Engines	Rolls-Royce	England
Cargo access doors	Saab	Sweden	Engine nacelles	Goodrich	Chula Vista, Calif.

The Global Financial Crisis was a real stress test!

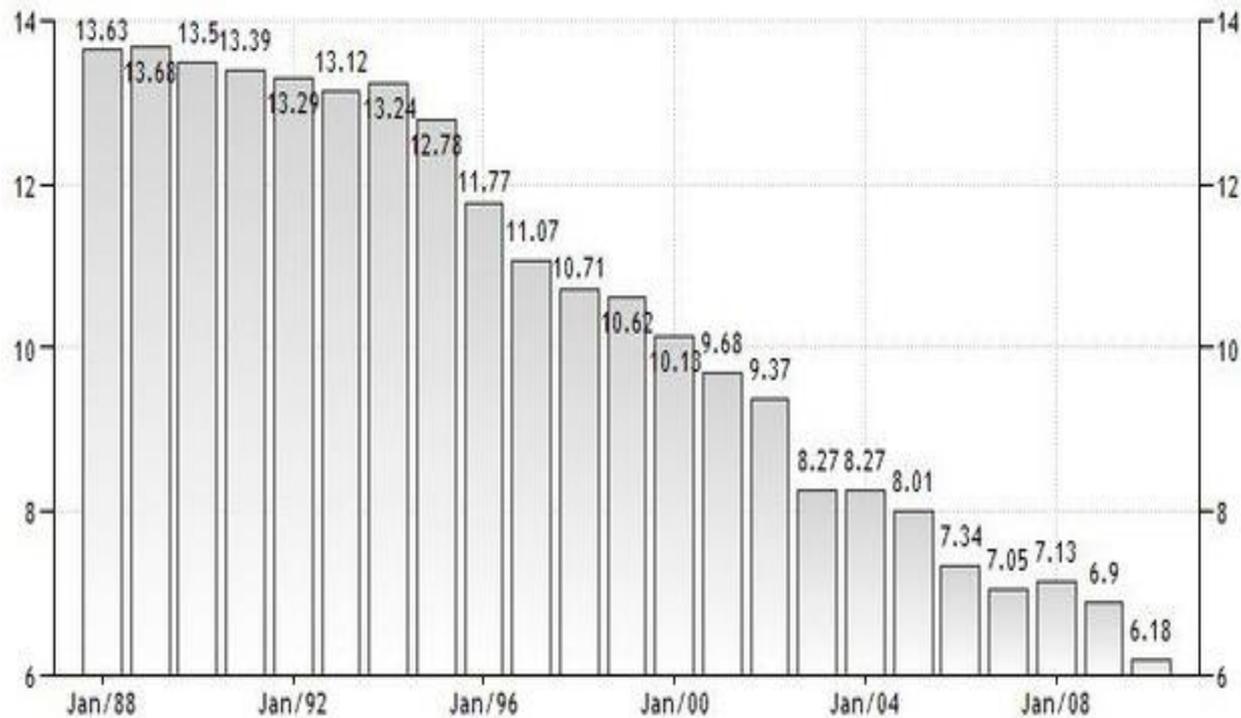
- **No country spared**
 - Some direct bank linkages and instability
 - But others:
 - Commodity prices fall: Producer earnings fall.
 - Financial flows: Deficit countries exposed as flows reverse, flight to safety
 - Trade Links. Exports and trade plummets.
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However, there were good news about the trading system.

Widespread intellectual understanding about the dangers of protectionism. Almost every leader and G20 pledge to avoid it.



World Average Applied Tariffs: Still Falling

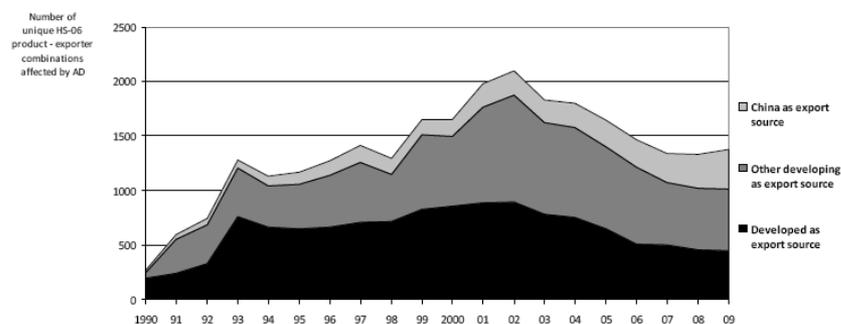


Source: World Bank

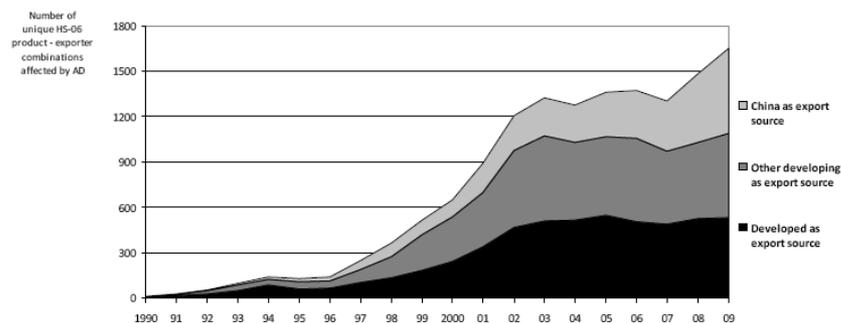
Surprisingly, developed countries had no increase in stock of anti-dumping.

Figure 4. Exporters Affected by G20 Use of Antidumping

a. Antidumping stock imposed by developed* (G20) economies, 1990-2009



b. Antidumping stock imposed by developing* (G20) economies, 1997-2009



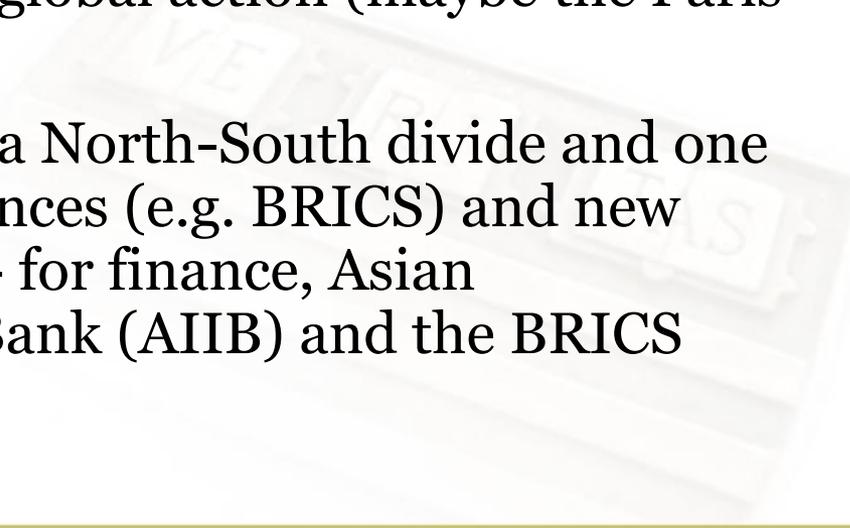
Source: Calculated using a modified version of equation (1), in which we focus only on the numerator (dropping the denominator), using data in the Temporary Trade Barriers Database (Bown, 2010a). The figures illustrate the annual count of reporting country-product-exporting country target combinations affected by the imposition of antidumping. *The policies are separately aggregated over six developed G20 economy users (Australia, Canada, European Union, Japan, South Korea, and United States) and seven developing G20 economy users (Argentina, Brazil, China, India, Indonesia, South Africa, and Mexico). Mexico is the only major G20 user of such policies not included for reasons described in the text (see again Figure 2).

But, there are still risks.

- Increasing government role in economy
- Conflicts over trade imbalances/exchange rates



Global governance is weak.

- G20 -- a talk shop rather than forum for action
 - IMF -- legacy of Asian financial crisis, inability to deal with exchange rates and failure to give emerging economies adequate weight
 - World Bank -- controversies over advice and conditionality
 - Climate change -- failure of global action (maybe the Paris COP 21 will be different.)
 - Often these tensions reflect a North-South divide and one response has been new alliances (e.g. BRICS) and new institutions -- Chiang Mai -- for finance, Asian Infrastructure Investment Bank (AIIB) and the BRICS Bank for development
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The multilateral trading system is no exception.

The centrality of the multilateral system has been undermined :

- Impasse in the Doha Round
 - Inability of WTO to accommodate pressures for deeper integration
 - Rejection of issues such as competition policy and investment, transparency in government procurement, labor and environmental standards
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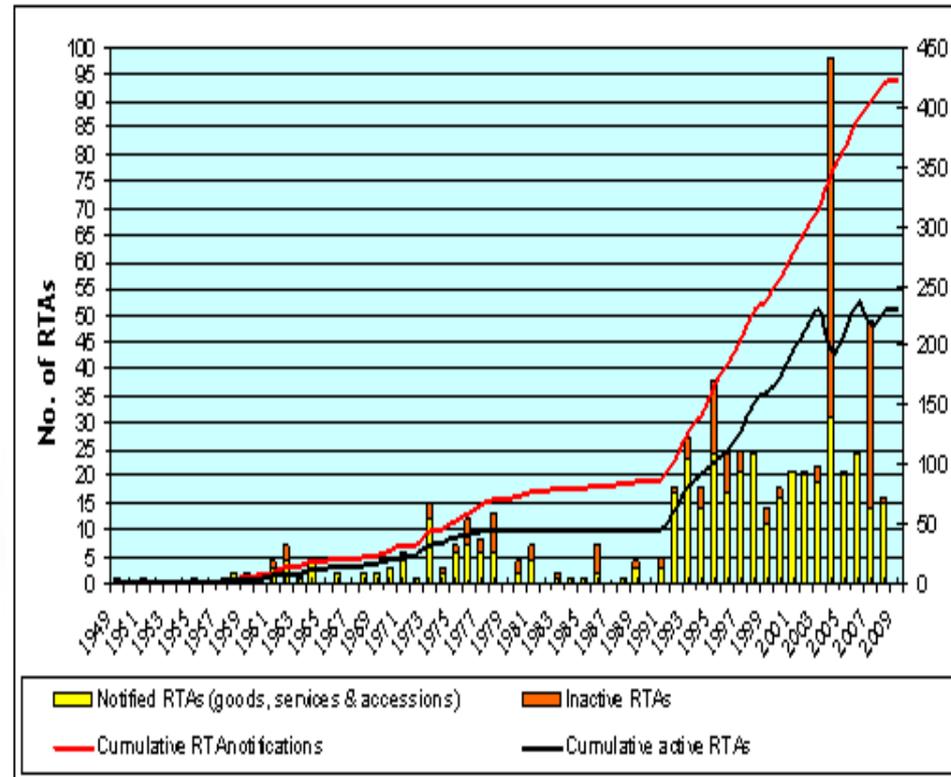
The WTO is losing centrality.

IMPASSE

Multilateral negotiations stalled;
vocal opposition to global rules

FLOURISHING

Number of *Regional* Trade Agreements
has increased dramatically

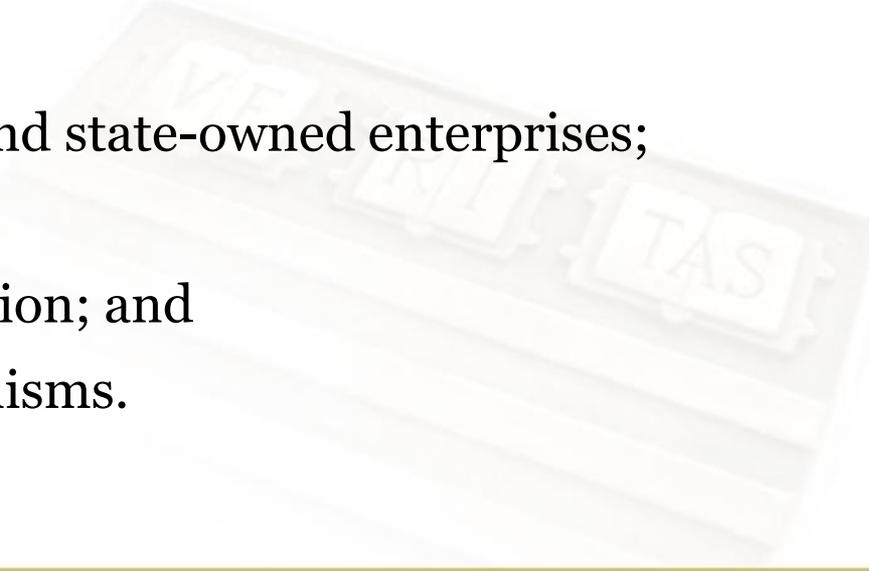


Responses are moving elsewhere.

- Many bilateral regional agreements
 - Negotiations for new pluri-lateral (TISA) agreement in services, government procurement and information technology.
 - Negotiations of mega-regional agreements (TPP, TTIP, RCEP, Pacific Alliance in Latin America, Tripartite Agreement in Africa).
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Deeper Agreements

While some regional agreements are driven mainly by political goals and are mainly hortatory in effect (e.g. several between the BRICs), there are others which seek much deeper integration through:

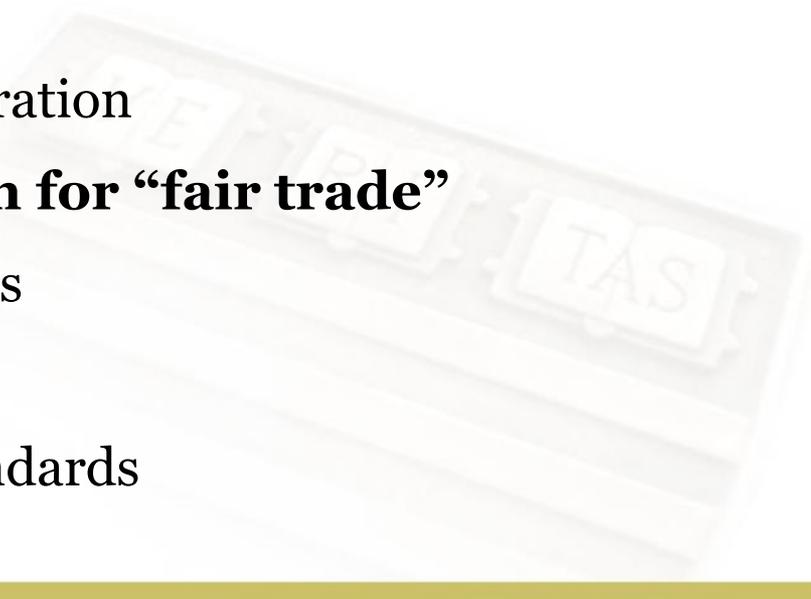
- common rules for standards (harmonization, and or mutual recognition);
 - enhanced enforcement of intellectual property rights;
 - investment treaties;
 - new disciplines on state-aid and state-owned enterprises;
 - improved trade facilitation;
 - enhanced regulatory cooperation; and
 - stronger enforcement mechanisms.
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Demand for Integration

Demanders of deeper integration for functional reasons:

- Multinational corporations
- International non-governmental organizations
- Global value chains
- International capital markets
- International labor markets/migration

Demanders of deeper integration for “fair trade”

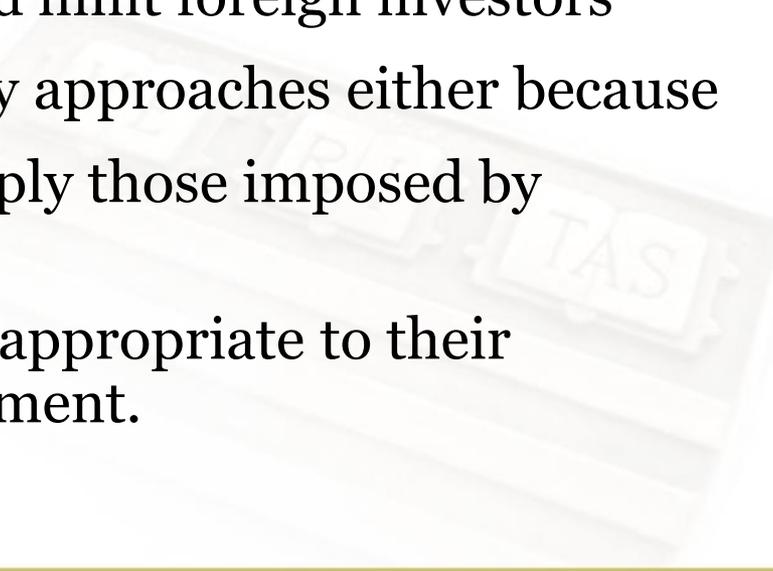
- International competition policies
 - International labor standards
 - International environmental standards
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Willingness to Supply Integration

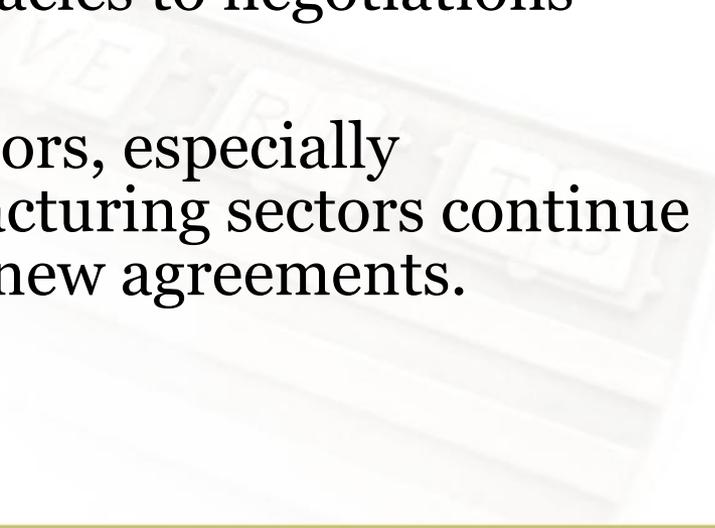
- Seeking to promote trade and FDI
 - Seeking to anchor domestic reforms
 - Countries that have already undertaken substantial unilateral trade liberalization
 - Countries seeking to advance the interests of their exporters and multinationals
 - Countries seeking these agreements to bring pressures on others who resist “domino effect”
 - Geopolitical motivations (Solidify alliances)
 - The TPP is at the center of US policies towards Asia and several Asian countries are seeking to cement their relationship with the US because of their interest in alliances with other objectives.
 - The TTIP is an important component of US-EU Cooperation that has implications for policies such as energy exports that could impact developments in the Middle East and in relations with Russia.
 - RCEP and FTAAP China’s desire to lead
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But there are also forces against deeper integration.

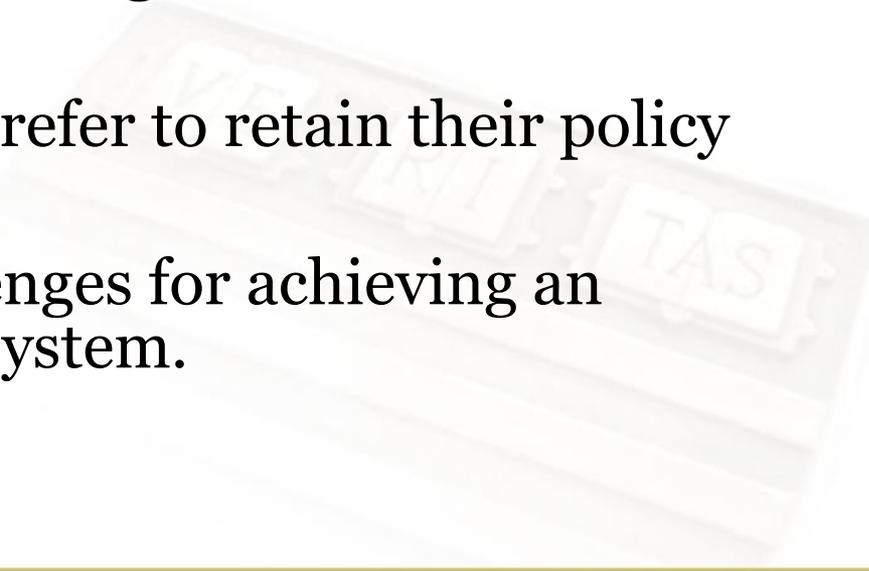
Opponents within emerging economies:

- Desire to promote domestic industrial policies
 - Apply state-led development strategies
 - Maintain state-owned enterprises
 - Protect domestic producers and limit foreign investors
 - Implement domestic regulatory approaches either because
 - (i) they lack the capacity to apply those imposed by advanced countries;
 - (ii) because they deem them inappropriate to their particular levels of development.
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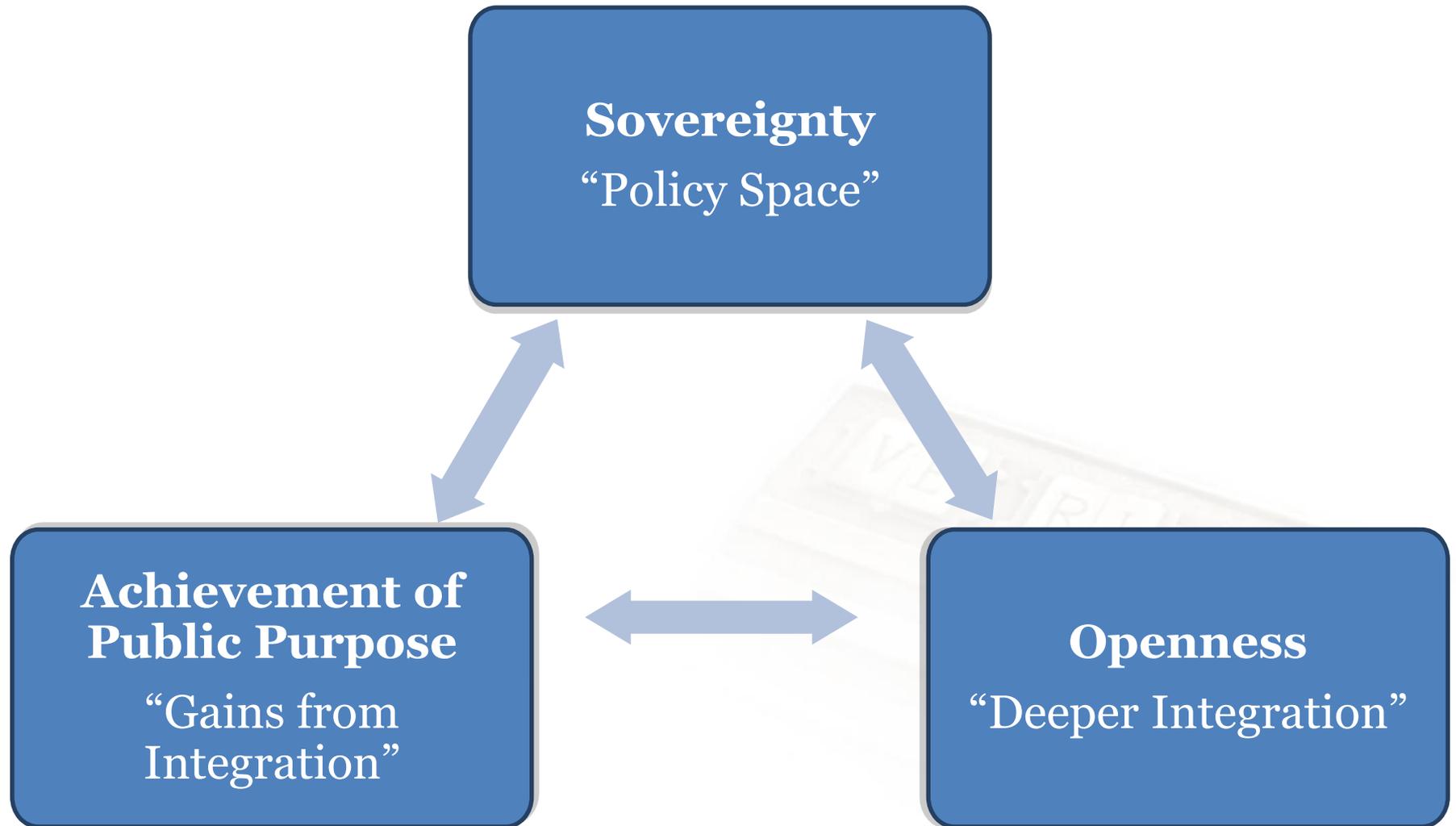
Opponents in advanced countries have particular concerns.

- Concerns about economic stagnation – jobs, wages, deindustrialization, growing internal inequality, have led to opposition to trade agreements, especially with low wage countries.
 - Differences over divergent policies with respect to privacy, culture, food safety, and environmental regulations present major obstacles to negotiations among developed countries.
 - Vested interests in various sectors, especially agriculture and certain manufacturing sectors continue to seek protection and oppose new agreements.
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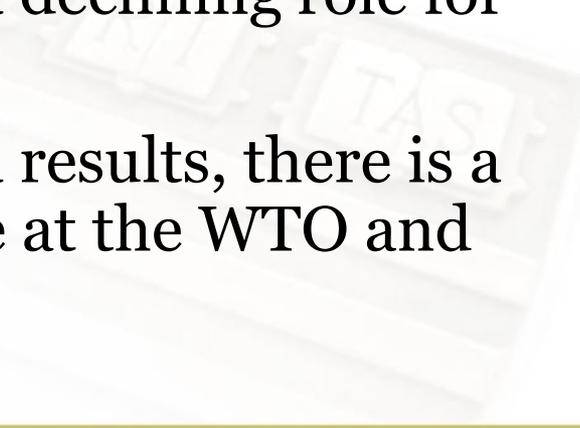
So where do we stand now?

- Emerging economies are increasingly important.
 - In addition, the world economy is increasingly integrated.
 - However, distance and borders still present obstacles.
 - In response, some seek trade agreements that are deeper.
 - At the same time, others prefer to retain their policy domestic policy space.
 - This presents major challenges for achieving an integrated global trading system.
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The Trilemma Challenge



Possible Scenarios

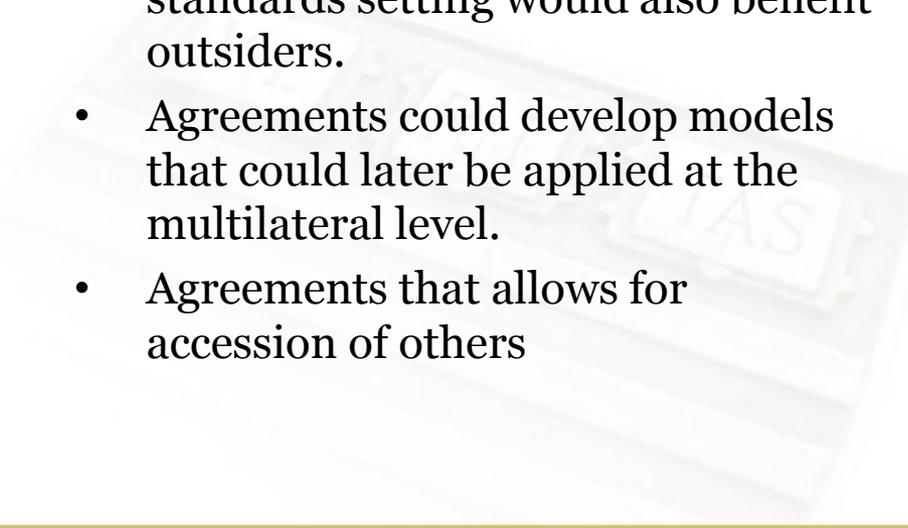
- Megaregionals are successfully concluded and expanded with additional members. WTO responds with plurilaterals and concludes Doha. This results in a **revitalized system with variable geometry**.
 - Megaregionals are successful, but **system is fragmented into standards setters and standards takers**, e.g. North vs. South. There are numerous other arrangements and a declining role for the WTO.
 - Mega-regional negotiations fail. As a results, there is a **failing trade system** with impasse at the WTO and eroding cooperation elsewhere.
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It all depends.

More Protectionist

- Agreements with provisions that others cannot sign (e.g. labor standards)
- Preferential tariff access to members
- Rules of origin that create disincentives for using intermediate inputs from non-members
- Preferential treatment to signatories in government procurement contracts
- Extending mutual recognition of standards only to goods and services produced by the signatories
- Closed to new members

More Open Markets

- A single standard would reduce costs for both members of agreement as well as outsiders.
 - Rules that improve regulatory transparency and the full participation by all foreign firms in standards setting would also benefit outsiders.
 - Agreements could develop models that could later be applied at the multilateral level.
 - Agreements that allows for accession of others
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Key Points of Lecture : Future of the Trading System

- Impasse in Doha Round
- Hard to introduce new topics at WTO (both social and deeper economic agreements)
- In USA: No enthusiasm for Trade Promotion Authority

BUT:

- Dispute settlement system working well
 - Extensive unilateral liberalization in developing countries
 - Little protectionism in response to global financial crisis
 - Movements towards pluri-laterals with large membership
 - Mega-regional agreements flourishing
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