

Bilateralism and plurilateralism:  
*Rethinking trade integration for the 21<sup>st</sup>  
century*

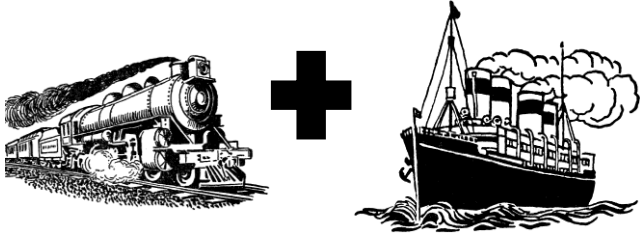
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*7 February 2012*

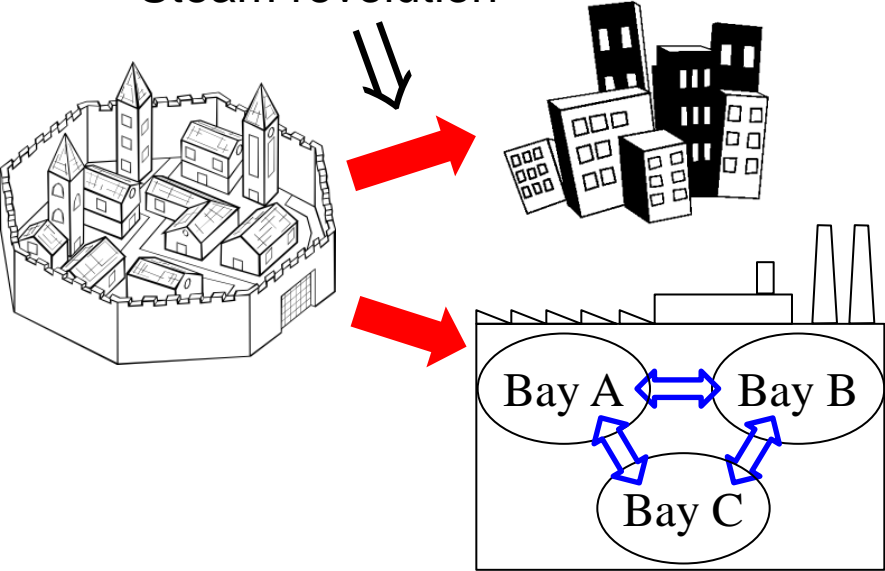
# My comments

- Why rethink necessary?
- Globalisation as 2 'unbundlings' not 1.
  - Transformed international commerce;
  - Transformed trade barriers;
  - Transformed political economy of liberalisation.
- Implications for WTO 2020.

# 1<sup>st</sup> unbundling

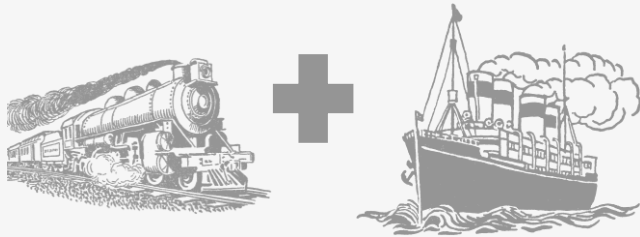


Steam revolution

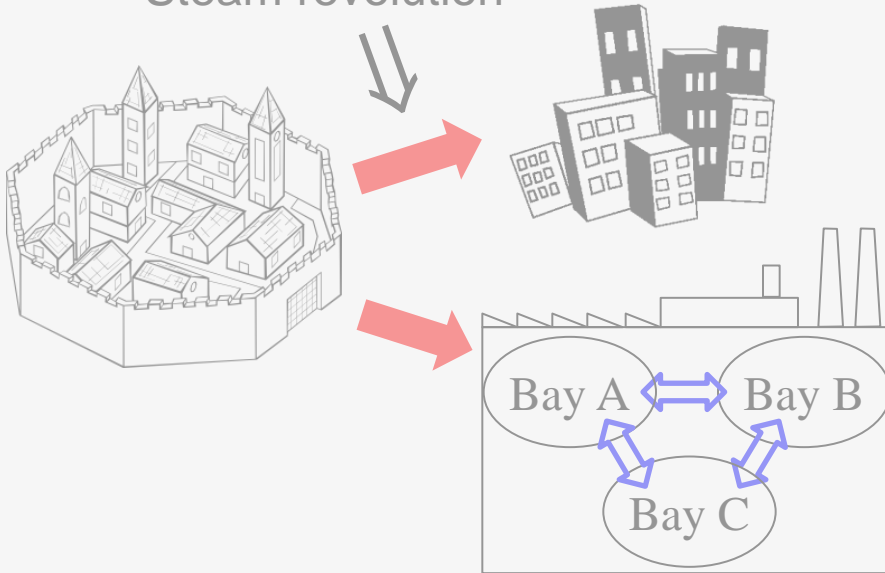


Global dispersion of production,  
but local clustering into factories:  
*Coordination costs not trade costs*

# 1<sup>st</sup> unbundling



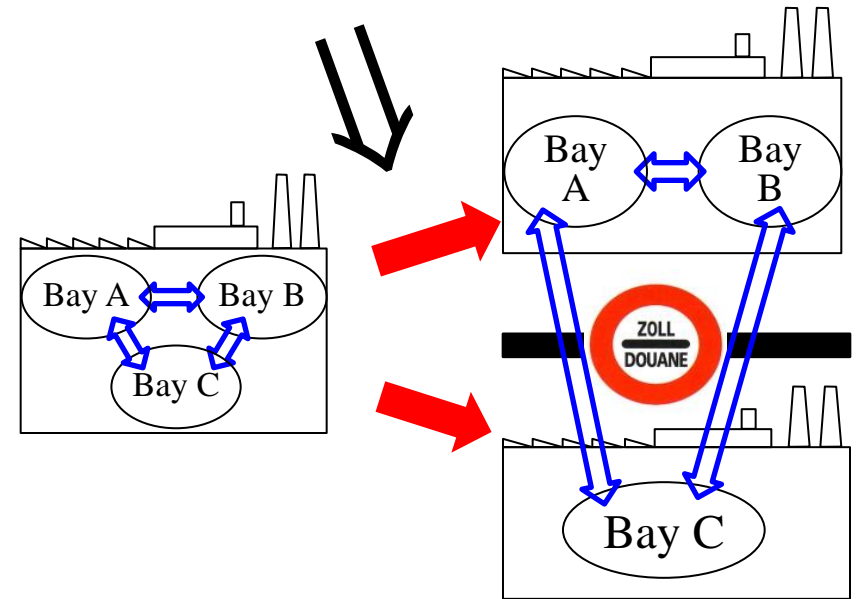
Steam revolution



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

# 2<sup>nd</sup> unbundling

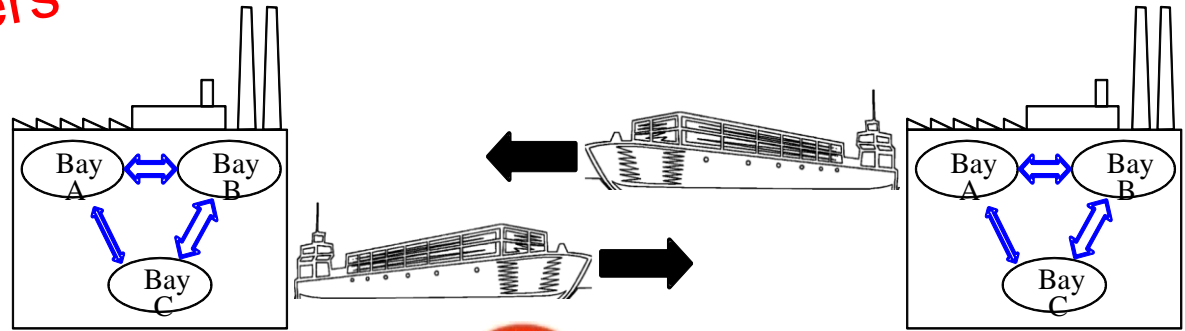
ICT revolution



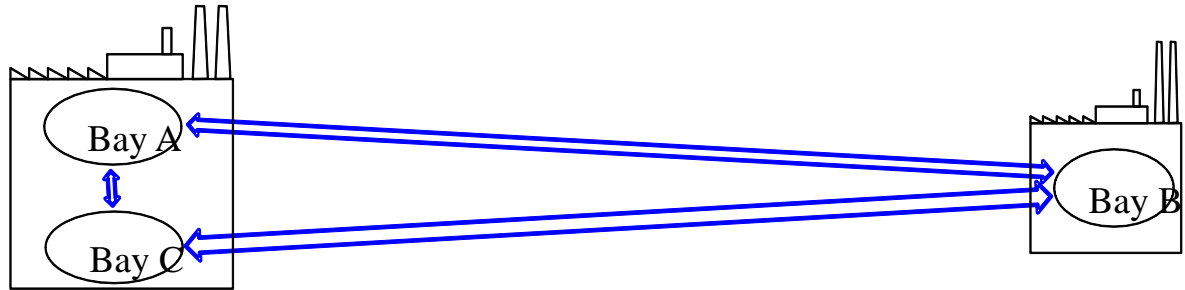
Dispersion of production stages, but regional clustering ('factory Asia', 'factory EU', etc.)

# Transformed international commerce: “Trade-investment-services-IP *nexus*”

20<sup>th</sup> century trade =  
Goods crossing borders



21<sup>st</sup> century trade =  
Goods, info,  
technology,  
technicians, capital,  
services



“Trade-investment-services-IP *nexus*”

# Transformed of trade barriers

- 20<sup>th</sup> century = goods crossing borders.
  - Trade barriers simple; agreements simple (GATT 1947 & “shallow” RTAs); mostly about tariffs.
- 21<sup>st</sup> century = Trade-investment-services-IP nexus.
  - Two new things:
    - (1) Connecting factories;  
Border barriers; Infrastructure services, Biz mobility, etc.
    - (2) Doing business abroad.  
“Behind the border barriers” (BBB): protect capital, IP, local business climate, competition policy (esp. state-owned enterprises), etc.

# Transformed political economy

- 20<sup>th</sup> century bargain = my market for yours.
- 21<sup>st</sup> century bargain = Northern factories for Southern reform.
  - e.g. the TPP agenda, Japan-Thailand, etc.
- Huge new demand for **beyond-tariff** liberalisation:
  - “Headquarter” economies want assurances;
  - “Factory” economies want offshored jobs/investment.
- Why these deals struck outside WTO?
  - No factories on offer in Geneva.

# Must think differently

1. Forget Bhagwati's "building & stumbling blocks".
  - Forget trade diversion: Today's FTAs are not mostly about tariffs & not very discriminatory.
  - *BBBs cannot be thought of as tariffs without revenue.*
    - Few deep FTA provisions have 'rules of origin'.
    - More like 'slanted' MFN liberalisation.
2. FTAs threaten WTO centrality on rules, not tariffs.
3. Regional supply chains & RTAs.
  - Best at national, regional or global level? (fiscal federalism)
4. New political economy push for deeper disciplines.



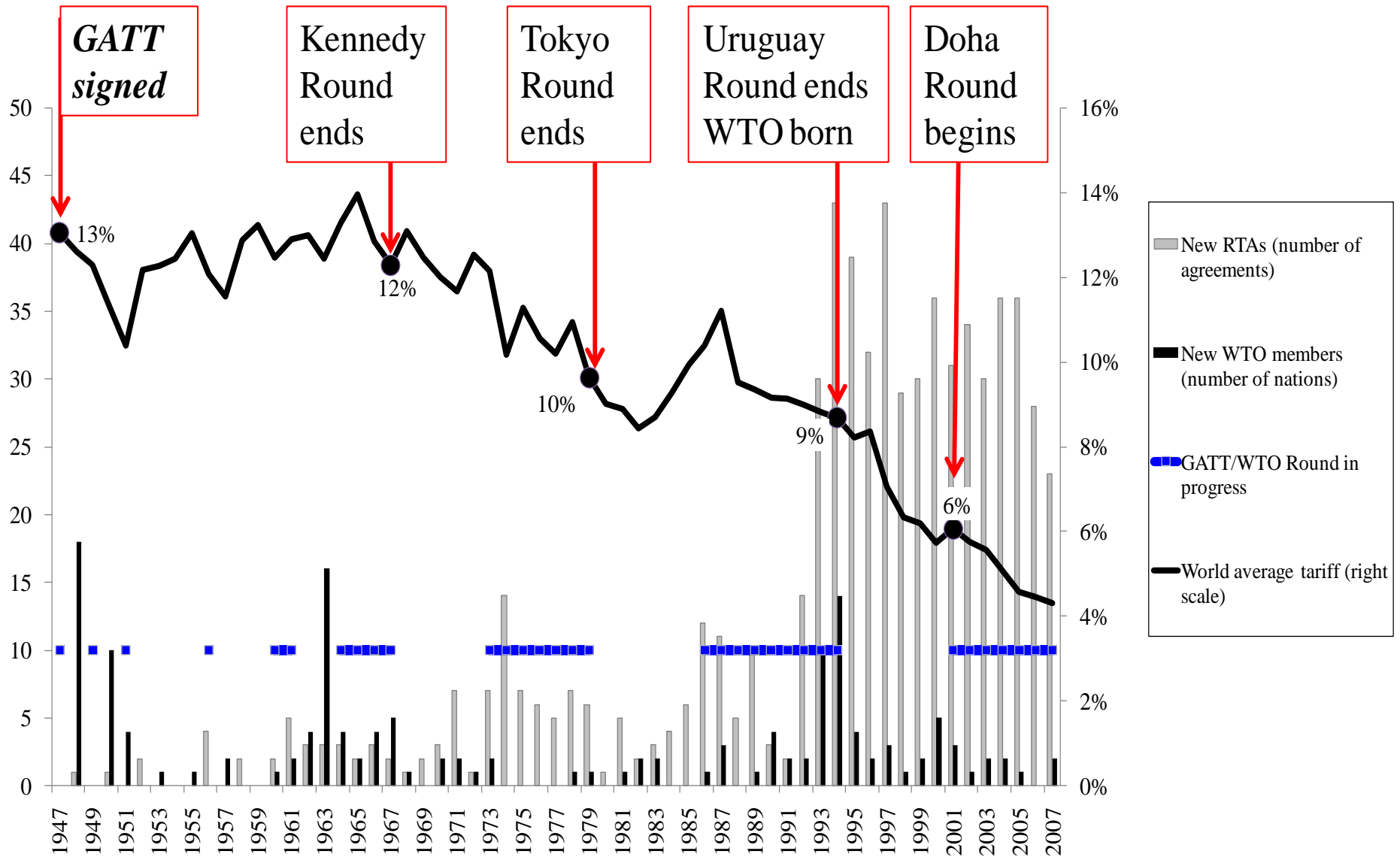
# WTO 2020, FTAs & Plurilaterals

- Assertion #1:
  - WTO liberalisation shut down till 2020.
- Assertion #2:
  - Huge demand for deeper disciplines.
- Conclusion:
  - FTAs & plurilaterals are way forward rest of this decade.
- Implications:
  - Must struggle to ‘multilateralise regionalism’.
  - Must find ways to get WTO into the ‘next generation’ trade issues (i.e. 21<sup>st</sup> century trade disciplines).

# Future scenarios for WTO

- ~~Plan A (WTO centrality restored):~~
  - ~~DDA done & move updated WTO disciplines to match 21<sup>st</sup> century trade.~~
- Plan B (WTO centrality erodes further):
  - WTO unreformed, RTAs & BITs continue to lead.
- B.1: WTO stays vibrant with Marrakesh disciplines only; deeper disciplines outside.
  - WTO is “first pillar” of world trade systems.
- B.2: WTO credibility withers; bicycle falls over.
  - Drift back towards a 19<sup>th</sup> century Great Powers world?

# MFNs, RTAs, Unilateralism, Membership



Sources: RTAs: WTO online databases & Hufbauer-Schott RTA database; tariffs: Clemson and Williamson (2004) up to 1988, then World DataBank (weighted tariffs all products)