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Some 'Mega' Trade Trends and Governance Challenges

Submitted by: European University Institute (EUI)

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ROBERT SCHUMAN CENTRE FOR ADVANCED STUDIES

Some ‘Mega’ Trade Trends and Governance Challenges

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European University Institute and CEPR

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Manila, December 8, 2014

A rapidly changing trade environment

Demand side: <u>A multi-polar world economy</u>

- 700+ million people out of poverty
- Growth in global "middle class"
- Urbanization
- Demographic changes
- Increasing demand for services

Supply side: <u>Ever greater international specialization</u>

- International production fragmentation; offshoring
- Trade in tasks and intermediates > trade in final products
- Services generate an increasing share of total value added
- Cross-hauling of foreign direct investment
- Movement of people and knowledge
- Pressure on land, food, natural resources; global warming

A rapidly changing trade environment (2)

Technology

– Digital trade, services, data flows; additive manufacturing

Government policy

- Traditional border protection & industrial policy less effective—but will this trend be sustained?
- Data flows and the "Internet of things" – new protectionism?

International cooperation and governance

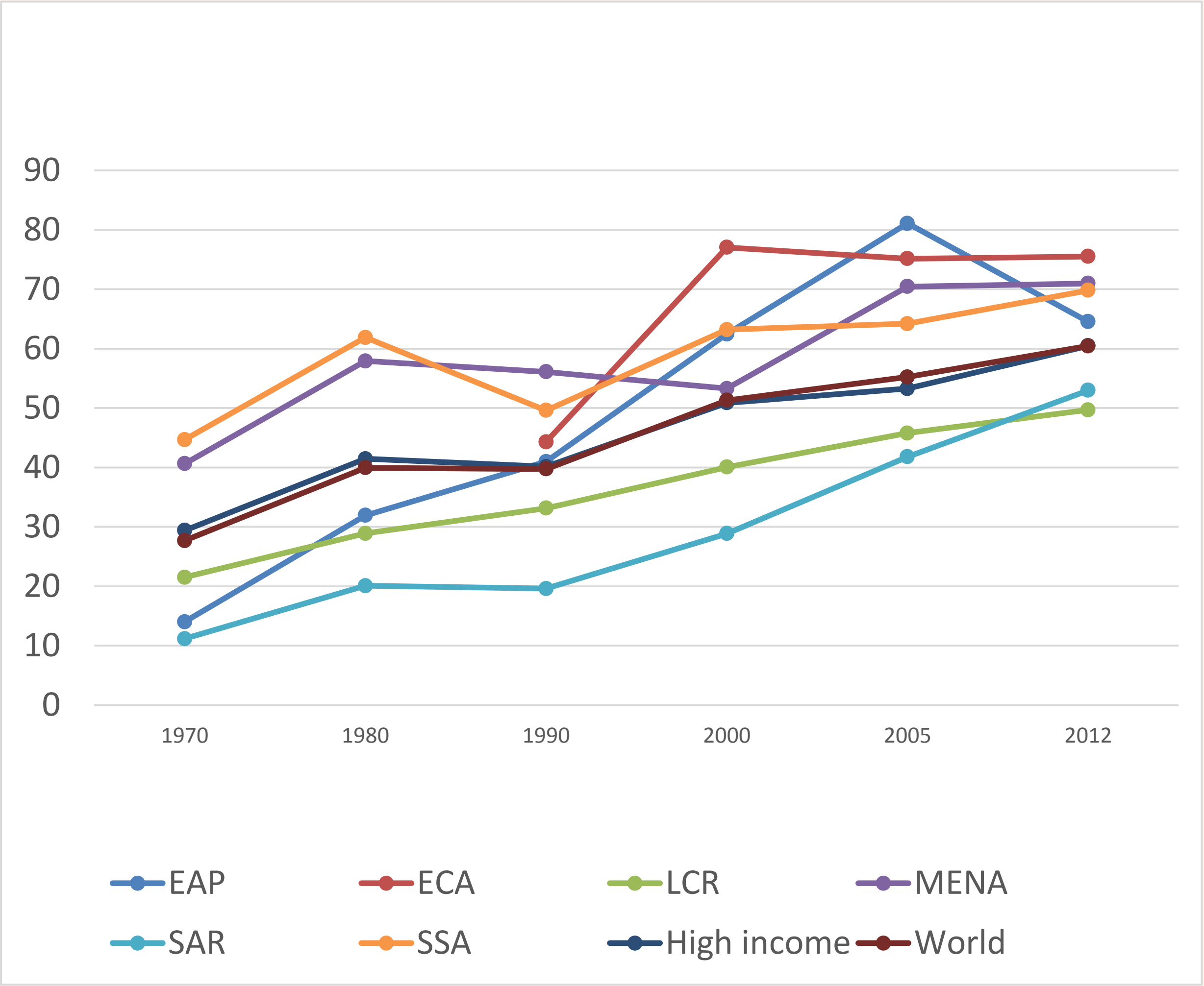
- Much more complex: Policy spillovers created by differences in regulation; incentive competition
- Plurilateral vs. multilateral – mega-regionals vs. WTO
- Levels of government and polities – mega cities and mega-firms (global value chains)

Convergence & Inequality

- Since 1950, only 28 countries have erased more than 10% of income gap with the US
  - "Middle-income country trap" concern
- Between-country income inequality has fallen but within country-inequality rising sharply in many countries
- (Un)employment & increasing returns to skills
- Increasing pressure on natural resources
  - Food security; access to energy; water; land
- Urbanization trends; managing mega cities

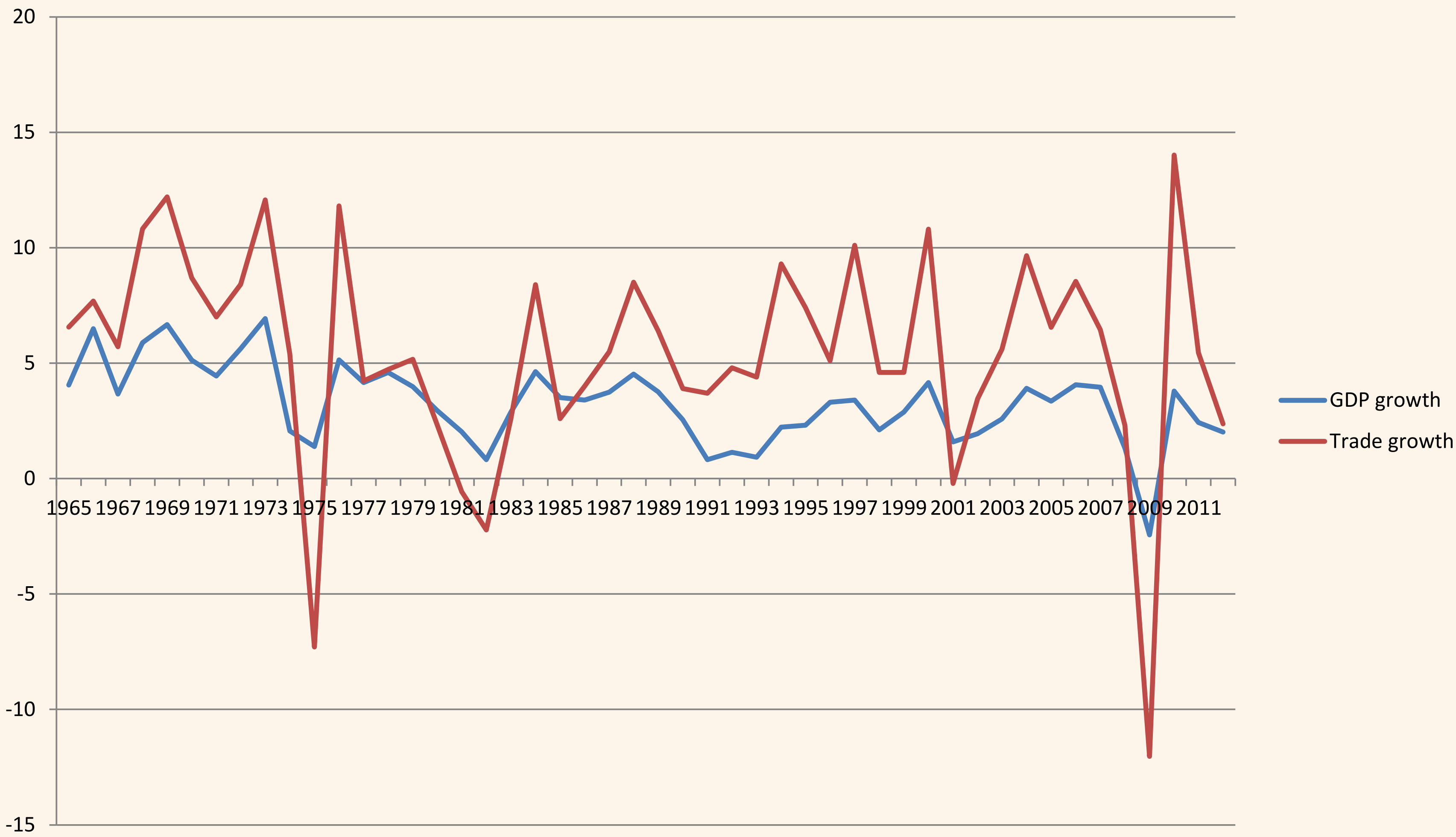
Trade: A New Normal?

Economic openness
(trade/GDP ratio, %)



Source: World Bank, WDI

Trade > GDP growth
(average annual growth rates, 1965-2012)



Source: WTO

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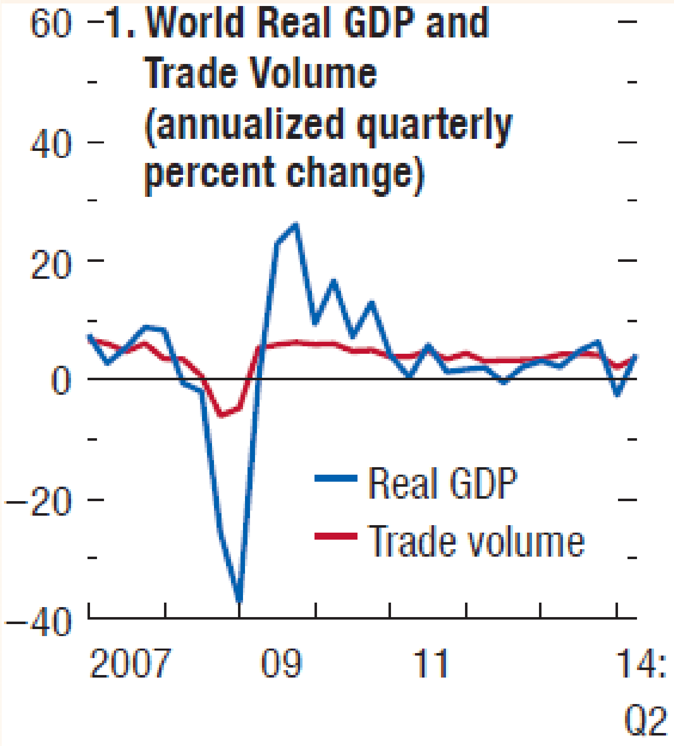
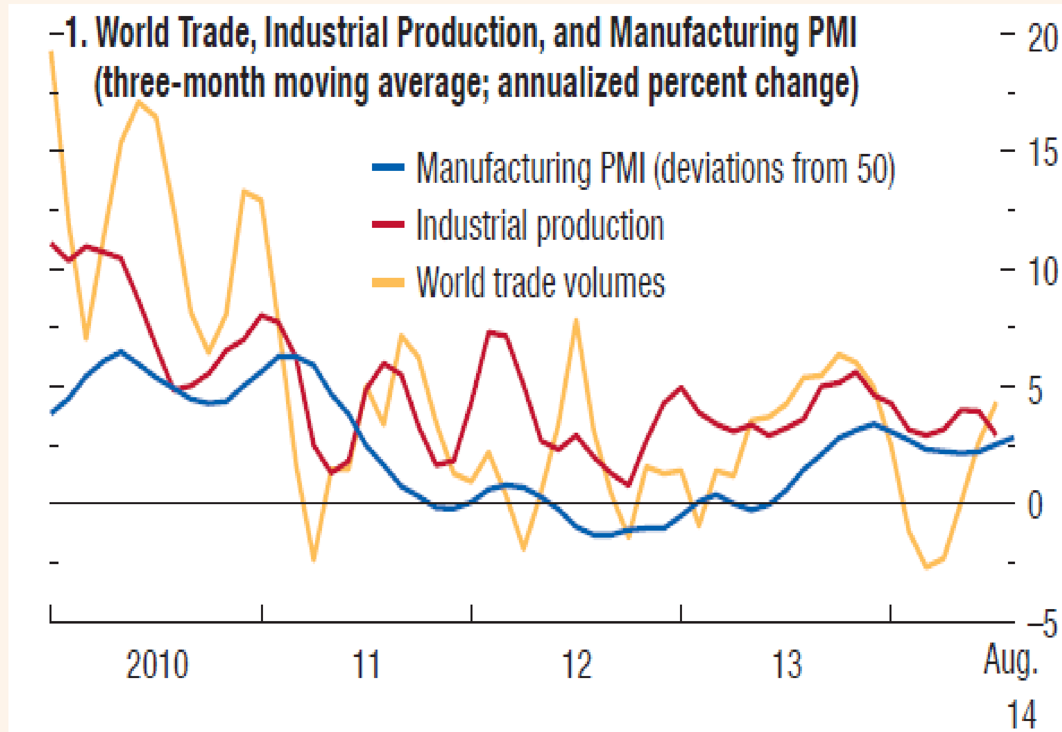
But recent trade growth has been slow relative to past

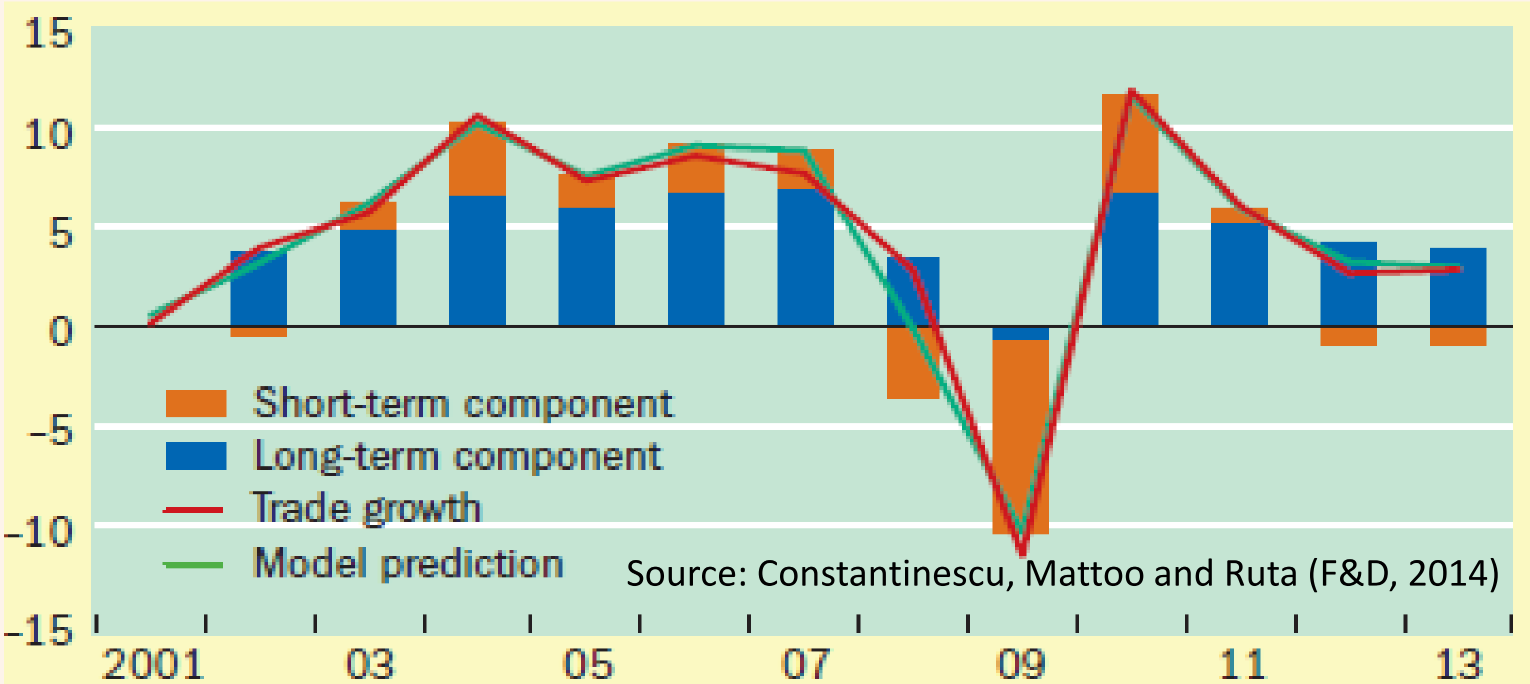




Source: IMF (WEO 2014)

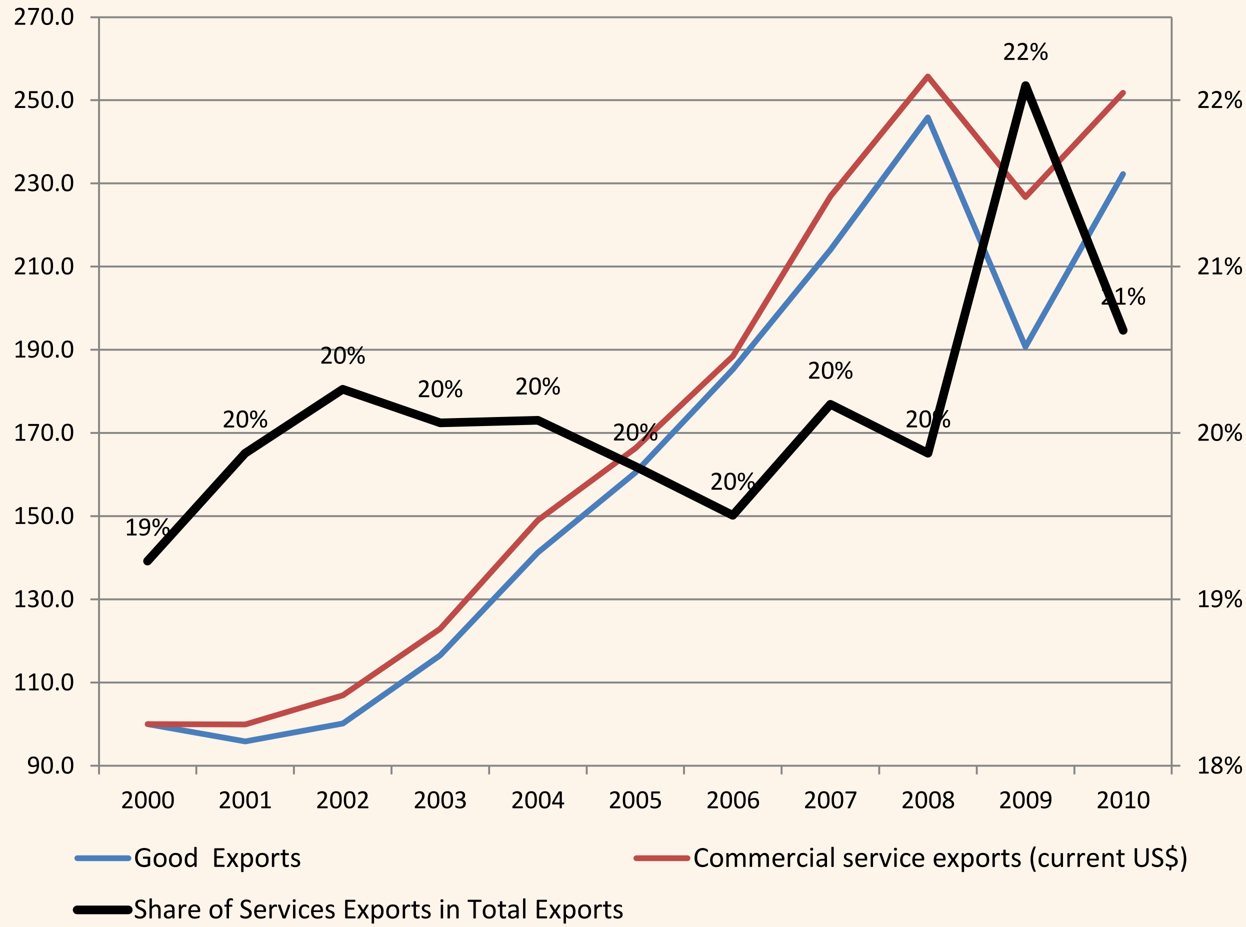
Cyclical? Or the end of a trend? Does it matter?

A decomposition of merchandise trade growth



- Great scope exists for further specialization and exchange *within* countries and regions – greater incentives for FDI?
- E-commerce as a driver of SME participation in global trade
- Services, digital trade and cross-border data flows …

Trade in services: growing in line with trade in goods?

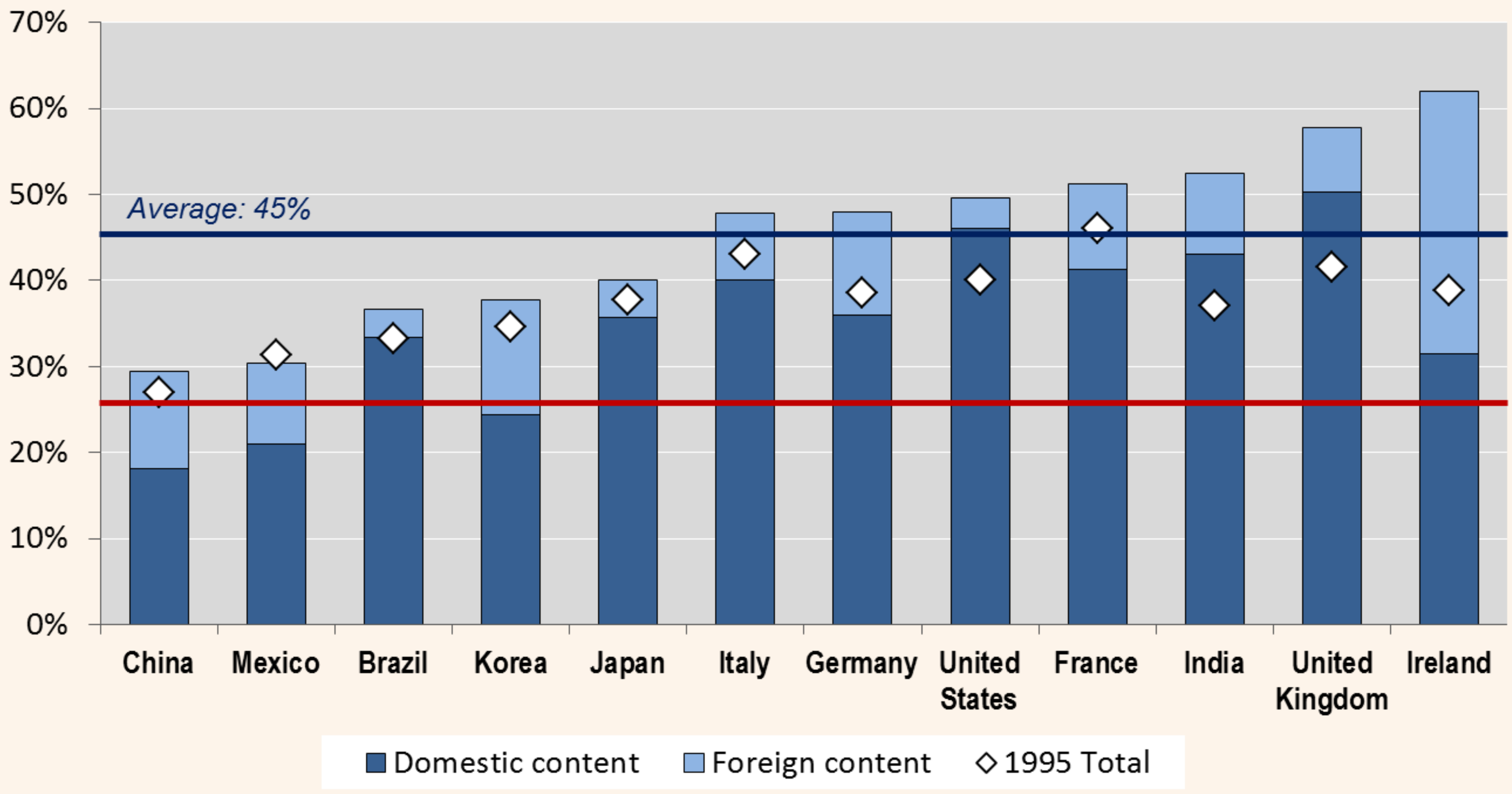


NB: Large changes in the composition of services trade

Exports of ICT and Business services fastest growing category of trade

Source: World Bank, World Development Indicators

Services valued added embodied in gross exports, 2009

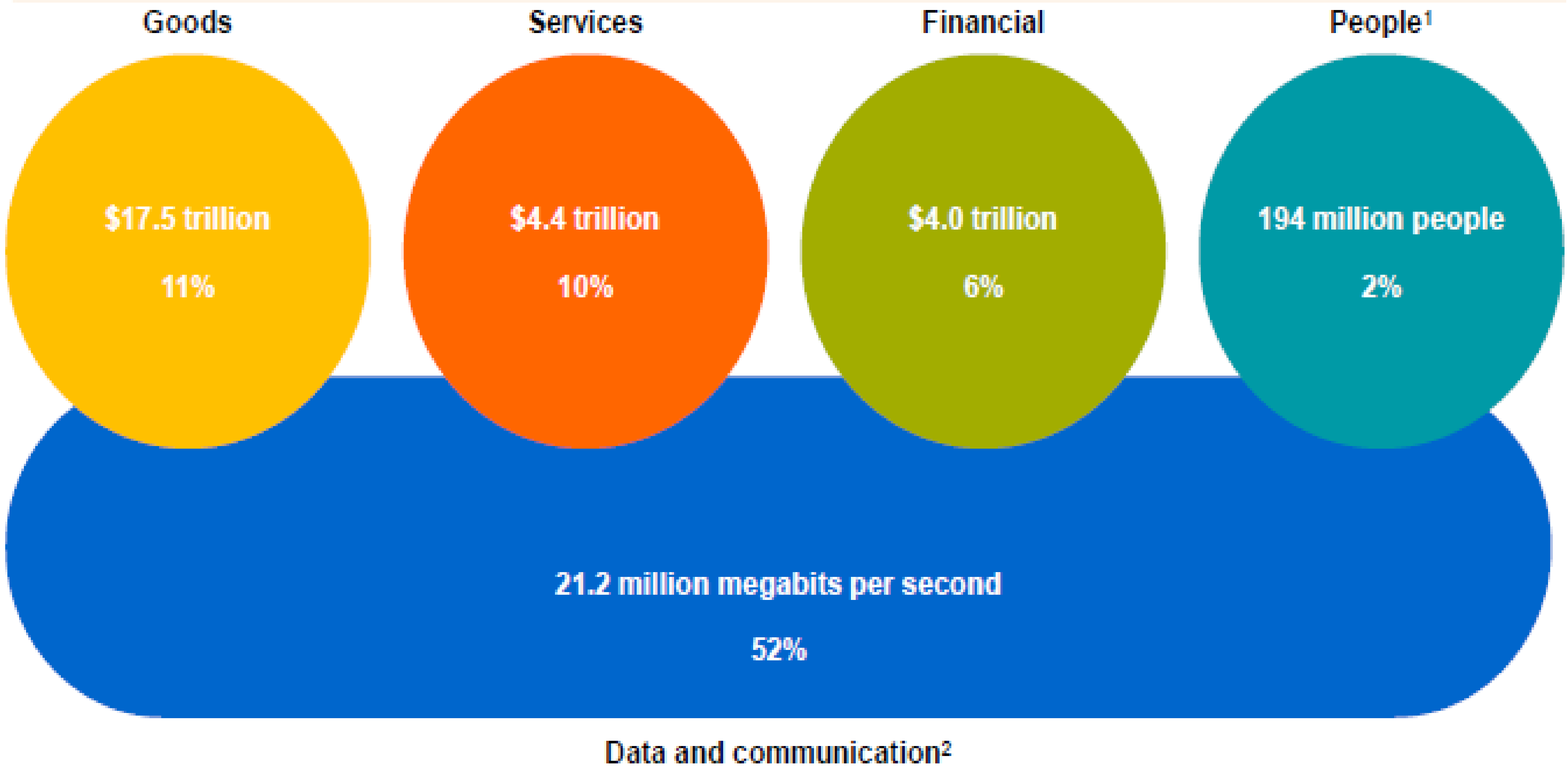


Source: OECD Trade and Agriculture Directorate

Memo: Services share of gross global trade: 24%

Digital trade and data flows

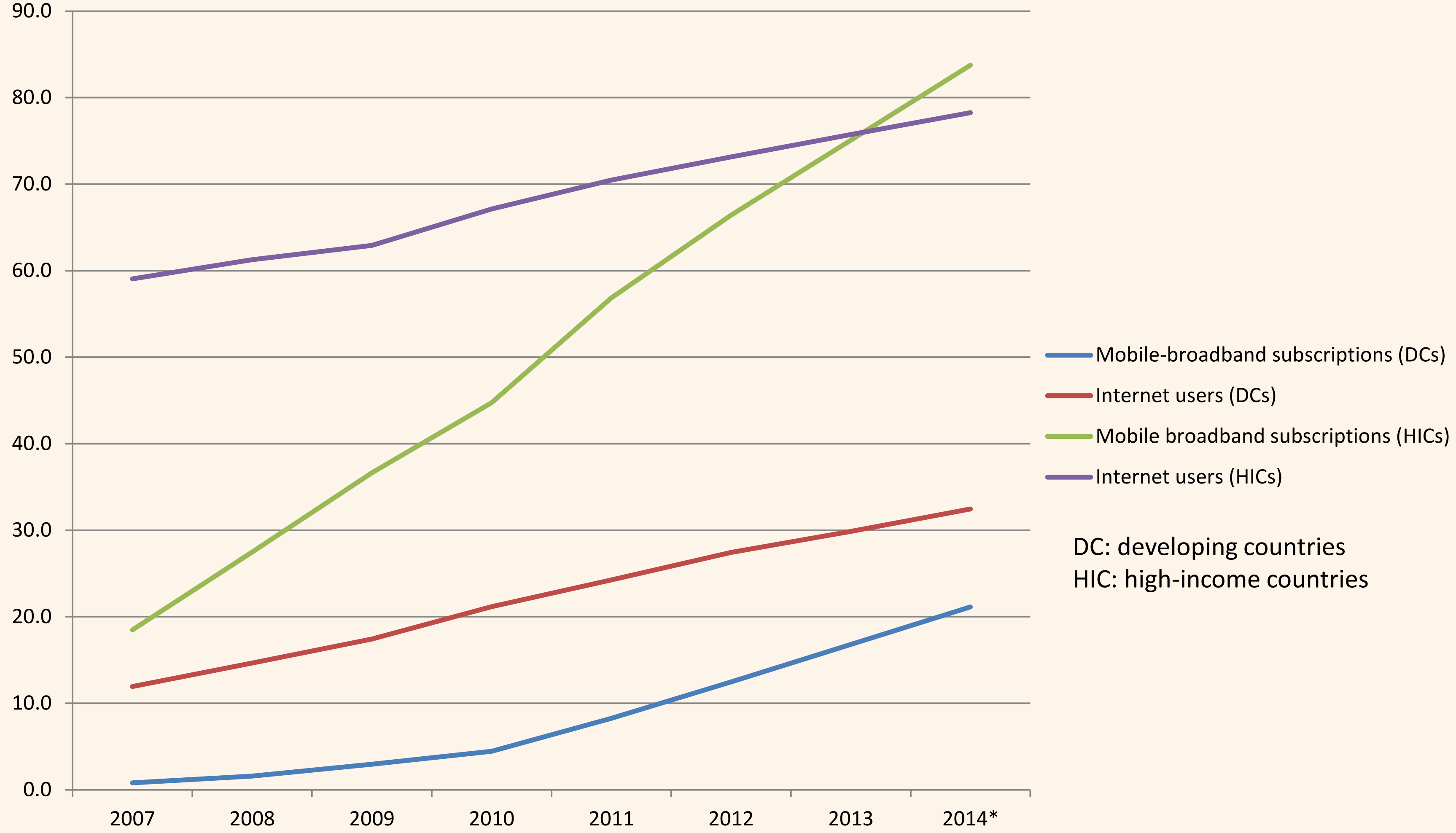
2012 global value and av. annual growth, 2002-12



McKinsey April 2014

Great potential for growth

Mobile broadband/Internet use (% inhabitants)

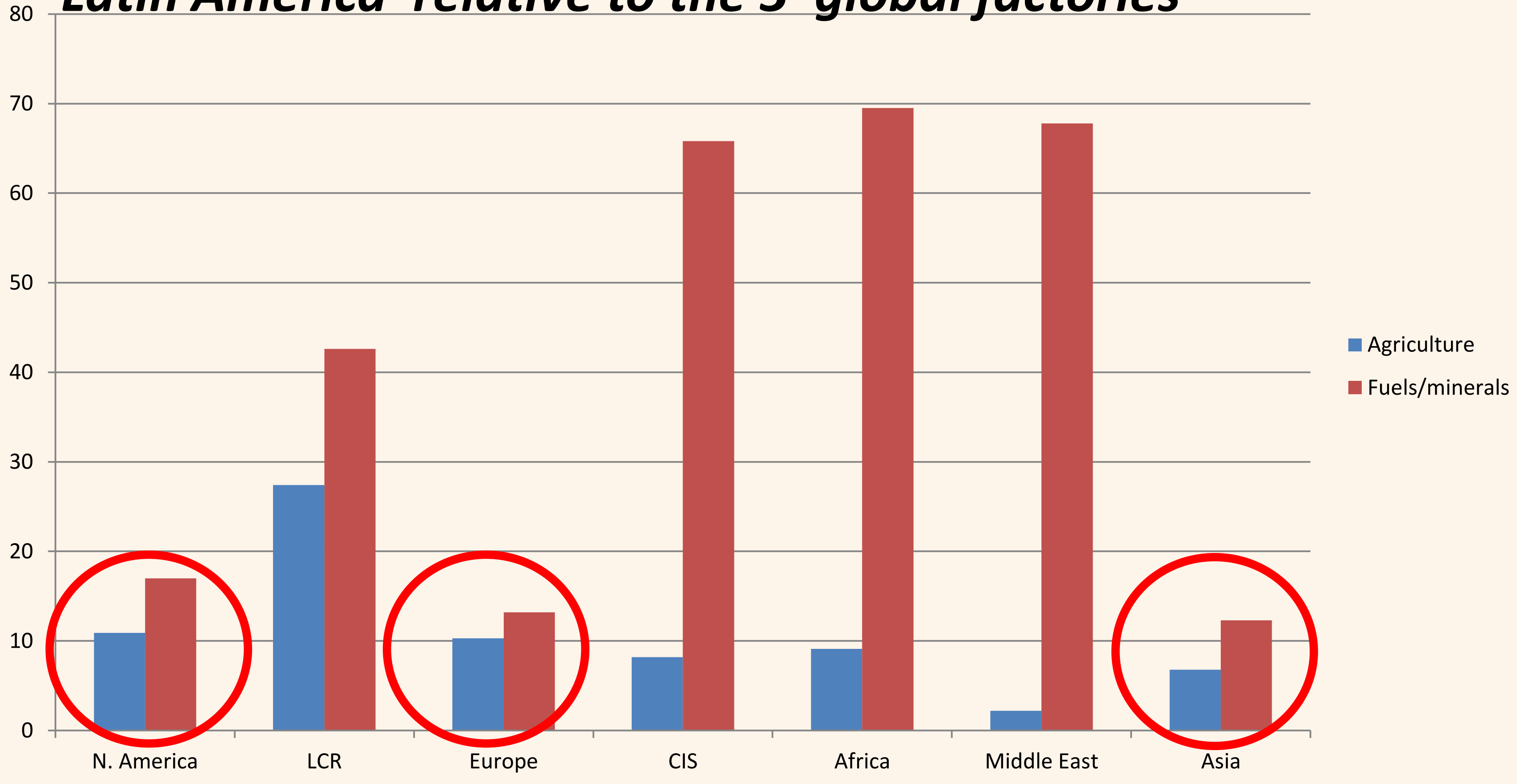


Source: ITU 2014

Some (Trade) Policy Challenges and Questions

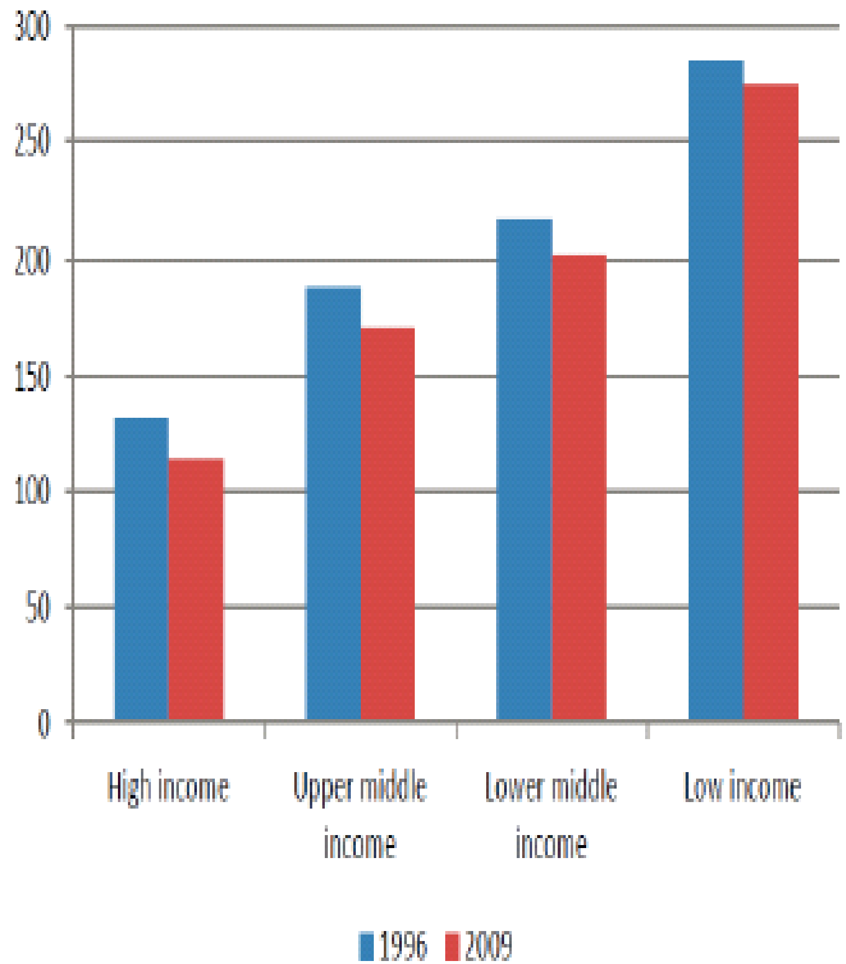
Natural resources as % of total merchandise exports, 2012

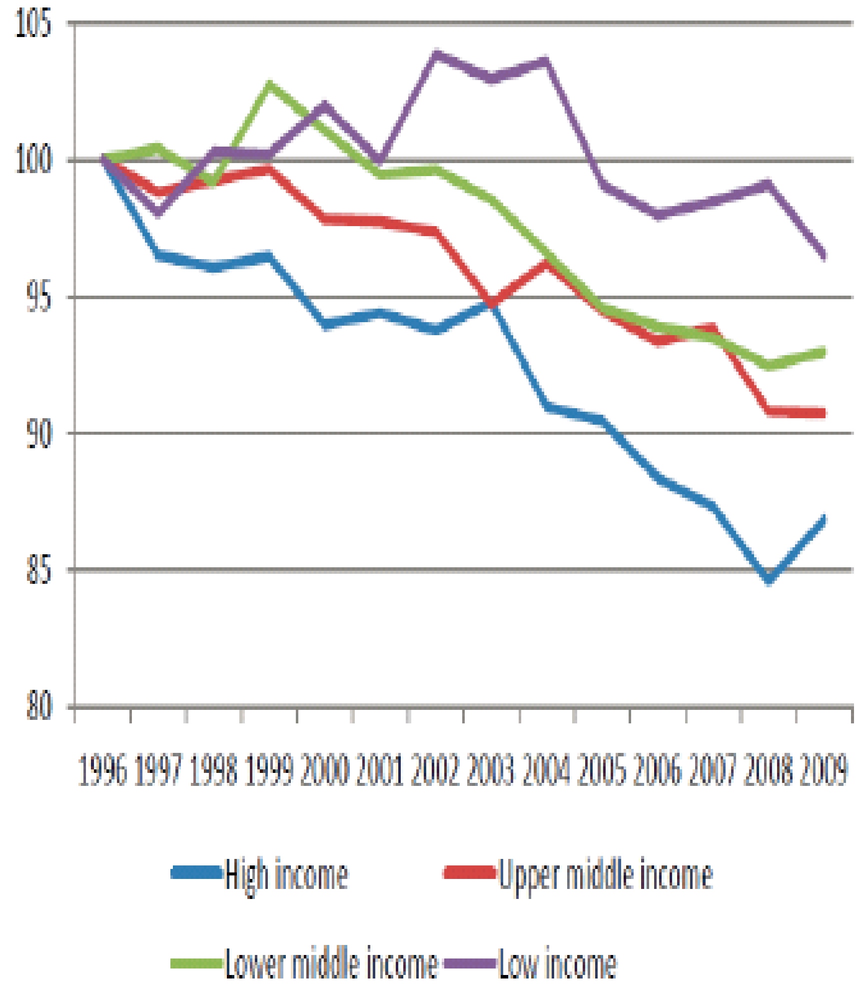
Little diversification in Africa, Central Asia, Middle East, or Latin America relative to the 3 'global factories'



Source: WTO (ITS, 2013)

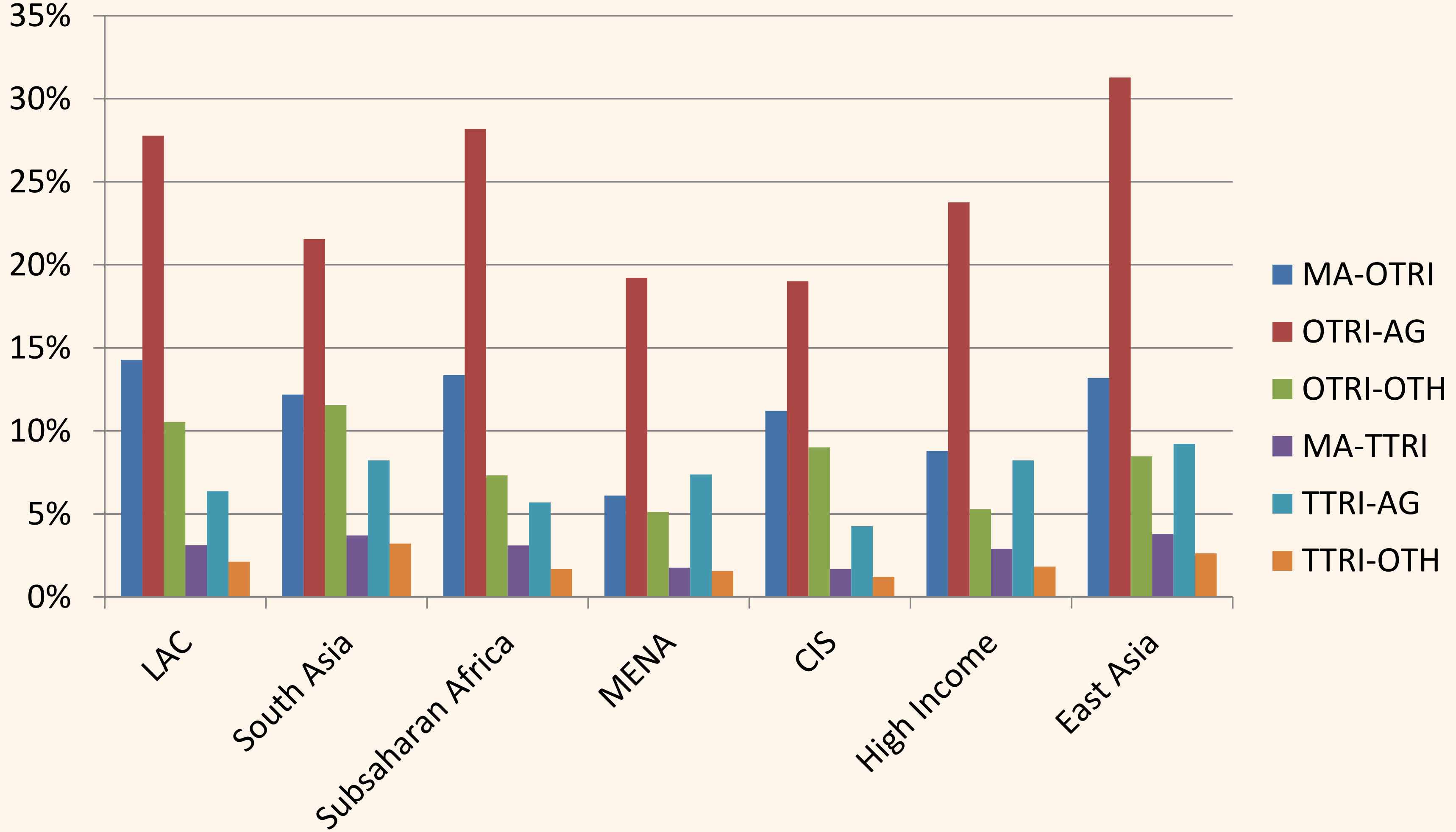
Trade costs falling but remain high in developing countries





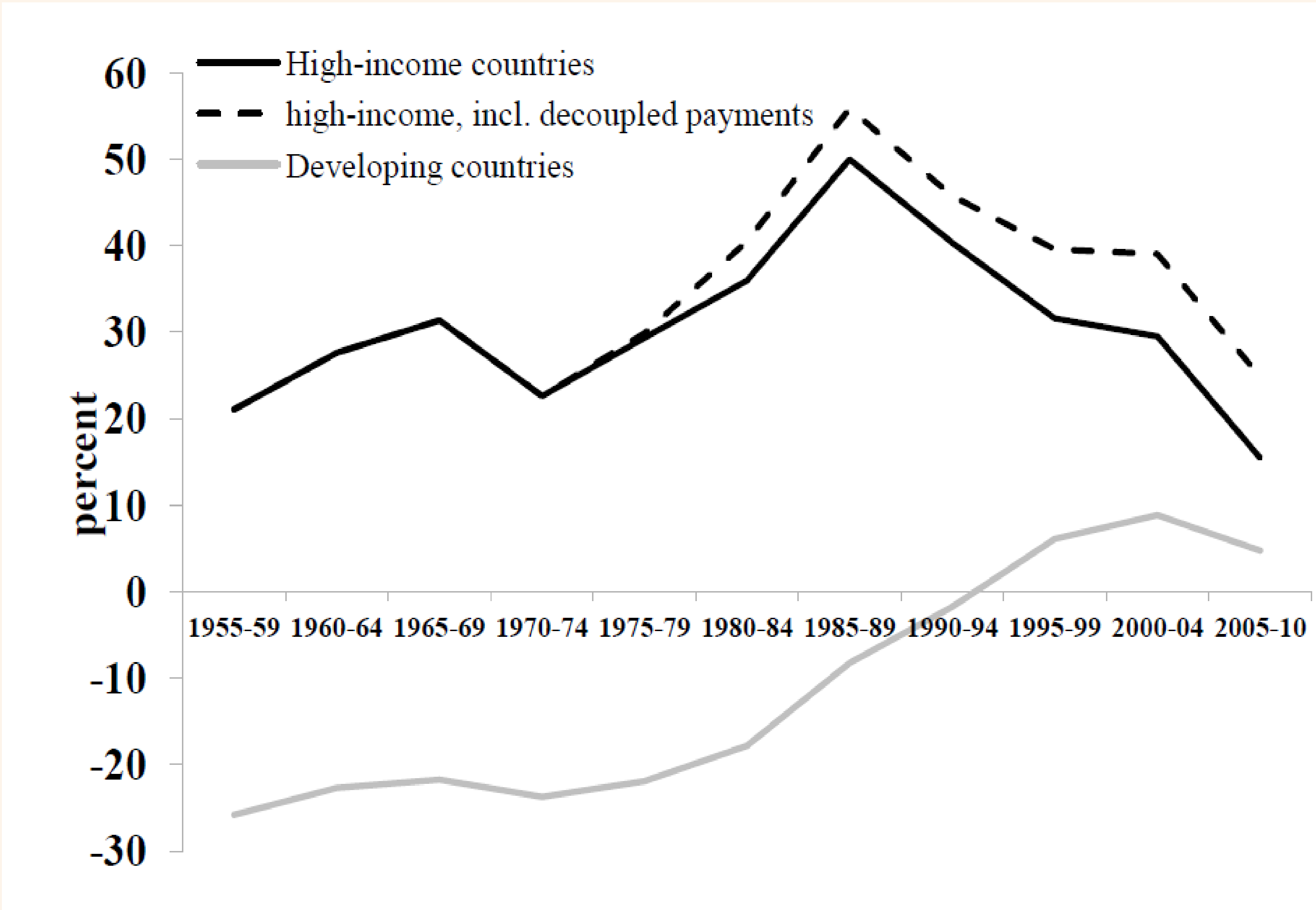
Source: Arvis et al. 2013

Market access restrictions, overall and tariff-only



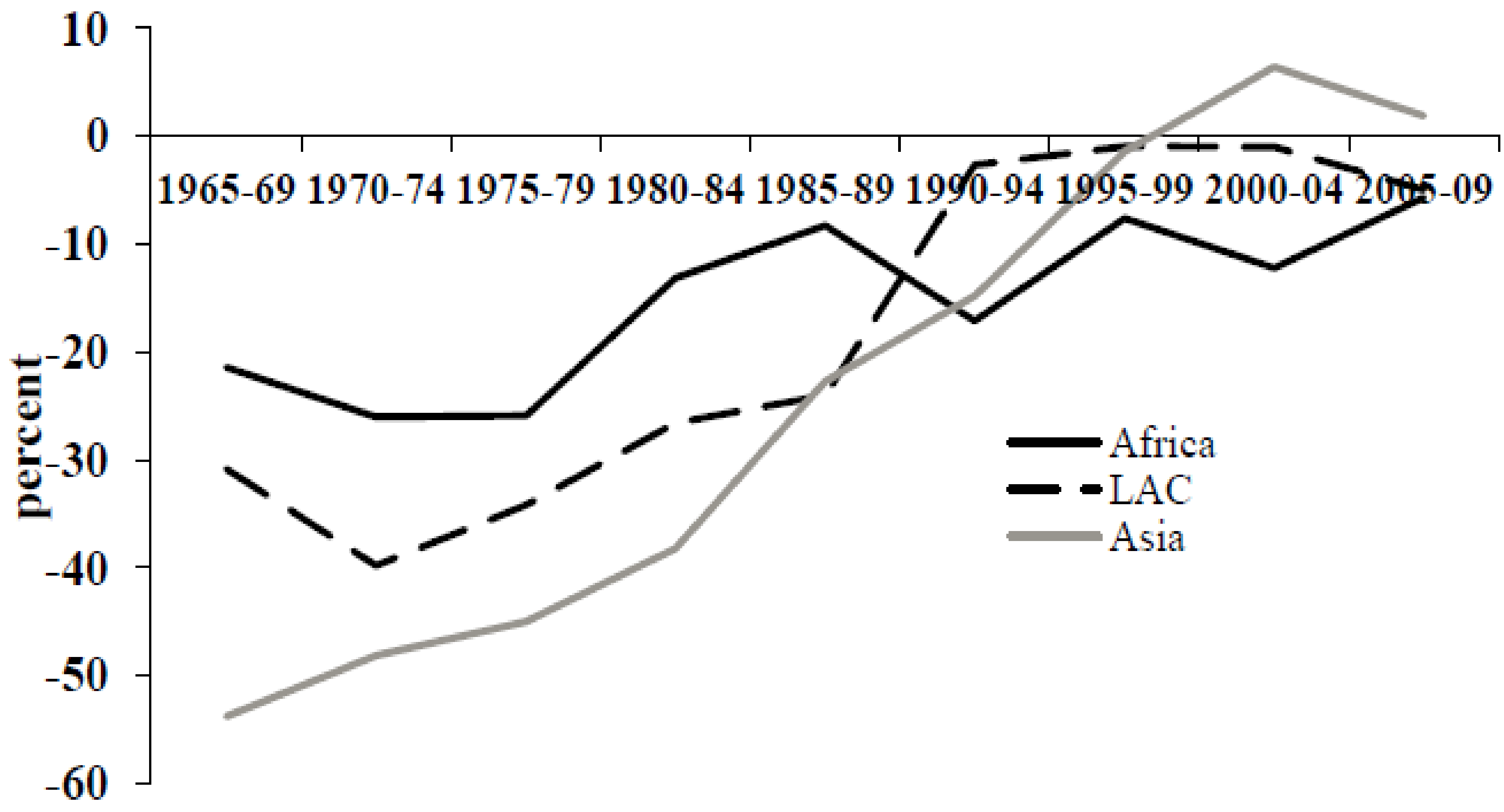
Source: World Bank, OTRI database (DECTI)

Convergence in support to farmers



Source: Anderson (2012)

Relative rate of assistance to agriculture



Source: Anderson (2012)

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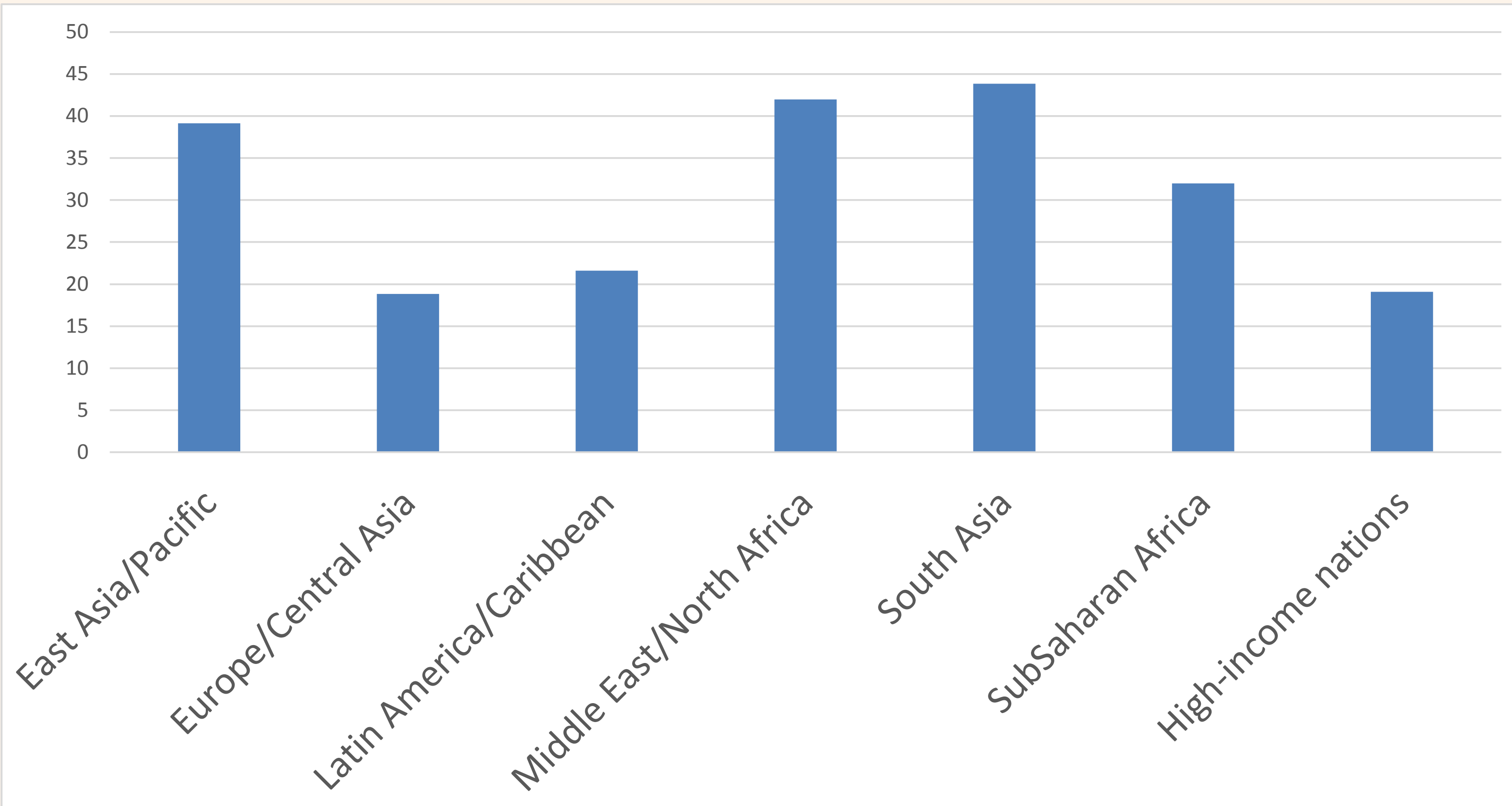
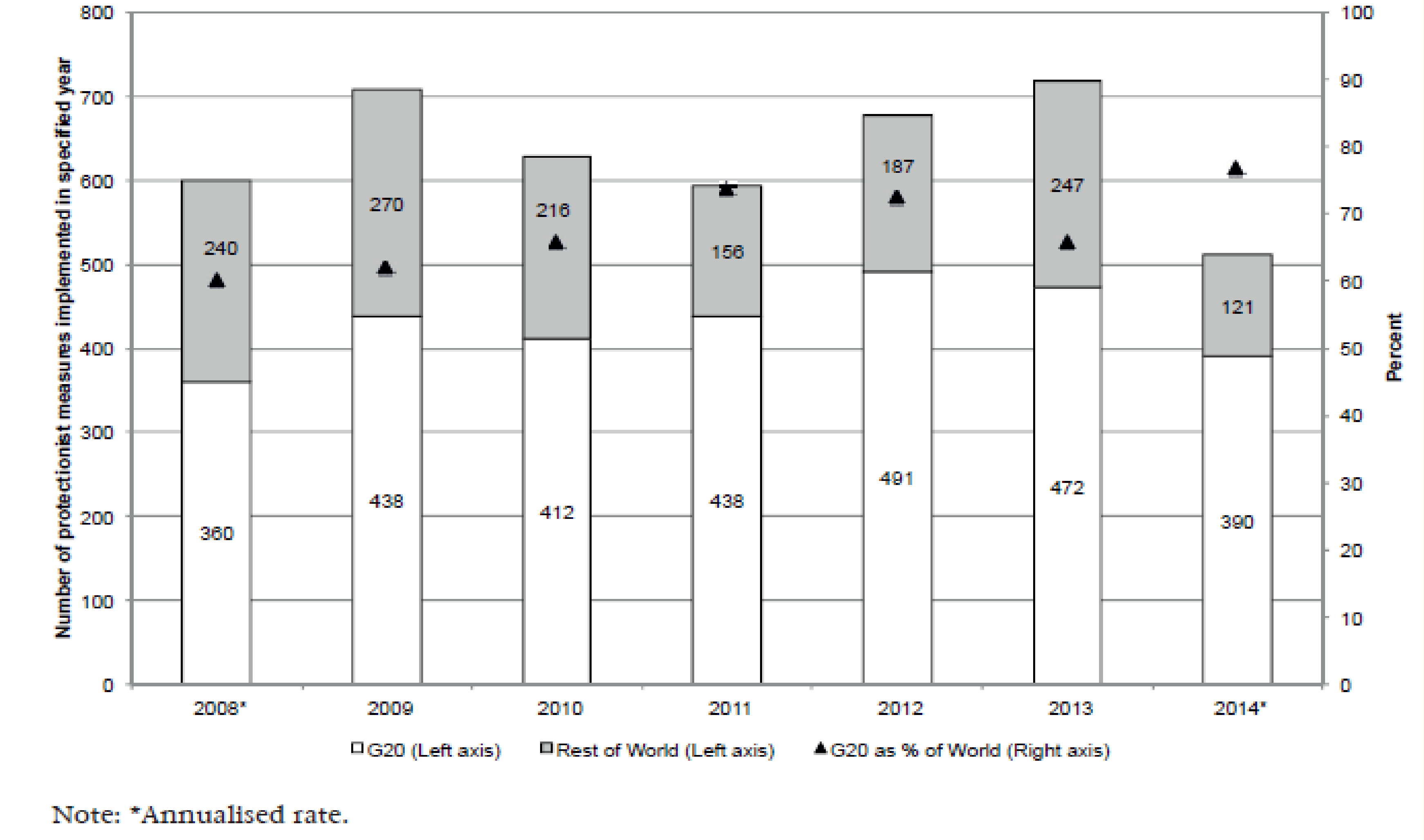
Services protection

Overall Services Trade Restrictiveness Index



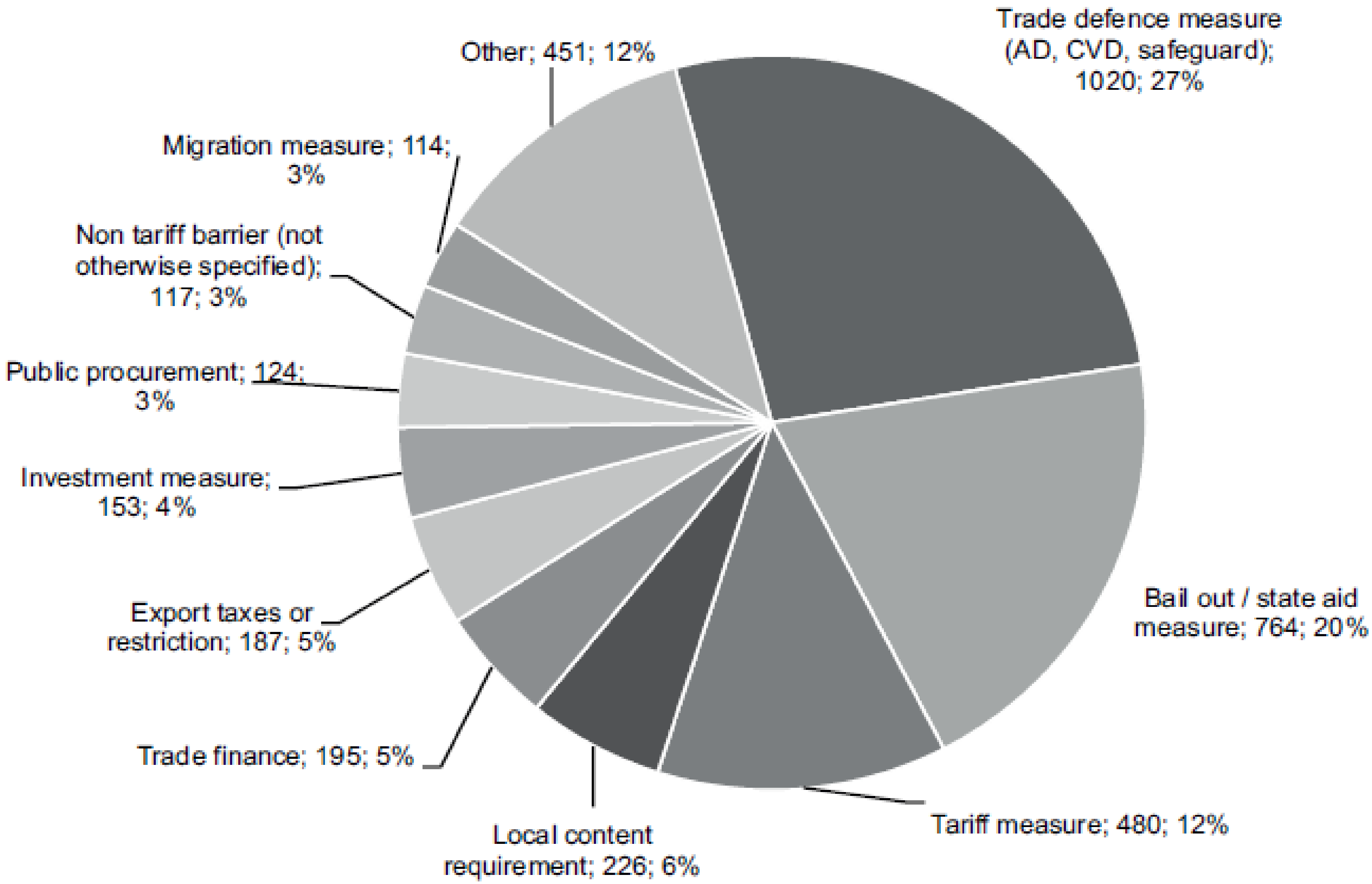
Source: Borchert, Gootiiz and Mattoo, 2014 (World Bank database)

Trade distorting measures imposed since 2008



Source: Global Trade Alert (2014)

Trade policy instrument use post 2008

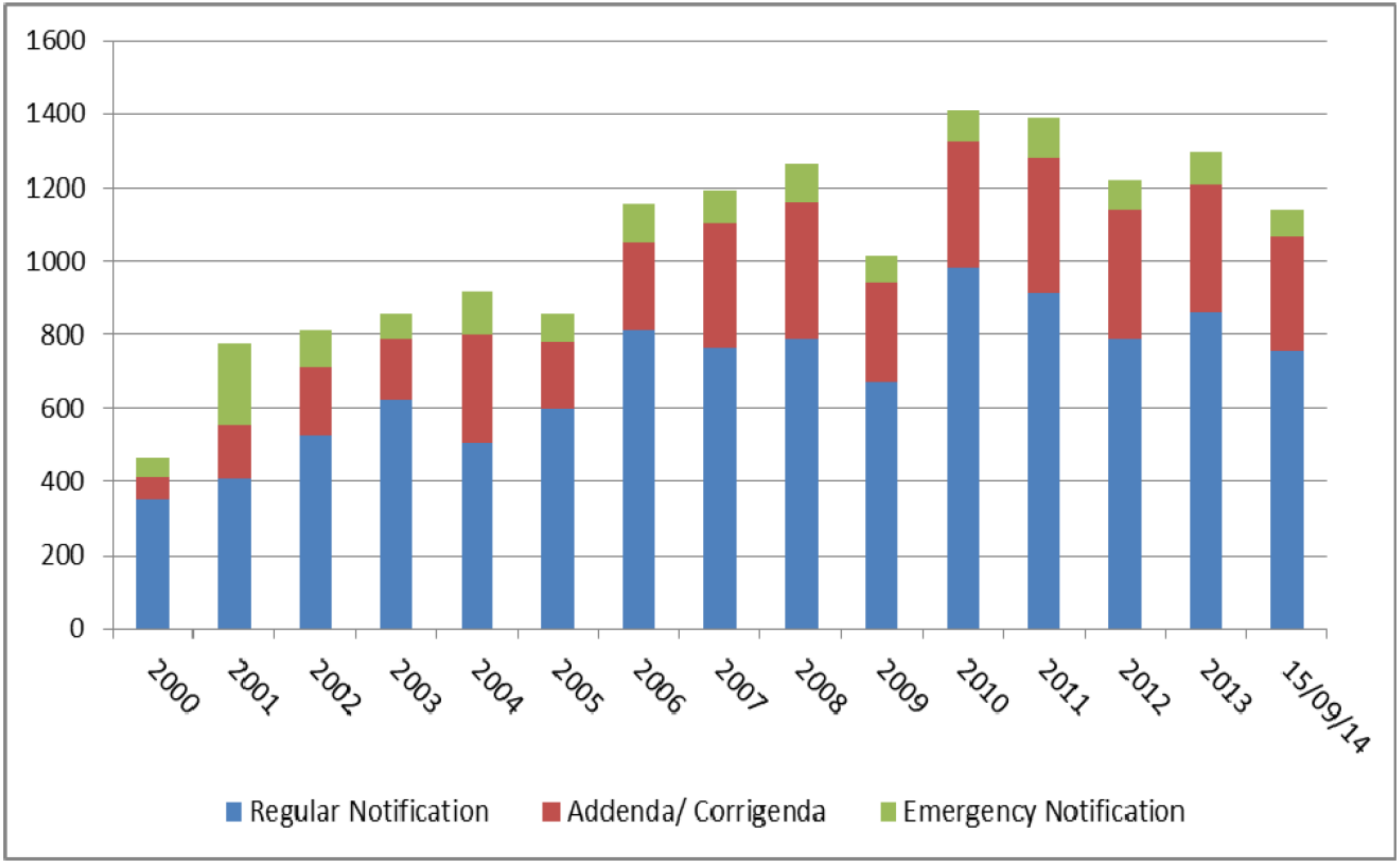


Source: Global Trade Alert (2014)

Non-tariff measures increasing

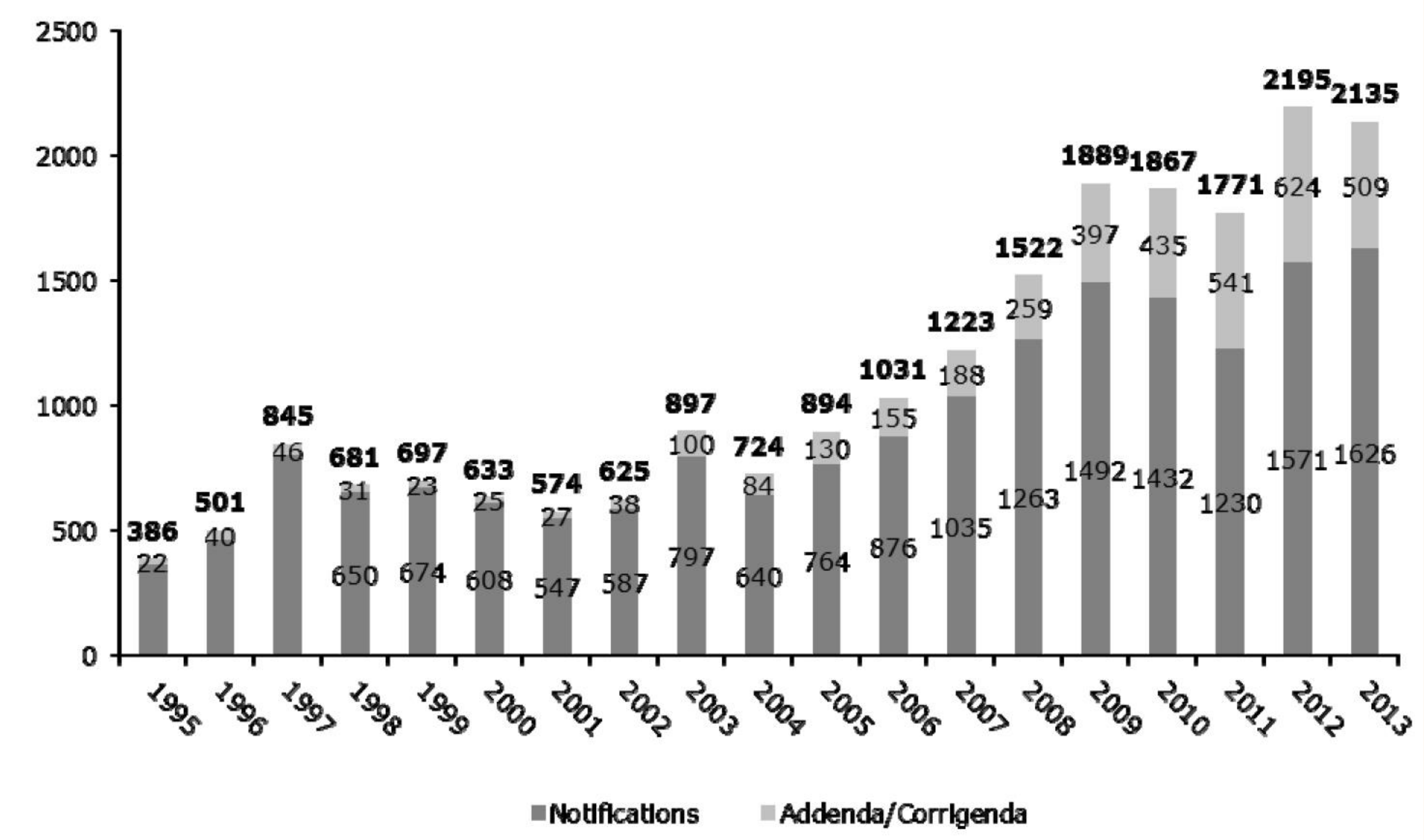
Source: WTO (2012) based on UNCTAD TRAINS.

SPS notifications to the WTO



Source: WTO secretariat

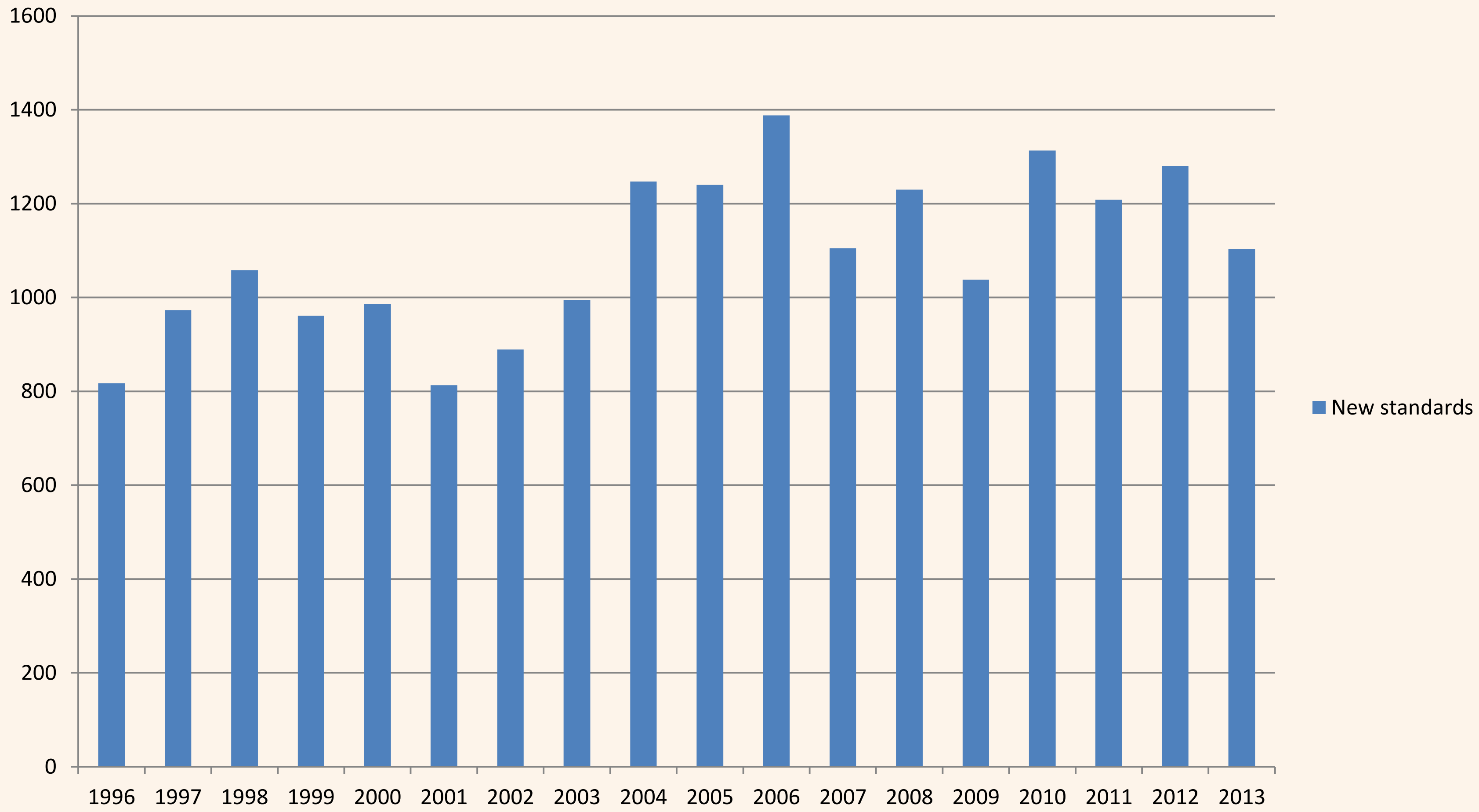
TBT notifications to the WTO



Source: WTO secretariat

Increasing private standards

Annual number of new standards issued by ISO



Source: ISO

Dealing with policy spillovers: (Mega-) PTAs and the WTO

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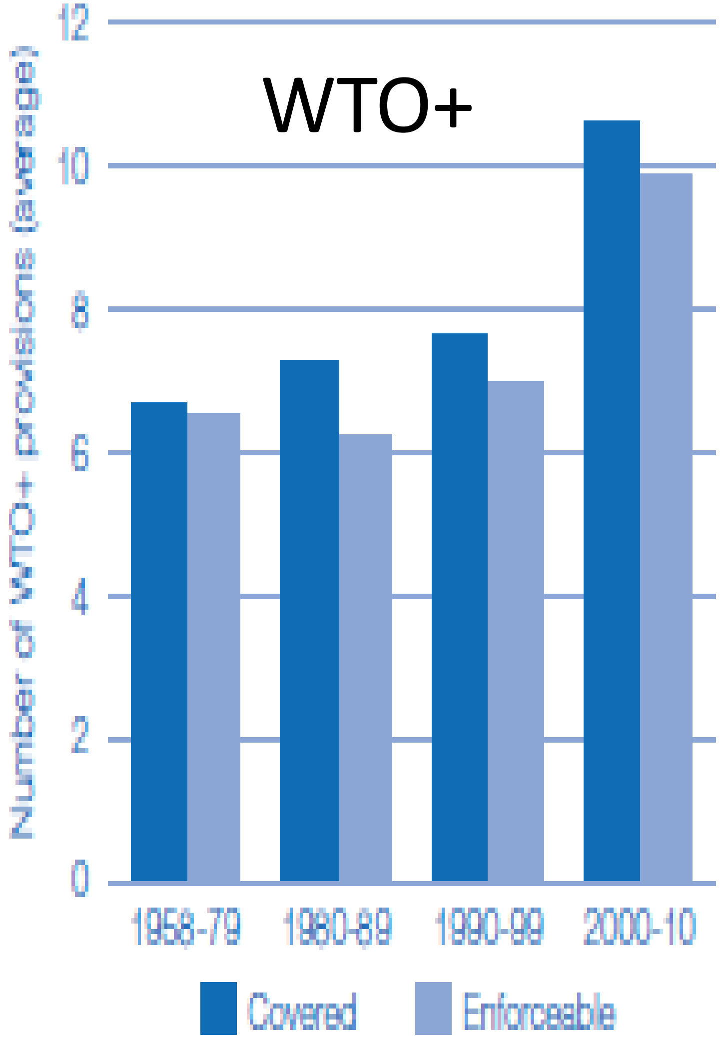
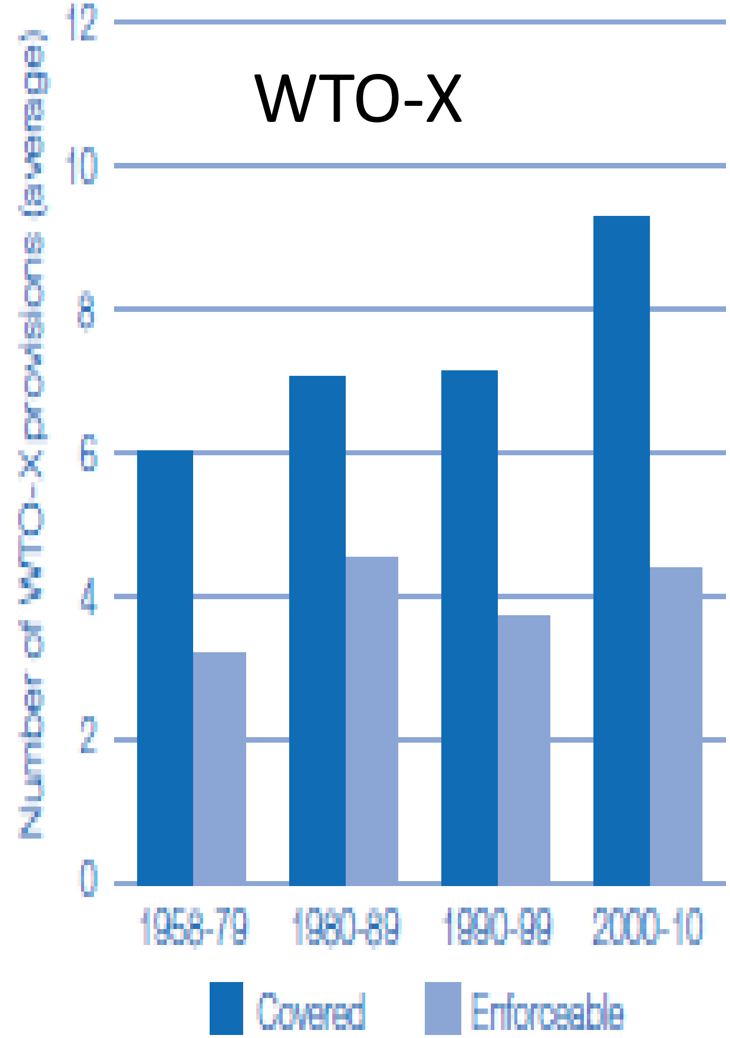
WTO+ and WTO-X provisions in PTAs

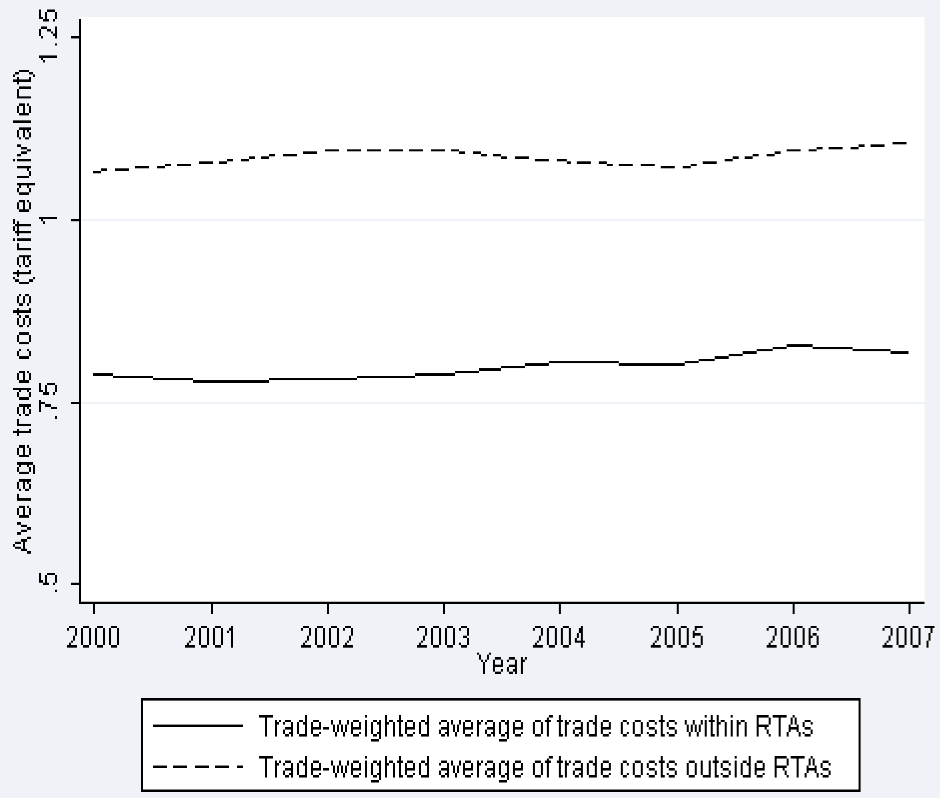




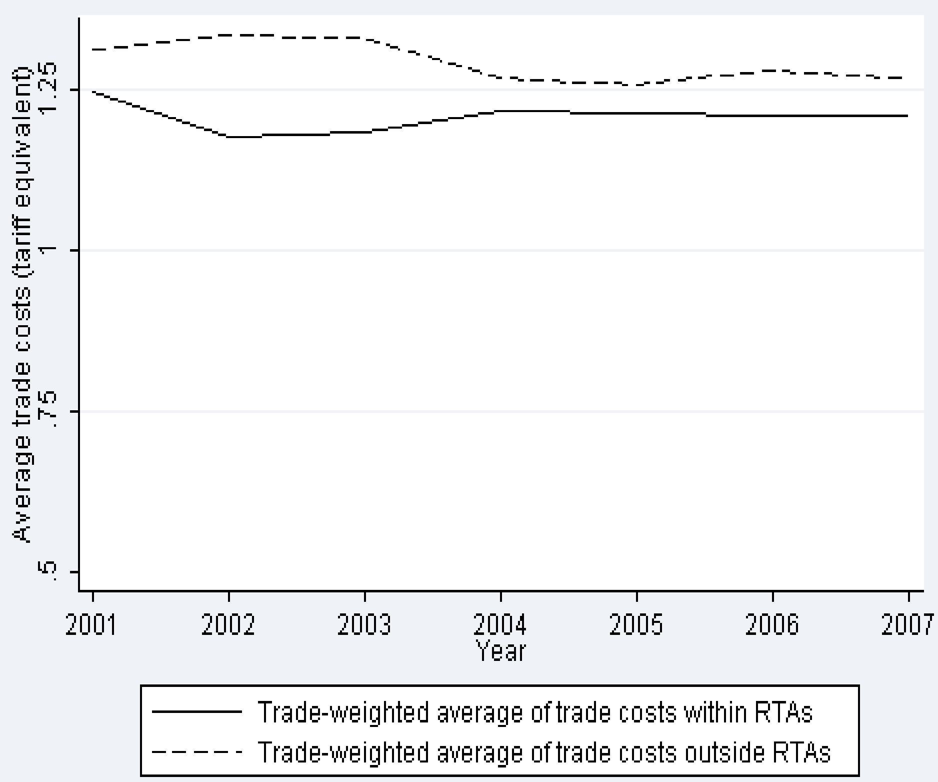
Source: WTO Trade Report 2011.

Trade costs for goods and services, intra- and extra-PTA

Goods



Services



Source: Miroudot, Sauvage and Shepherd, 2010

This may change in new 'mega' PTAs

- CER, CETA, TPP, TTIP and some other PTAs seeking to tackle behind the border measures
- Need to do more to better understand and learn from these efforts
- An input into the deliberative processes needed to identify areas where cooperation at the WTO level could be pursued
- Build on APEC model
  - Involve the business community; worker/consumer organizations, regulators

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Suggestion: Pursue more supply chain-based deliberation

1 **Formal mechanism** to identify priorities for **improving supply chain efficiency** based on **objective performance data**

2 **Connect regulators with stakeholders** – companies are best source of data on how regulation impacts on trade; "necessity test"

Domestic

Domestic

Some Implications for Policy

International Cooperation

International Cooperation

International Cooperation

3 Pursue a "**whole of the supply chain" approach** in trade agreements: cut across policy silos. **Start with GVC lens as an identification device.**

4 Beyond the trade policy agenda: **Regulatory cooperation** to identify **unnecessary value chain costs** for established trade; e.g. mutual recognition of (voluntary) 3rd party standards

5 **Aid for trade and development policy**: focus on economic and social upgrading; trade facilitation; distributional outcomes; market power and competition law