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Looking forward: trade and investment cooperation in a changing world economy

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Tenth Annual Queen's Institute on Trade Policy: Trade negotiations in an era of uncertainty. Kingston, October 23, 2018

The project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 770680





Mapping (Canadian) goals to instruments

- Goal: inclusive growth
- Trade as a means – leverage external trade opportunities
 - Imports not just exports
- Create an enabling environment to support internationalization-cum-diversification (extensive margin of trade)
- Current instruments:
 1. Trade agreements
 - Binding market access commitments (lower fixed costs and uncertainty in partner country trade policies)
 2. Domestic policies
 - Trade promotion – information asymmetries, etc.
 - Credit/guarantees/insurance
 - Economic diplomacy
 - Development assistance



Trade policy ≠ trade negotiations

1. Focus on initiatives to support trade in services / digital economy
 - This is where the jobs are – 85%
 - And where the growth is – servicification
- Plurilateral cooperation on regulatory regimes as one element to support diversification and non-trade external objectives
2. ‘Market access’ > trade agreements and trade promotion
 - Connect to businesses to identify market access problems
 - Economic diplomacy to resolve specific trade frictions
- Cooperate with partners
 - Economies of scale; increase leverage
- Link development assistance to trade agenda/specific issues
 - Again in cooperation with partners to increase resources
 - Revisit modalities of development aid programming

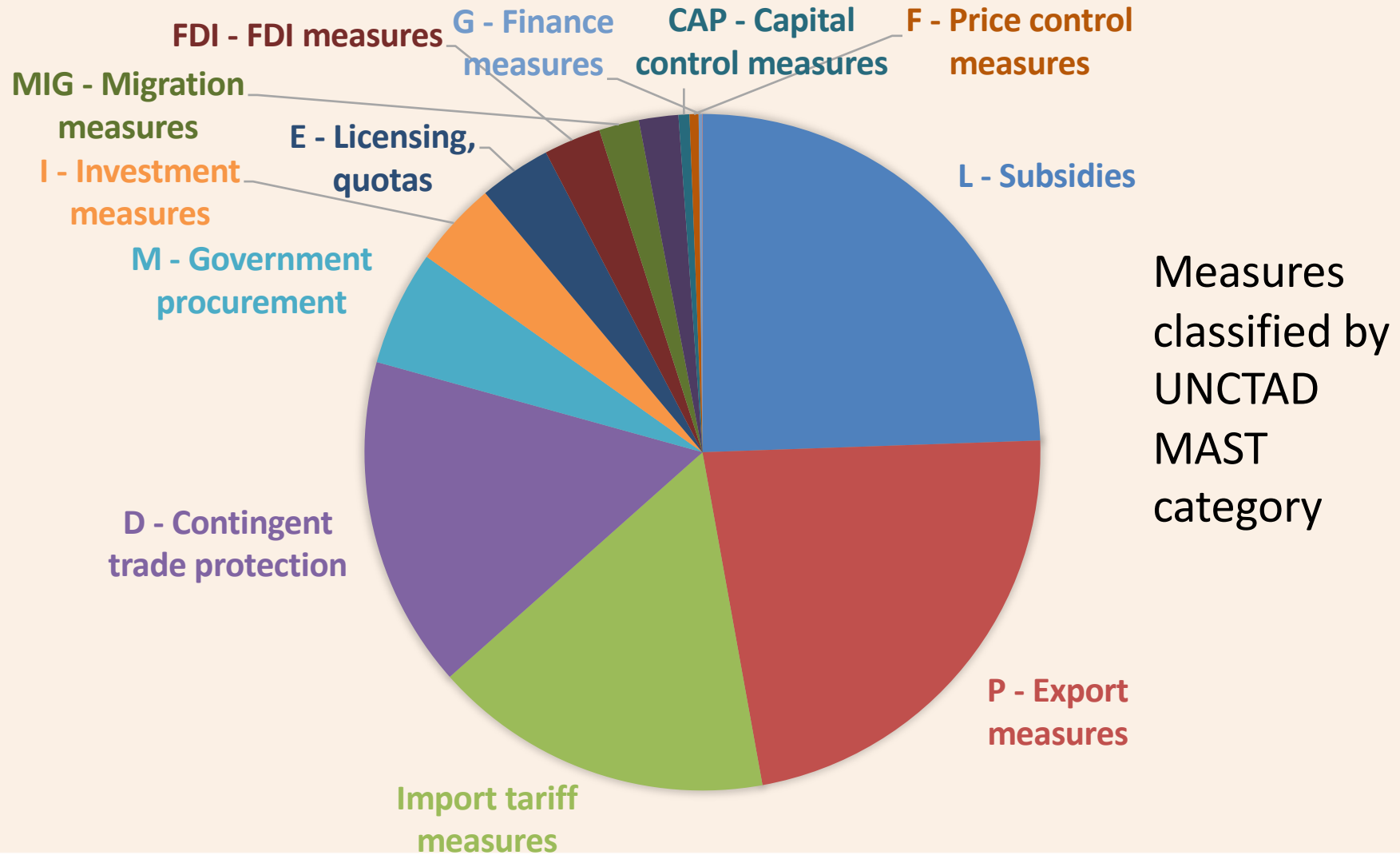


Policy drivers / global context

- ‘Rise of the rest’, especially China
 - Need to recognize this is where the growth is/will be
- Economic adjustment pressures; rising inequality
 - A domestic policy challenge – protectionism won’t help
 - Gains from trade come from reallocation of resources/workers
- System differences
 - State-capitalism/control vs. market-based economies
- “Make it here” not “in the world”
 - Anti-GVC policies / narratives – mostly in large economies (?)
- Concerns that trade be “fair”
 - Actual and perceived ‘beggar thy neighbor’ dimensions of national economic development policies (> border measures)
 - Mercantilism: trade balance as a measure of fair trade
 - Social values: condition trade on ‘minimum standards’;
progressive/inclusive/sustainable development



Rising use of NTMs (despite Trump) (share of trade-distorting policies, 2009-17)

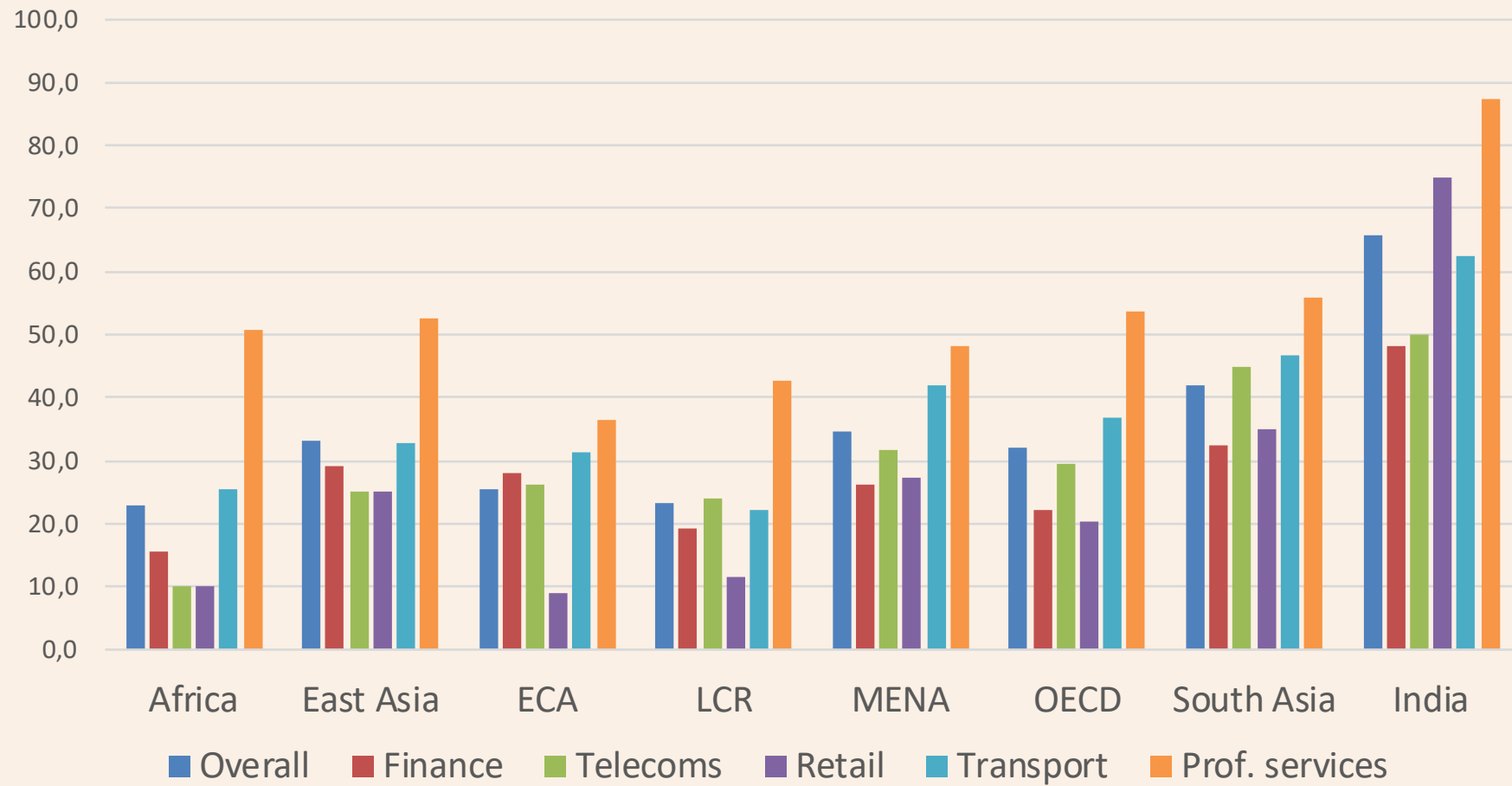


Source: Global Trade Alert



Services trade restrictions

STRIs by region and services sector (late 2000s)

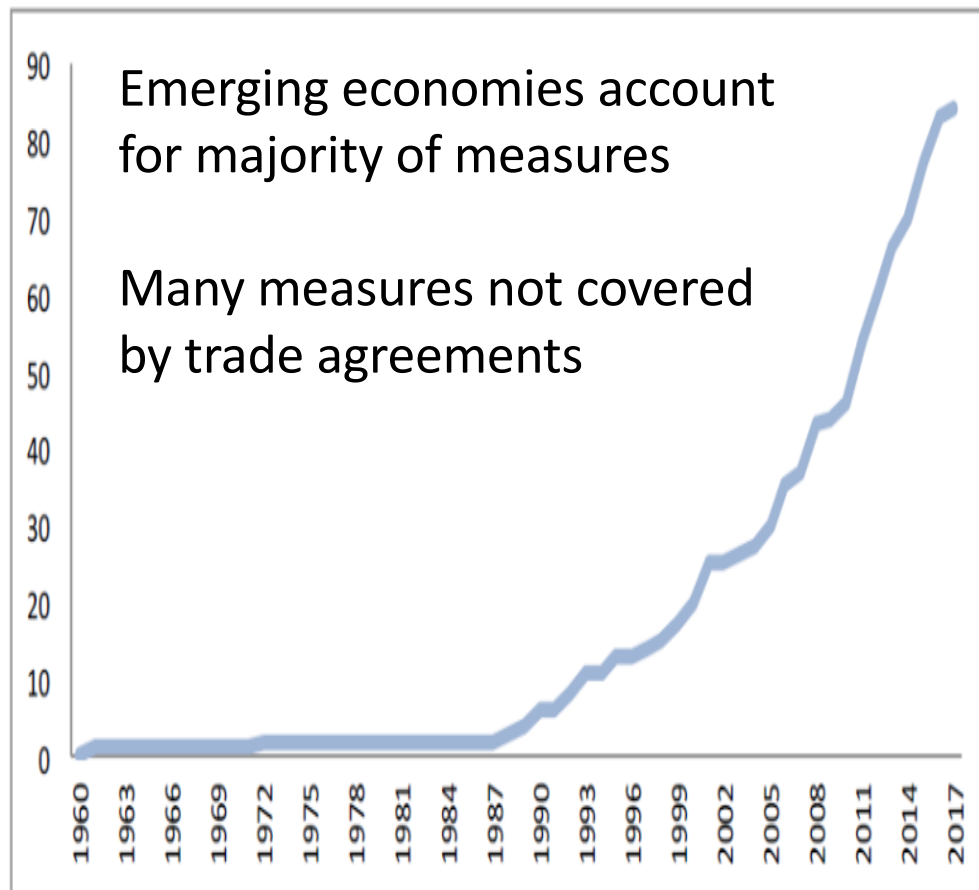




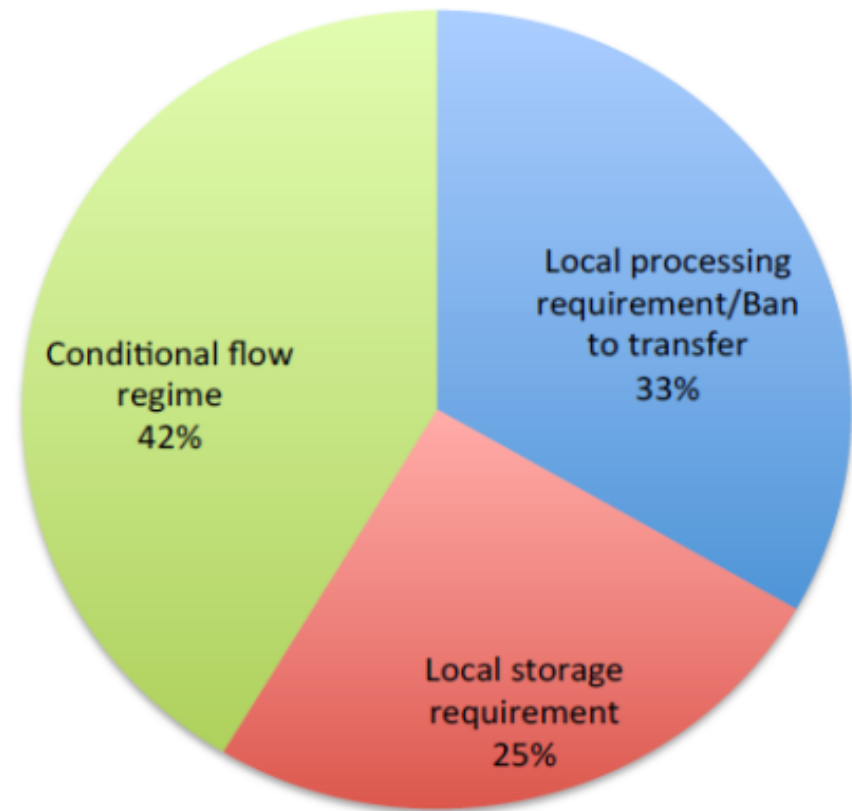
Restrictions on digital trade

(> data flows: content access, access to source code, nat'l encryption, e-payment restrictions)

Number of new measures



By type (2017)



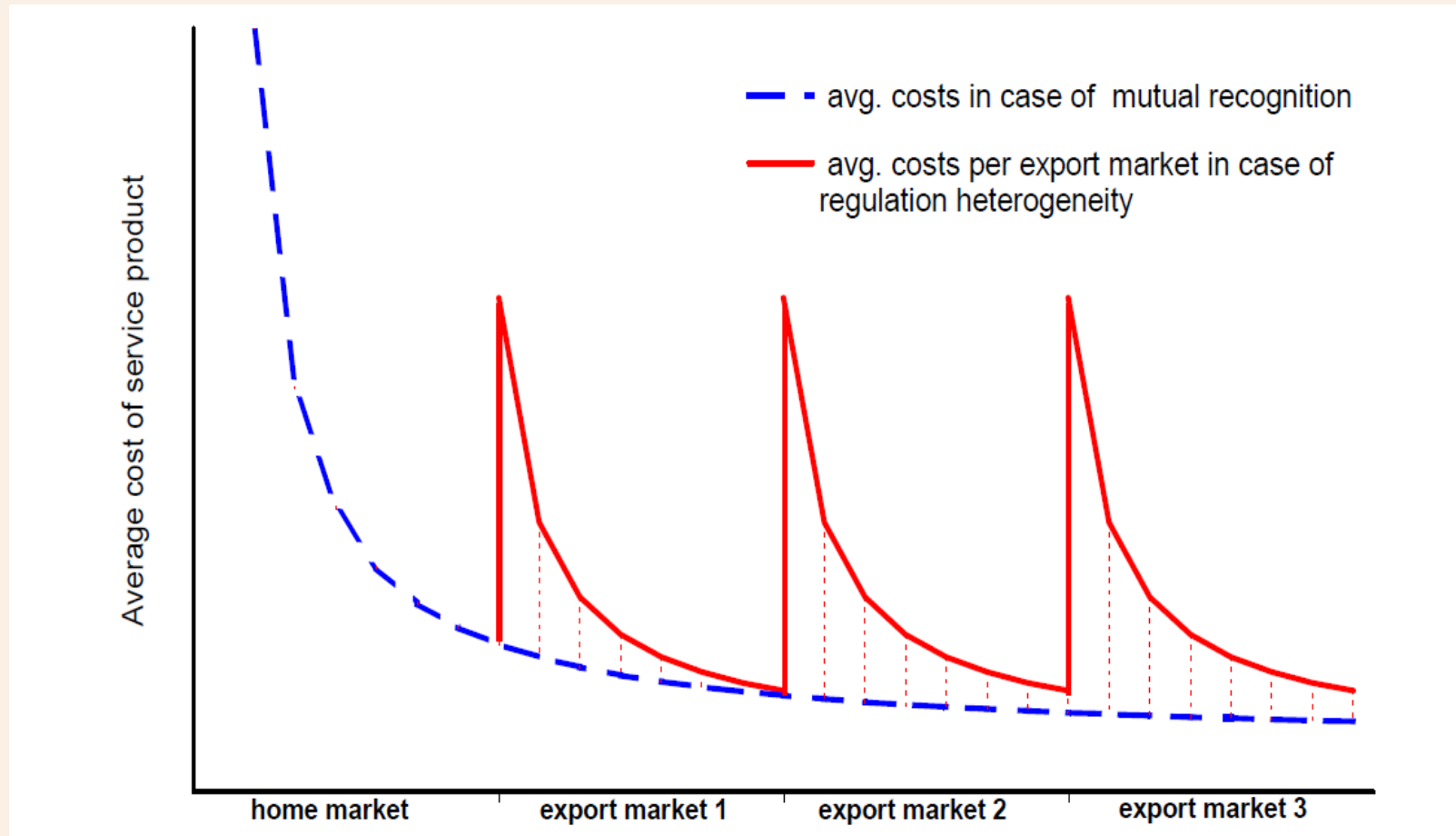


Nondiscriminatory regulation

- Global Trade Alert data do not include standards
 - Product-specific (TBT/SPS)
 - Labor standards
 - Environmental policy
 - Differences in regulation of services activities
 - Etc.
- Regulatory heterogeneity as a trade issue



Regulatory heterogeneity as a source of trade costs





External cooperation

- Old (discriminatory policies – tariffs, NTBs, subsidies) call for more reciprocity
 - From first-difference reciprocity to absolute reciprocity (Trump)
- New (nondiscriminatory policies – regulation, services, digital) call for different approaches
 - Reduce costs of policy heterogeneity by agreeing on good regulatory practices and international regulatory cooperation
- Balancing national development policies against spillovers
 - What are effective pro-development trade-related policies in GVC world?
 - Requires more focus on substantive deliberation and analysis
- Many modalities/instruments: hard law (treaties) vs. soft law (transparency; learning; technical assistance/aid)



→ A more complex trade agenda

- A multi-actor, multi-instrument, transnational landscape:
 - Governments (public) vs. private rule-setters (e.g., SPS vs. GVCs)
 - Producers/businesses (“lead firms” vs. SMEs in North and South)
 - Advocacy/interest groups (NGOs)
 - Citizens/voters
- Changing political economy: local consumers & communities are more important actors
 - Concerns that trade be “fair” in terms of outcomes and conditions
 - International norms vs. protecting (projecting) national values
- Questions:
 - Legitimacy: who sets the rules? Who is accountable for results?
 - Enforceability – who determines compliance? Who can act?
 - Distributional effects: who benefits? Who incurs costs?
 - What works? Creating feedback and learning mechanisms



Instruments: shallow vs. deep

- Shallow. Goal: reduce/remove discrimination
 - Tariffs; QRs/NTBs; local content subsidies; investment incentives
 - Services—extend national treatment to FDI (foreign firms)
- Deep. Goal: reduce trade costs created by policies that apply generally, i.e., do not target foreign products/producers
 - Harmonization (international standards); recognition; equivalence
- Different political economy dynamics
- Shallow: rent-redistribution; small welfare gains (static)
 - Redistribution across firms/sectors; associated adjustment costs
- Deep: increase efficiency and improve regulatory outcomes
 - Challenge: address worries about regulatory sovereignty/ability to regulate
 - Accept that harmonization not first best for some (many?) areas



Deep integration – is market access linkage helpful?

- If aim is reducing regulatory heterogeneity and improving achievement of regulatory goals, why do this in a trade agreement?
 - Narrative of trade community: to reduce regulatory (“behind the border”) barriers is counterproductive with civil society
 - Deeper trade agreements need to help regulators do their job & improve national welfare / outcomes by supporting greater international cooperation / better governance of production
- Consider whether trade-nontrade linkages are effective/useful in context of trade agreements with developing nations
 - Separability may be a necessary condition for regulatory cooperation



Some implications

- Change narrative on deep integration
 - Stress process/dynamics – learning; monitoring; analysis etc.
 - Transparency is critical – information as input into deliberation and conflict diffusion / avoidance
- More focus on protecting consumers and national values—both pecuniary (tax) & nonpecuniary spillovers (values)
 - Destination-based regulatory commitments by exporters (partners) in areas where international norms do not exist
- Take development more seriously – how and why does deepening trade integration promote sustainable development?
 - Revamp ‘special & differential’ treatment for developing countries
- Accountability
 - Identify clearly how international trade mechanisms add value
 - More focus on ex post evaluation and monitoring



PTAs vs. WTO vs. other modalities of cooperation

- Preferential trade agreements (PTAs)
 - Discriminatory (bad); deeper rules (potentially good)
 - Fragmentation (accession generally impossible; CPTPP notable exception)
- Plurilateral Agreements under the WTO (note the caps)
 - Main example: Government Procurement Agreement
 - Permits discrimination; requires consensus
- Open plurilateral agreements (no caps): critical mass agreements (MFN)
 - Information Technology Agreement, Telecom Reference Paper (GATS)
 - Groups discussing four subjects post MC11, incl. e-commerce
- Non-WTO plurilateral agreements/cooperation
 - Many examples on regulatory matters



Deeper integration, sovereignty and democratic legitimacy

- Rodrik (and others): Global markets require global regulation which (i) we don't have; and (ii) if we could, would undercut national sovereignty/values
 - Implication: back shallow integration to assure policy space
- This is throwing out the baby with the bathwater
 - For inclusive growth need 'thicker, discursive rules that bolster regulatory capacity & improve outcomes
- Sector-by-sector regulatory cooperation / equivalence regimes can do so while ensuring democratic legitimacy
 - Regulators remain accountable at national/regional level
 - Ensure that cooperation is 'separable'
- Leverage development/technical assistance ('aid for trade') to connect better to deep integration efforts in PTAs and WTO
 - Trade Facilitation Agreements as an example



Conclusion: What can (should?) trade agreements do?

- Deal with the old agenda in WTO – alive and well (and growing)
- Focus much more on the economy as it is/will be: services-driven
- Make attainment of national regulatory objectives and regulatory performance a focal point
 - Good regulatory practices; international regulatory cooperation
 - Destination-based policy commitments where international standards cannot be agreed
- Pursue this agenda through open plurilateral initiatives
- Change modalities: no need for secrecy – full transparency & openness critical when dealing with regulatory matters
 - Key for legitimacy and for efficiency (better regulation)
- Support institutional structures for regulatory cooperation and leverage knowledge/information of actors involved in international production and exchange
- More investment in monitoring; collection of information and ex post impact assessment



Further reading

- Hoekman, B. 2017. “International Regulatory Cooperation in a Supply Chain World,” in S. Tapp, A. van Assche and R. Wolfe, *Redesigning Canadian Trade Policies for New Global Realities*. Institute on Research on Public Policy, 365-94.
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Development dimensions:

- Fiorini, M. and B. Hoekman, 2018, “Trade Agreements, Regulatory Institutions and Services Liberalization,” *Global Policy*, <https://doi.org/10.1111/1758-5899.12583>.
- Hoekman, B. 2016, “The Bali Trade Facilitation Agreement and rulemaking in the WTO: milestone, mistake or mirage?” In J. Bhagwati et al., *The World Trade System: Trends and Challenges*. MIT Press.
- Fiorini, M. and B. Hoekman, 2018, “Services Trade Policy and Sustainable Development,” *World Development*, <https://doi.org/10.1016/j.worlddev.2018.07.015>.