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Managing Market Integration

Bernard Hoekman

European University Institute and CEPR

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Recent trends and developments

- WTO in 1995: high-water mark for global trade regime? Doha round failed → lot of negativity
- Great recession post-2008 US/EU financial crises gives rise to more nationalism/populism and rising protectionist pressures: “make it here”
- More opposition in US and EU to trade agreements.
 - US withdraws from TPP; Trump questions value of multilateral trade system; revisit NAFTA; TTIP in freezer
- Brexit shock – deep integration not supported by majority in UK
- Public concerns in EU and US re: declining manufacturing employment; perceptions of unfair competition/free riding by emerging economies



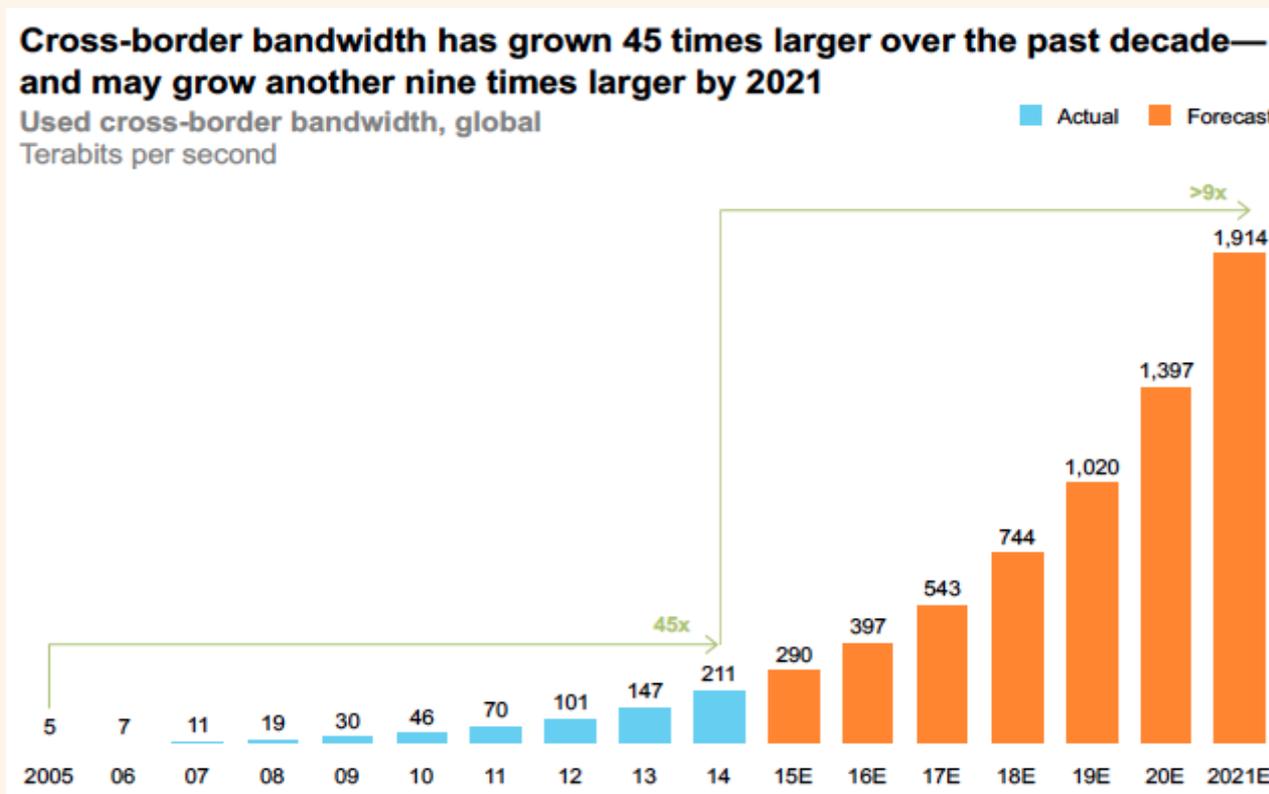
But...not all is gloom

- WTO:
 - Trade Facilitation Agreement (entry into force Feb. 2017)
 - Ban on agricultural export subsidies (2015)
 - Some 500 disputes adjudicated, mostly implemented
 - Committees do their work – fora for deliberation/learning
- Trade policy:
 - Trade/GDP ratio growing much more slowly post 2010 – but has not declined
 - Regional integration proceeding in Africa; Asia
- Global value chains and cross-border direct investment reduce incentives to use protection
 - So far mostly talk and focus on basic materials



Global integration proceeding in many dimensions

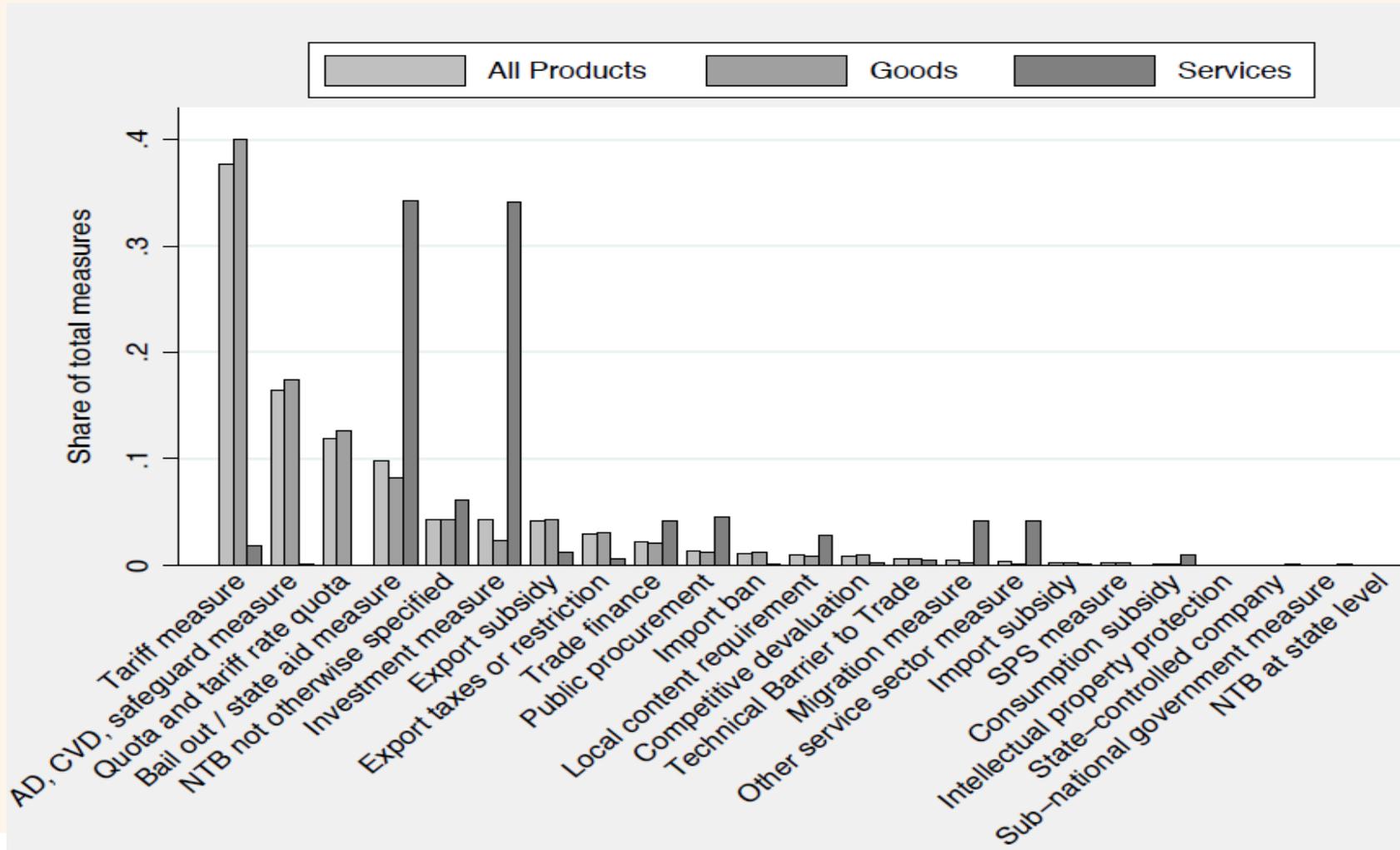
- Travel; connectivity; cross-border data flows; capital; e-commerce; (social) media; cultural products—i.e., services



Source: Bughin and Lund, 2017, The Ascendancy of International Data Flows. <http://voxeu.org>

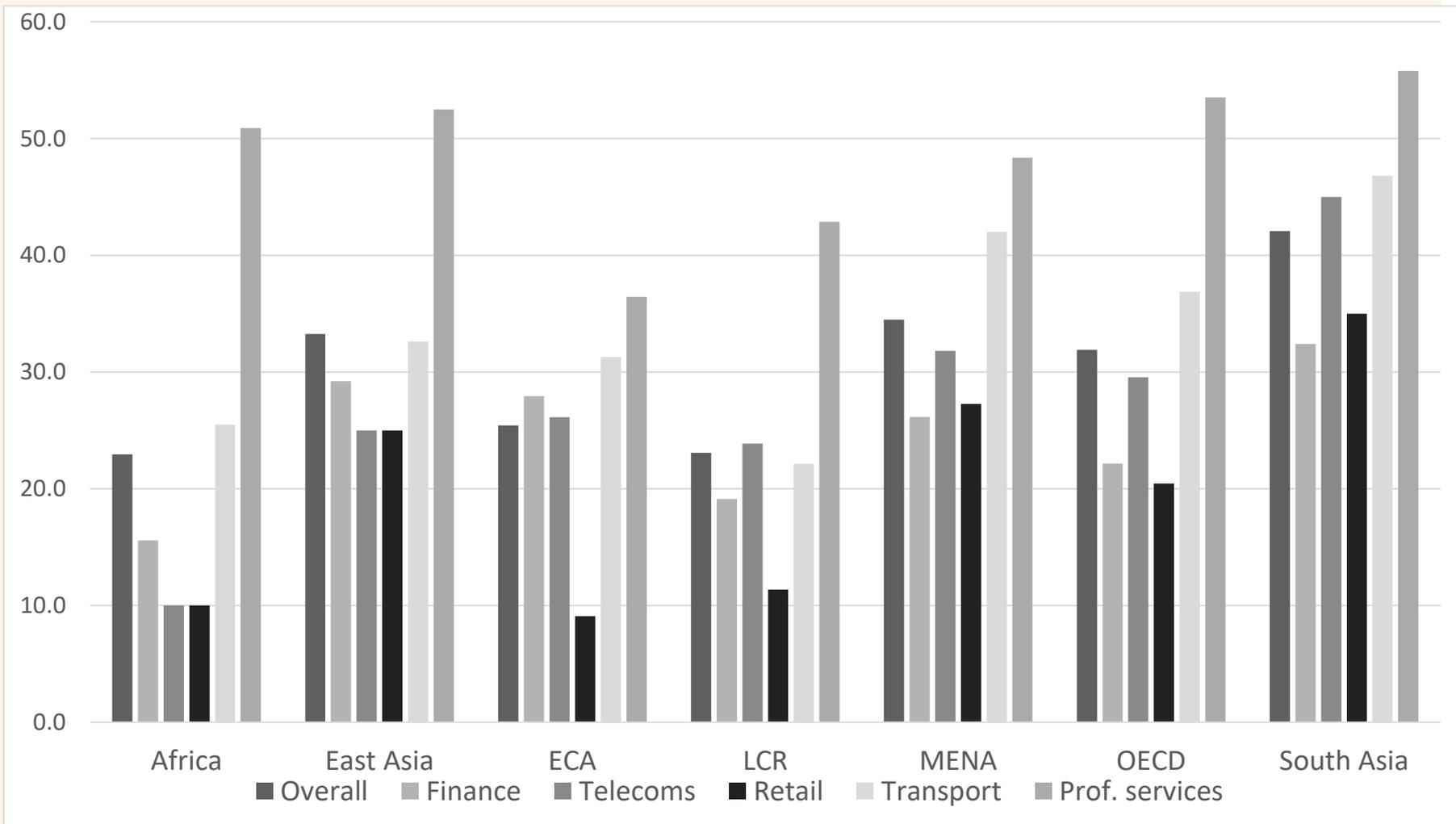


“New” trade policy challenges: services and investment policies



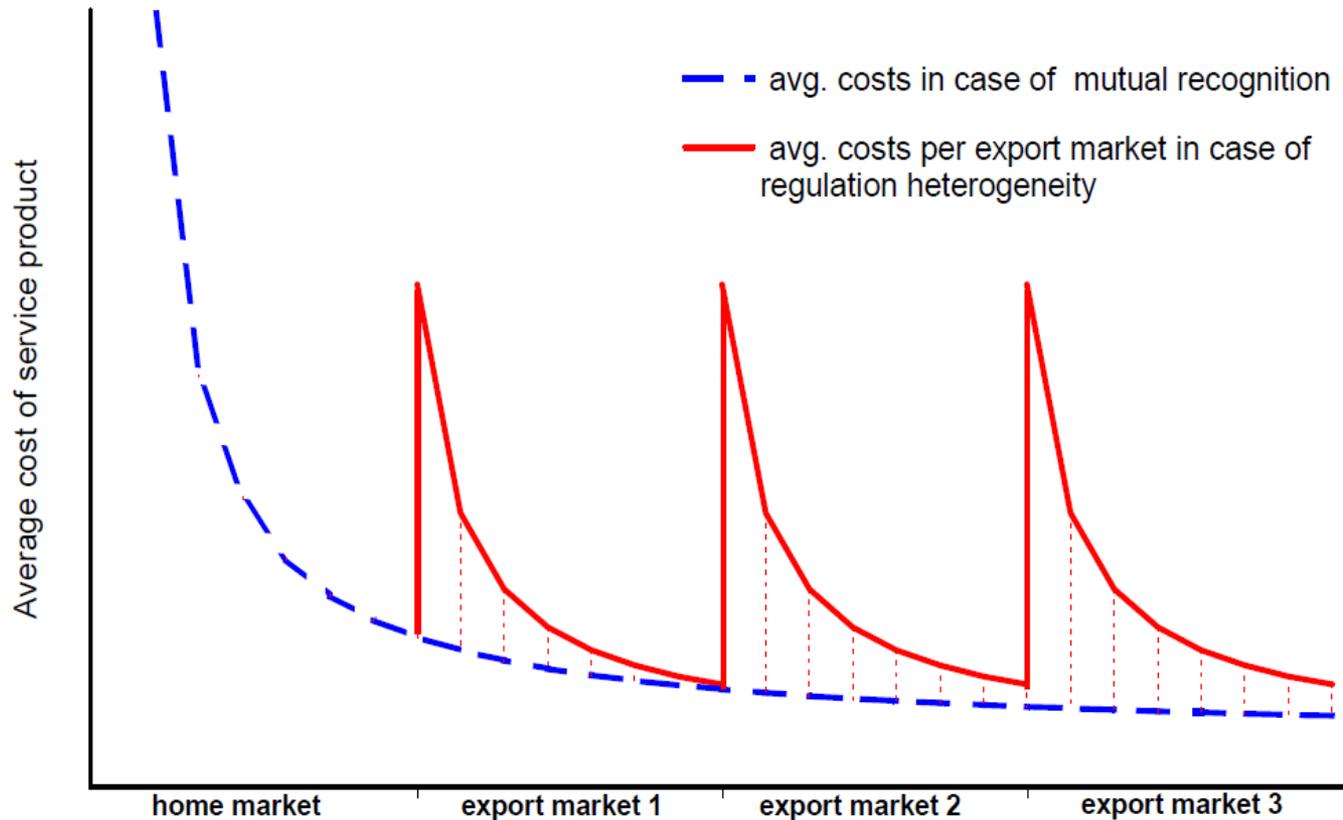


Services trade/investment restrictions





Regulatory heterogeneity as a source of trade costs





Tackling regulatory heterogeneity through regulatory cooperation

- *Differences* in regulation for a given product/sector increase trade costs
- Regulatory differences can be both a source of production inefficiencies (trade costs; prevent scale economies) and result in adverse regulatory outcomes
- GVCs increase uncertainty – *neither* the regulator nor regulated firms may know what needs to be done to reduce risks
- Cooperation between regulators can generate more information and better outcomes (learning; feedback loops)
- Necessary condition: trust. Will inherently be bilateral/dyadic but can/should be designed to be open to third parties
- Must involve regular public-private interaction and cooperation



21st century trade agreements

- Two dimensions:
 - Removal of discriminatory barriers to entry
 - Reducing costs of regulatory heterogeneity: differences in regulatory regimes for the same product/sector create trade costs
- Discriminatory (protectionist) policies:
 - Standard 'market access' agenda – enhance competition by removing explicit barriers
 - Partly still tariffs but mostly nontariff barriers, including in services
- Nondiscriminatory regulation:
 - Legitimate policy measures to address market failures and achieve non-economic objectives
 - Product standards, professional qualifications, etc.



What can (should) trade agreements do?

- Help institutionalize processes that encourage joint exploration of regulatory differences and support welfare-improving reforms
- Make attainment of national regulatory objectives and regulatory performance a focal point
 - Good regulatory practices (GRP)
 - Address constraints that prevent international regulatory cooperation (IRC) – incl. financial/human resources
- Change modalities: no need for secrecy in negotiations –full transparency & openness critical when dealing with regulation/cooperation
 - Key for legitimacy and for efficiency–adopting good practices
- Put in place institutional structures that support bottom-up regulatory cooperation and leverage knowledge/information of actors involved in supply-chain-based production and exchange



Pursue variable geometry

- Structural factors determine what type of economic cooperation has greatest potential payoffs -- e.g., North Africa vs EEU countries
- Focus not just on market access/integration but on governance – and on how (sub-)regional cooperation can help on this
- Analysis of experiences and innovations in other regions
 - E.g., Pacific Alliance as a non-treaty based approach to cooperation
- Consider options and incentives created by new initiatives such as China's One Belt One Road strategy
- Revisit DCFTAs as mechanisms to create regional public goods and improve trade-related governance



Necessary condition: deliberation

- ‘Knowledge platforms’ & ‘value chain councils’
 - Public-private partnerships involving economic policymakers, relevant regulators, business associations, worker associations, consumer groups
- Mechanisms to identify & discuss policies that have significant impacts on parties all along a supply chain – domestic and foreign
 - Aim: cut across policy and sector silos
- Collect requisite data to establish baseline and monitor/analyze performance over time
 - Leverage firm-level and industry association data on supply chain performance/frictions