16th Global Economy Lecture: Richard Baldwin

Compiled by
Julia Wörz

On November 14, 2011, Richard Baldwin, Professor of International Economics at the Graduate Institute, Geneva, who is also Policy Director of the London-based Centre for Economic Policy Research (CEPR) and cofounder and editor-in-chief of Vox.EU, gave the 2011 Global Economy Lecture[1] at the OeNB. In his entertaining and interesting presentation entitled "21st-Century Regionalism: Filling the Gap between 21st-Century Trade and 20th-Century Trade Rules," Baldwin proposed a new way of thinking about globalization and highlighted the implications of the changing nature of trade for trade negotiations.

In his view, globalization is not a monotonous opening-up of economies by continually lowering border barriers. Rather, it is the story of two major unbundling processes. First, production was unbundled from consumption with the steam revolution, which opened up new possibilities in transportation. Consequently, production – while being spread out globally – also became concentrated within countries in production clusters. Second, the revolution in information and communications technology (ICT) in the mid-1980s led to an unbundling of firms, which was associated with "fragmentation of production," "vertical specialization," or "trade in tasks." According to Baldwin, distance still matters and we are witnessing a new form of regionalism, rather than globalization. The new form of trade – connecting factories across borders – implies a trade-investment-services nexus. As a consequence, "behind-the-border barriers" (BBBs) have become increasingly important, and therefore modern trade negotiations should no longer merely be concerned with tariff negotiations, which are straightforward to multilateralize. Instead, deeper bilateral and regional trade agreements (RTAs) with provisions for investment protection, competition policies, intellectual property and free capital flows have surged outside the WTO in an attempt to fill the governance vacuum left by the Doha Agenda – a clearly backward-oriented 20th-century trade agenda.

However, RTAs have some deficiencies from a global welfare point of view: discrimination leads to global inefficiencies, they preserve rather than equalize power asymmetries between partners, and they contain no rules of origin. Such agreements focus on regulatory change rather than tariff preferences. The newly created, more liberal rules then apply to everyone in the domestic market, and therefore the welfare effects cannot be assessed using the traditional Vinerian framework. Baldwin attributes the attractiveness of RTAs to the fact that emerging markets want to attract new factories, which can be offered by the U.S.A., the EU and Japan, but not by the WTO. This represents a threat to the WTO as the rule maker for global trade. He concluded by stressing the problems of multilateralizing behind-the-border measures.

The discussion first revolved around the welfare implications of RTAs. When RTAs are not multilateralizable, subsidiarity and learning from best practice may lead to a good outcome, even though the WTO only plays a minor role. Moreover, many RTAs contain identical provisions, which would make them suitable for being incorporated into WTO rules. Baldwin also referred to the Single European

[1] *The Global Economy Lecture is an annual event jointly organized by the Oesterreichische Nationalbank (OeNB) and The Vienna Institute for International Economic Studies (wiiw).*

Act and the U.S.-Canada free trade area as early examples of deep RTAs with well-studied welfare implications. However, North-South RTAs need more rules as Northern firms cannot always trust in Southern governments. Prompted on the Doha Round, Baldwin confirmed the apparent deadlock that has arisen from unacceptable requests the U.S.A. made of China. The only way forward would be an expansion of the agenda to also include investments in the GATS. Meanwhile, he sees the formation of a new multilateral framework through the Trans-Pacific Partnership (TTP), currently being negotiated between the U.S.A. and several partners, which he compared to a "Single European Act light" and which could become a substitute for the WTO, provided more partners find it attractive to join.