



Developments in Global Trade: An Outsider's Response

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Outline

1. An Important Topic, An Important Agenda
2. Factors Inhibiting Trade
3. Regionalism versus Multilateralism
4. The Next Frontier of PTAs
5. Final points



QUOTES

"The philosophy of protectionism is a philosophy of war."

-Ludwig von Mises (1881-1973)



An Important Topic, An Important Agenda

- Trade is the purest manifestation of economics
 - Willingness to pay (demand side)
 - Comparative advantage (supply side)
 - Geographical and institutional influences
 - Reliance on other parts of the economy
 - Both short-term and long-term components
 - Policy interference
- Trade remains crucial as an engine of growth, especially in a not-quite-post-crisis world
- Removal of trade barriers, both formal and NTBs, are one of the most important policies a government can pursue



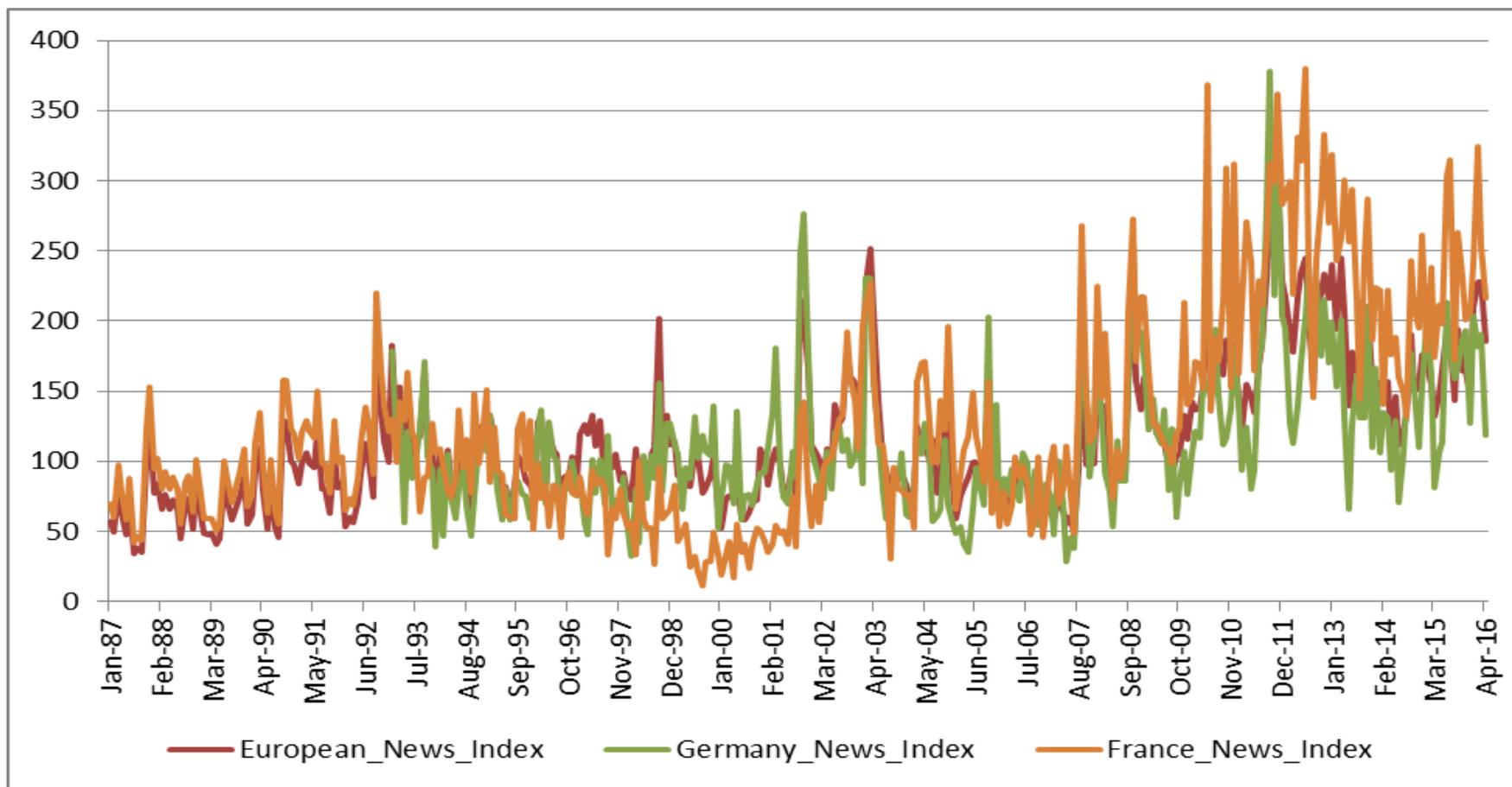
Factors inhibiting trade: Policy Uncertainty

- Minister Gonzalez notes that cyclical and structural factors contributing to trade slowdown
- An overarching factor that has been present since 2007 is policy uncertainty
 - How much does it affect trade?
- Trade is a longer-term flow
- Policy uncertainty dampens investment
 - No need to invest long-term if the policy environment shifts drastically
- Politics alters trade flows (Russian sanctions)
 - Cultivate markets can be shut down by political fiat
- Policy uncertainty thus harms macroeconomics and trade



Factors inhibiting trade: Policy Uncertainty

Economic Policy Uncertainty in Europe, 1987-2016





Regionalism and/or Multilateralism

- An old story (Viner 1950), even with “mega-regionals:” trade diversion or trade creation?
- Positives in the new “mega-regionalism:”
 - Multilateralism in all but name (as well as self-selection)
 - Non-discriminatory clauses allowing for spreading of benefits
 - Trade creation through liberalization
 - “Laboratory effect” – not enough recognition of policy experimentation which could be encouraged by PTAs
- Negatives:
 - “Fortress TTIP,” or liberalization for me but not for thee (trade diversion)
 - Continued support of philosophy that trade is something to be managed
- Our take: unilateral liberalization is best, but any mechanism that moves liberalization forward should be appreciated



The Next Frontier of PTAs

- Most trade barriers in the world today are not tariffs but NTBs
- Next generation PTAs address this issue and expand to include regulatory impediments as well
- Need to recognize the importance of business environment, SPS, and customs in creating transaction costs for trade
 - Mega-regionals making a good step in pushing for removals of NTBs
 - Also need to avoid regulatory harmonization as a goal of mega-regionals, but instead liberalization
 - Political economy of regulation – how to circumvent entrenched interests to make it easier to do business?



Final points

- “Mega-regionals” such as TPP and TTIP represent an innovation in pushing liberalization
 - Happy to see the World Bank on-board with such approaches
- If TTIP and TPP can create more liberalization, especially in regulatory/NTB reform, they will have done a great service
 - Also need to consider taxation and other areas, such as basic protection of property rights
- However, need to keep an emphasis on “free” rather than the outcome of “trade”
 - Free trade patterns are not negotiated and may not be what we expect when we lower barriers
 - But they are “optimal” in the sense that they chase comparative advantage and profit



Thank you

Thank you!



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