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Governance of Deeper Economic Integration in a Supply Chain World

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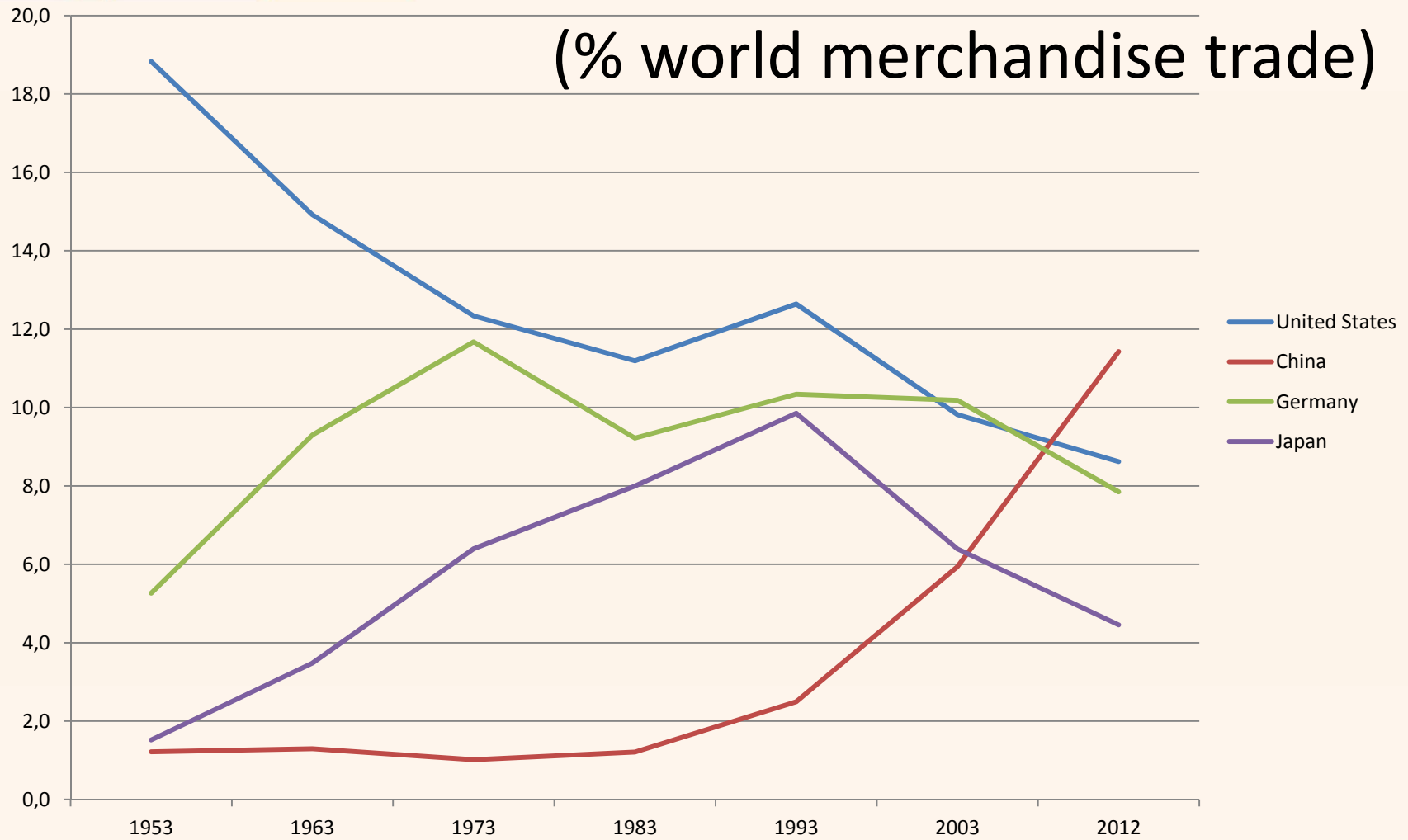
Background

- Rise of China—now the world’s largest trader
 - Plus other emerging economies
- Rise of ‘supply chain trade’
 - Outsourcing/offshoring driven by ever finer ‘vertical’ specialization
- Process of global integration a major driver of global growth and poverty reduction
- But gives rise to adjustment pressures, frictions and new policy challenges



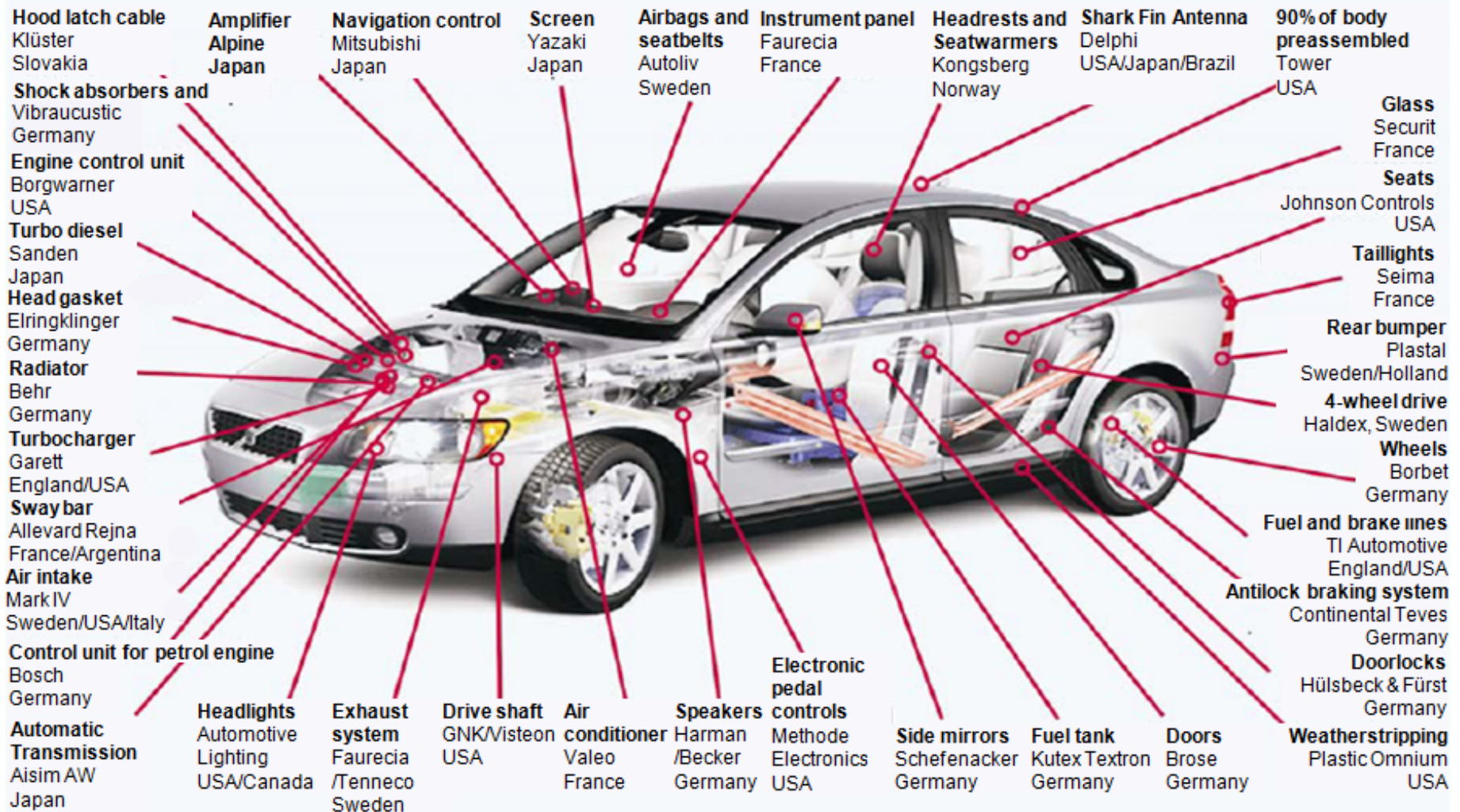
The rise of China

(% world merchandise trade)



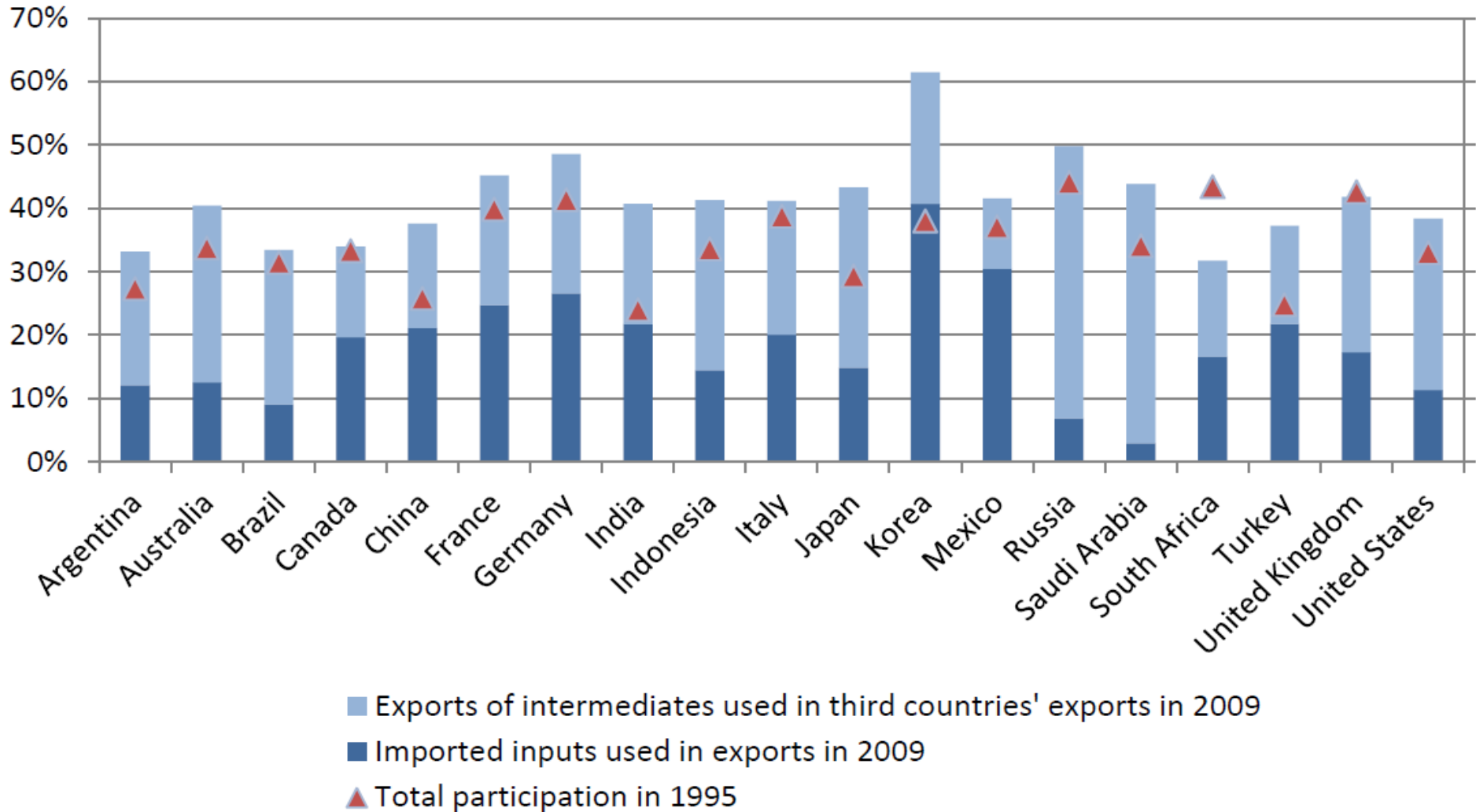


Vertical specialization at work





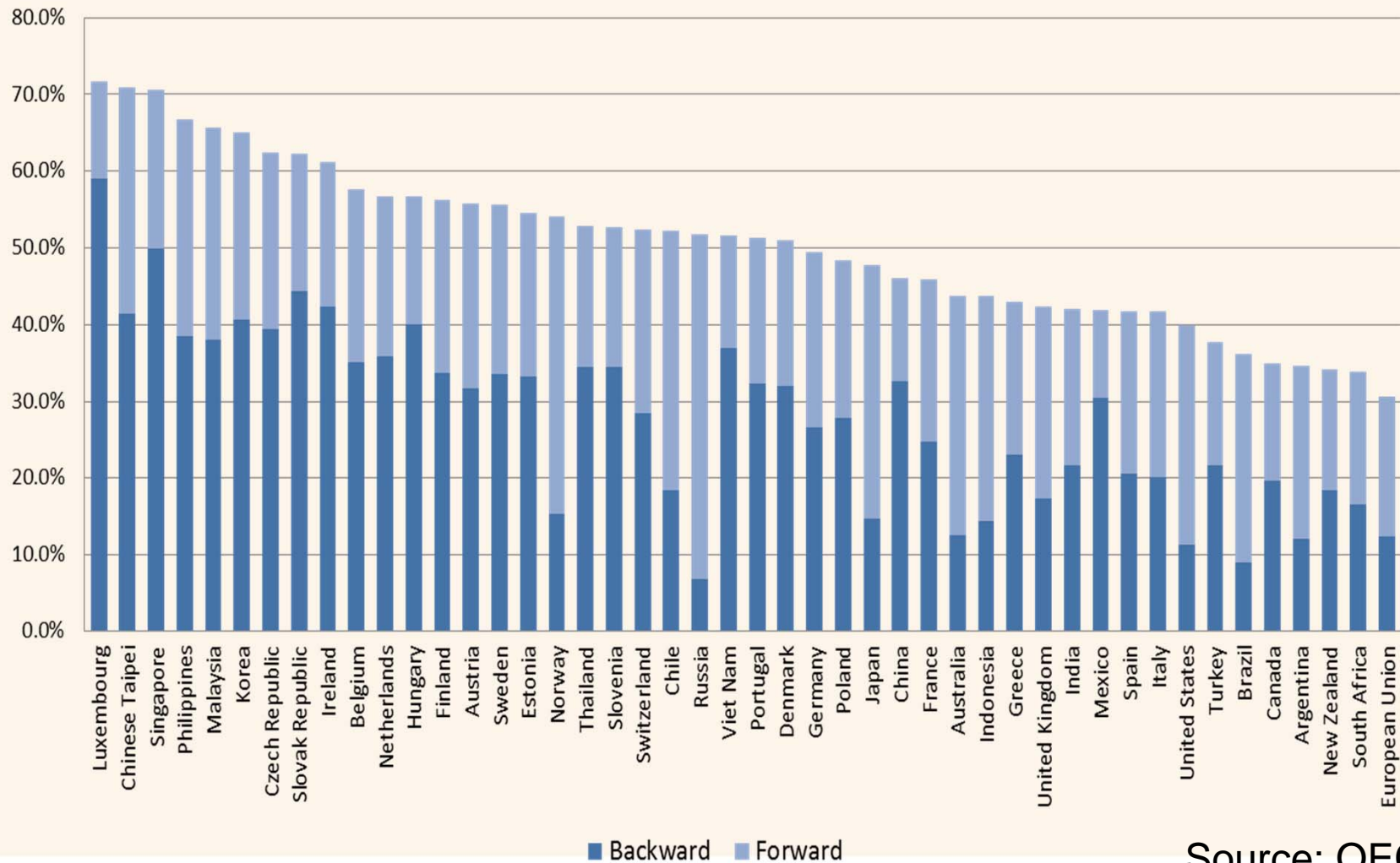
Vertical specialization (G20), 1995 vs. 2009



Source: OECD 2013 (Interconnected Economies: Benefitting from GVCs)



GVC participation index (% of gross exports in 2009)

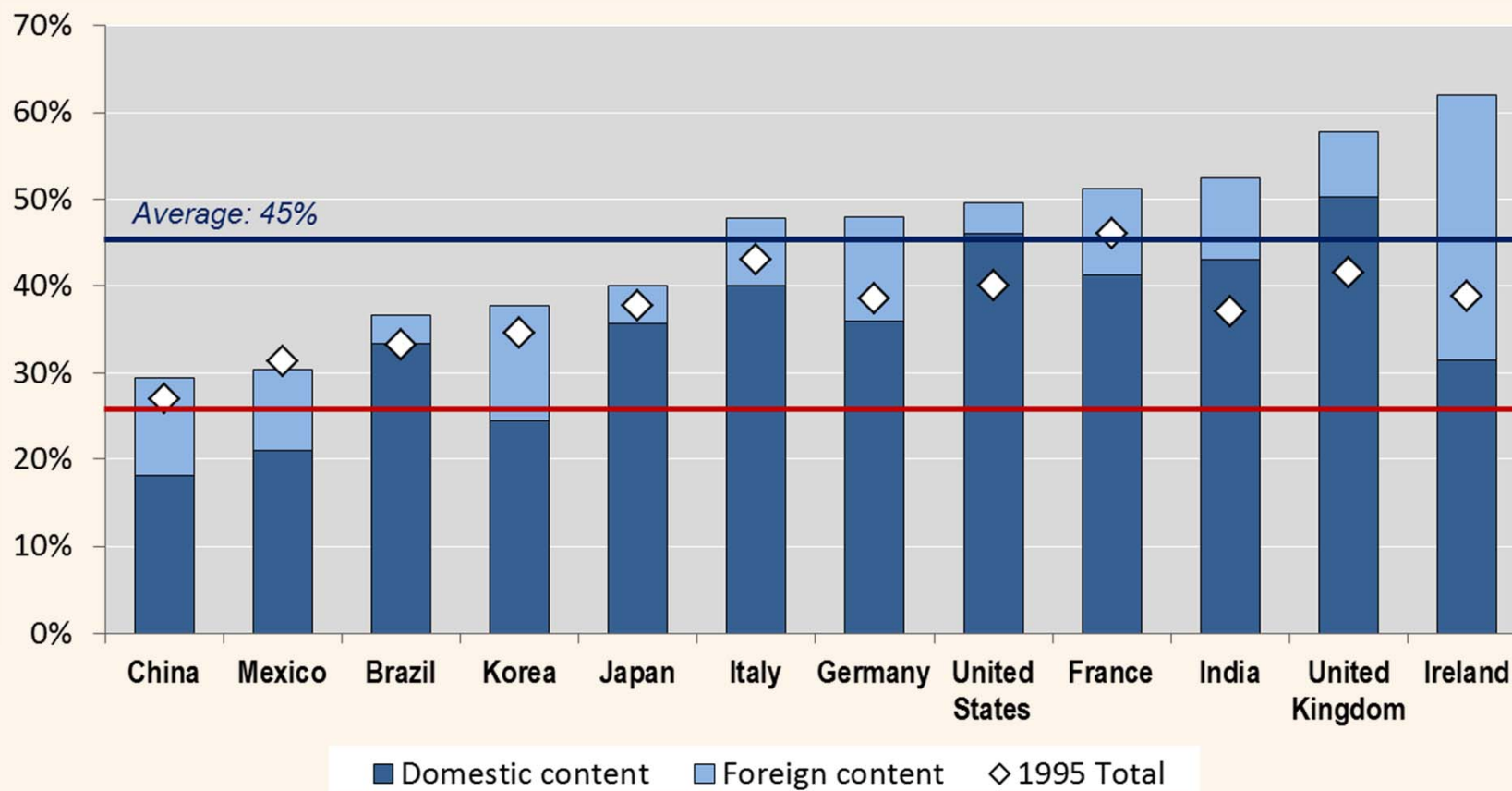


Source: OECD



Services play a key role

Services value added embodied in gross exports, 2009

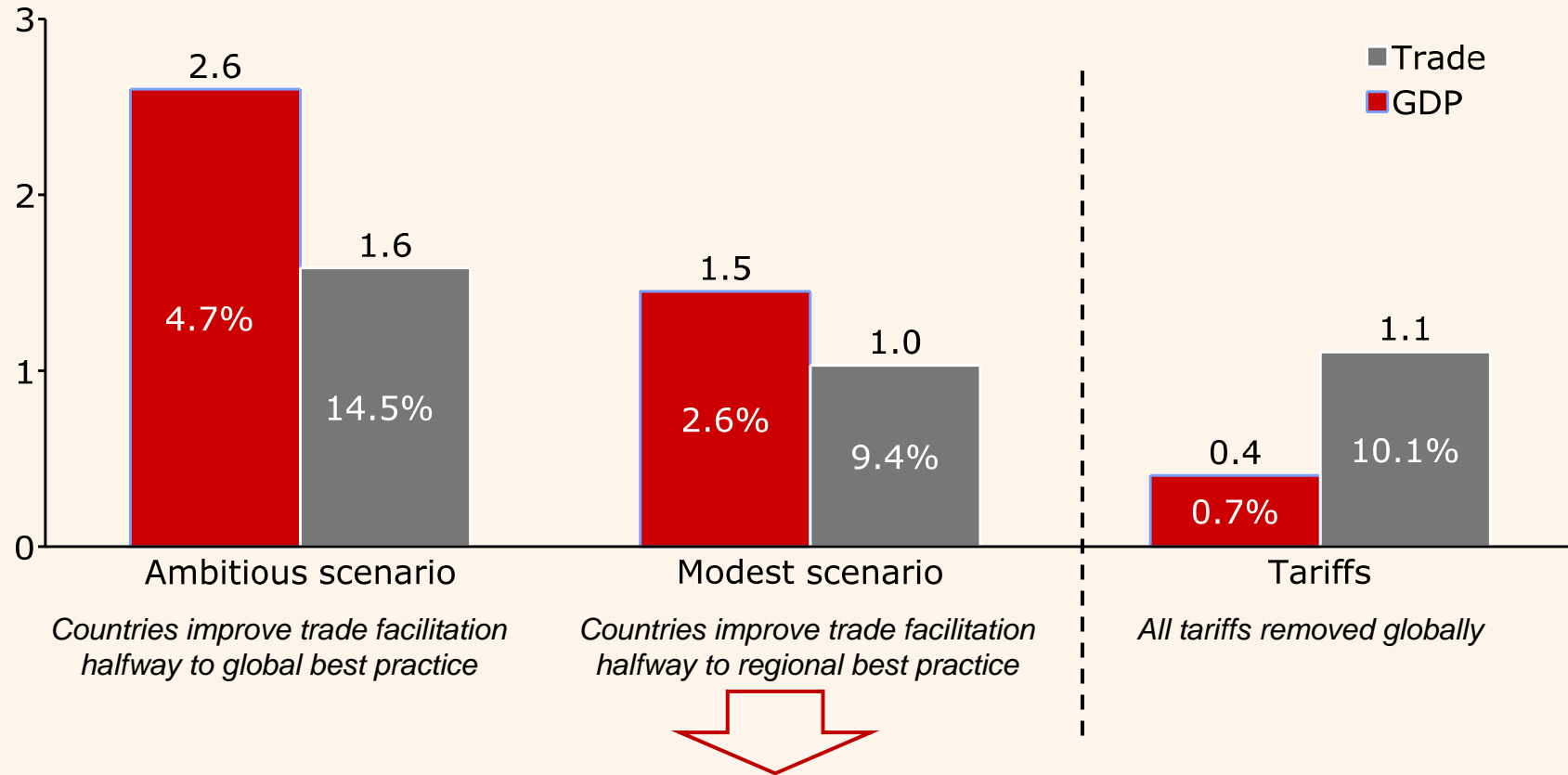


Memo: Services share of gross global trade: 24%



Potential gains from reducing supply chain barriers are large

Increase in trade* and GDP (trillion US\$)



Global GDP effect of reducing supply chain barriers is much higher than for tariffs

Based on Ferrantino, Geiger and Tsigas, *The Benefits of Trade Facilitation - A Modelling Exercise*. Based on 2007 baseline.

Source: WEF 2013



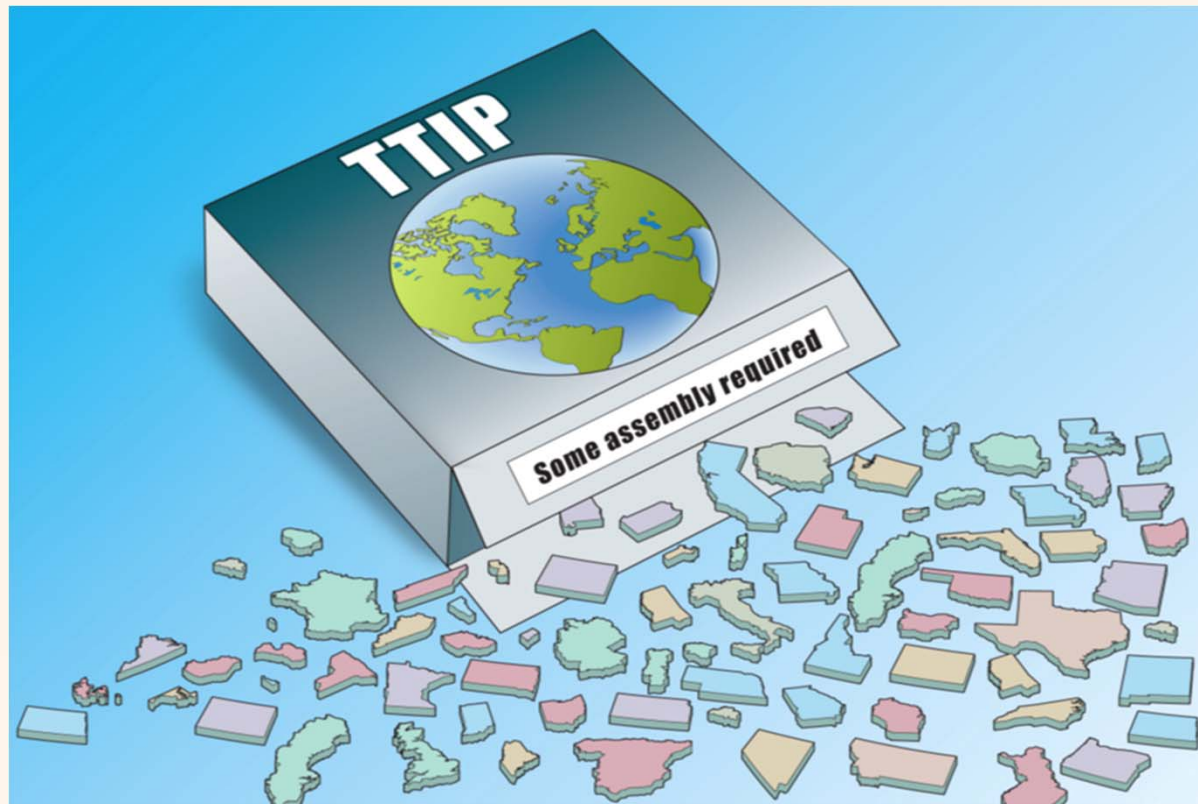
‘Policy silos’ & overlaps

- Often have multiple agencies that apply regulation that impacts on the networks/supply chains for goods and services
 - 5 agencies need to clear imports of aspirin in US
- Often not coordinated: redundancy/duplication
 - In part reflection of multiple levels of government—central, state/provincial, municipal
 - 28 nations in the EU; 50 states in the US
- Not necessarily clear which policies are most important from a trade/investment perspective, or how they interact



Getting there requires regulatory cooperation—but how to do it?

- **TTIP: a negotiation among 2, 78 or hundreds of players?**



- **Source: Atlantic Council and Bertelsmann Foundation, 2013.**



Typologies of international governance

(De Burca, Keohane and Sabel, 2013)

- International regimes
 - State-centric, rule-based approaches (treaties) (Keohane)
 - E.g., WTO, formal trade agreements
- Regime complexes and related networks
 - A mix of state and non-state actors form networks that create a mandate for international organizations to engage in decision-making and pursue activities in a specific area
- Experimentalist governance
 - Gradual institutionalization of practices involving continual updating, open participation, an agreed understanding of goals and practices, and monitoring of outcomes



WTO?

- Many disciplines already in place
 - Market access
 - Rules (TRIPS, TBT, SPS)
- But, Doha negotiations deadlocked
 - Large differences in goals—160 WTO members
 - Rise of emerging economies increases pressure to get better access
 - OECD not willing/able to offer enough of a quid pro quo
- Agenda is largely an old one (20th century)
- No real focus on regulatory or industrial policies



PTAs/mega-regionals?

- EU/US shift to Trans-Pacific and Transatlantic partnerships
- Aim: “21st century agreements” – FDI, SOEs, state aid/subsidies, IPRs; services, etc.
- So far excludes China/major emerging economies
 - Exception: “Plurilateral” trade in services negotiations (?)
- Much of the focus is on regulatory policies
 - Product standards; services policies; investment; competition; border management; etc.
- A major driver may be “supply chain trade”
 - but approaches still tend to be policy-specific



Reducing regulatory market segmentation

- Regulators/legislators don't worry about trade effects
 - If it works for us why fix it?
- Dealing with the trade/investment consequences of the policy silo problem is:
 - In part an information/coordination issue; and
 - In part a 'mandate problem'—trade/investment not something that features in regulatory design
- Plus: rationally ignorant consumers/voters



Limits to ‘business as usual’ trade treaties

- Complementary forms of governance & cooperation needed
- Hard to negotiate changes to regulatory regimes using ‘first difference’ negotiating techniques
 - Differences in risk attitudes, legal regimes, design of enforcement mechanisms, etc.
- Need agreement on – and application of – principles (‘good practices’); on ‘equivalence’ of norms/certification processes
 - Necessary conditions: transparency; regular flows of information and interaction, trust



Regulatory cooperation: a key part of any solution

- Current focus in TTIP discussions on assessing areas where regulations are equivalent, and
- bolstering mechanisms for dialogue, consultation, coordination input into proposed new rules
- Such sectoral regulatory cooperation is important
- But:
 - It may not address the “silo problem”
 - May miss regulatory policies that have significant effects of trade (the “lamppost problem”)



Leverage this with ‘private sector involvement’

- Supply chain councils: public-private partnerships organized around a representative sample of actual supply chains
- A mechanism to pinpoint policies that have significant impacts on parties all along a supply chain – domestic and foreign
 - Cut across policy and sector silos



Possible supply chain council activities

- Deliberation mechanism
 - Mechanism for business to interact with regulators, policymakers, competition authorities, consumer groups
- Identify policies that should be focus of cooperation
- Generate information on (impact of) implementation of regulatory cooperation
- Establish performance targets and metrics
- Collect requisite data to establish baseline and monitor/analyze performance over time
 - Leverage firm-level and industry association data on supply chain performance/frictions



Potential benefits

- Could be pursued under the umbrella of existing bodies (the Transatlantic Business Council, Consumers Dialogue, and Legislators Dialogue)
 - Three critical constituencies
- Help to identify and address silo problem in the sense that any and all policies can be tabled
- Engagement by business community may enhance prospects for learning
 - E.g., where they are similar/equivalent
- Identify implications for third party firms that are part of EU/US supply chains



Challenges/design questions

- Identifying appropriate performance metrics
 - Will in part be GVC-specific, but many likely to be more generally applicable (e.g., process-related; ‘good governance’ principles)
- Inducing business to participate and provide data
 - Minimize costs—what useful data are already compiled by firms?
- Ensuring that governments and citizens/voters accept metrics & data
 - Recognize different incentives and lack of trust
- Solutions to these questions need research
 - ‘Mechanism design’



A form of experimentalist governance?

- Five key features:
- (i) openness to participation of stakeholders in a nonhierarchical process of decision making;
- (ii) articulation of a broadly agreed common problem and the establishment of a framework for understanding and setting open-ended goals;
- (iii) implementation by lower-level actors with local or contextualized knowledge;
- (iv) continuous feedback, reporting, and monitoring; and
- (v) established practices, involving peer review, for revising rules and practices

(De Burca, Keohane and Sabel, 2013)



Conclusion

- Not a panacea: A complement to what is already being pursued on sector-specific regulation,
 - i.e., processes for information exchange, notification, provisions to solicit comments on new regulation proposals, agreement on equivalence of norms, etc.
- An intermediary input to support regulatory cooperation and increase accountability
 - Helping to identify what matters and how; identify gaps; and monitor progress in reducing redundant costs for governments and businesses