

Regionalism and deep Integration: the Challenges for Policy and Economic Analysis

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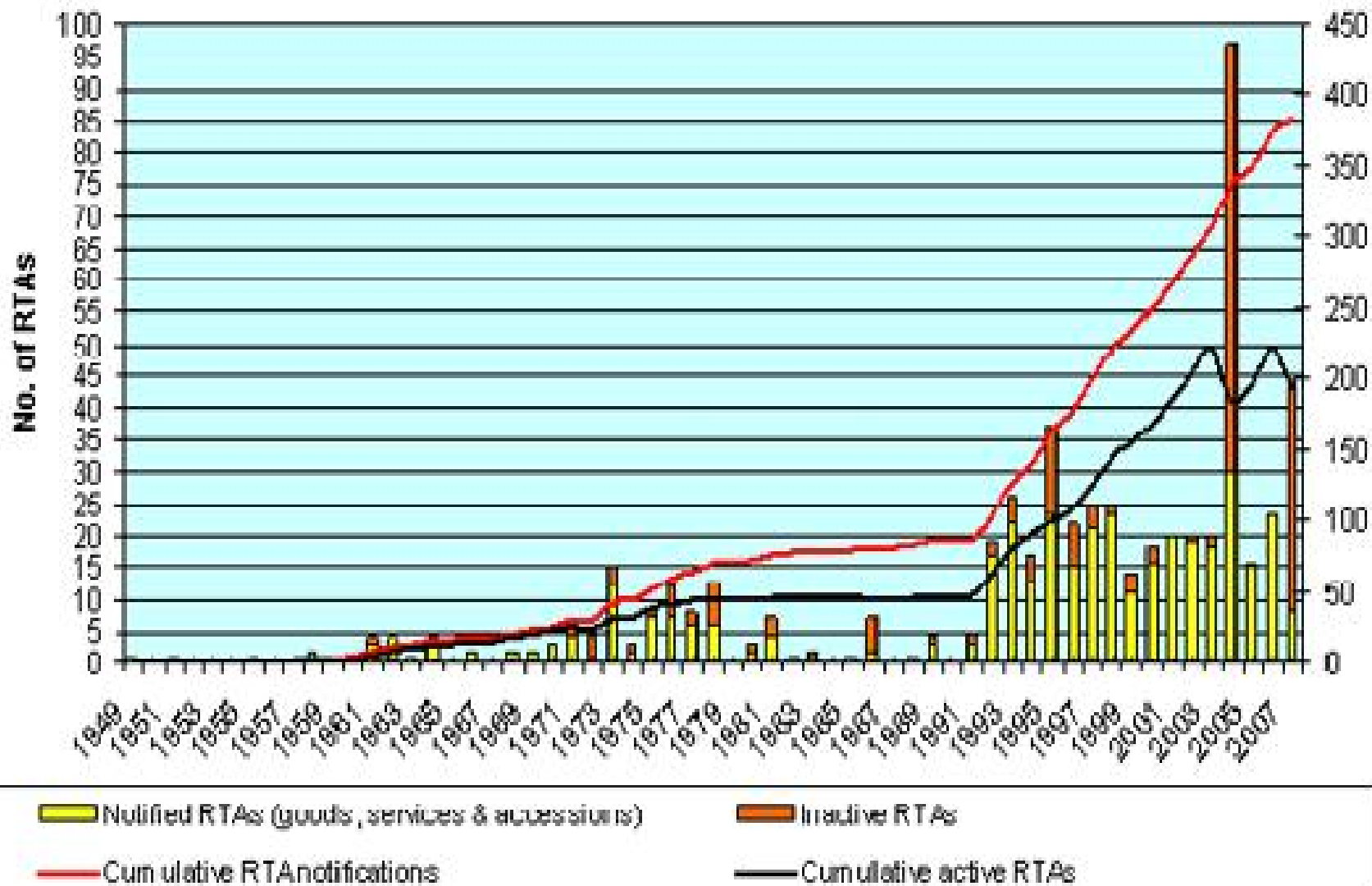
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Centre for the Analysis of
Regional Integration at Sussex

Outline

- Introduction – what's going on and who's doing it
- Why does economic integration matter?
- the effects discrimination in trade
- Market led integration
- Shallow and deep Integration
- The challenge for policy makers
- One answer: The Sussex Framework; another answer ACORTA
- The challenges for economists
- A research agenda?

What is going on?

RTAs notified to the GATT/WTO
(1948-2007), including inactive RTAs,
by year of entry into force.



Who is doing it?

Preferential agreements notified to WTO by type as at 1 October 2007	preferential arrangements*	Free trade Agreements*	Customs Unions*	Services agreements*	Total
South South	18	22	5	16	61
North South	0	42	1	21	64
North North	0	15	8	8	31
Transition to Transition	0	34	0	0	34
North Transition	0	4	0	0	4
South Transition	0	3	0	0	3
					197

*including later accessions to already notified agreements

**Source derived from
http://www.wto.org/english/tratop_e/registration_e/eif_e.xls

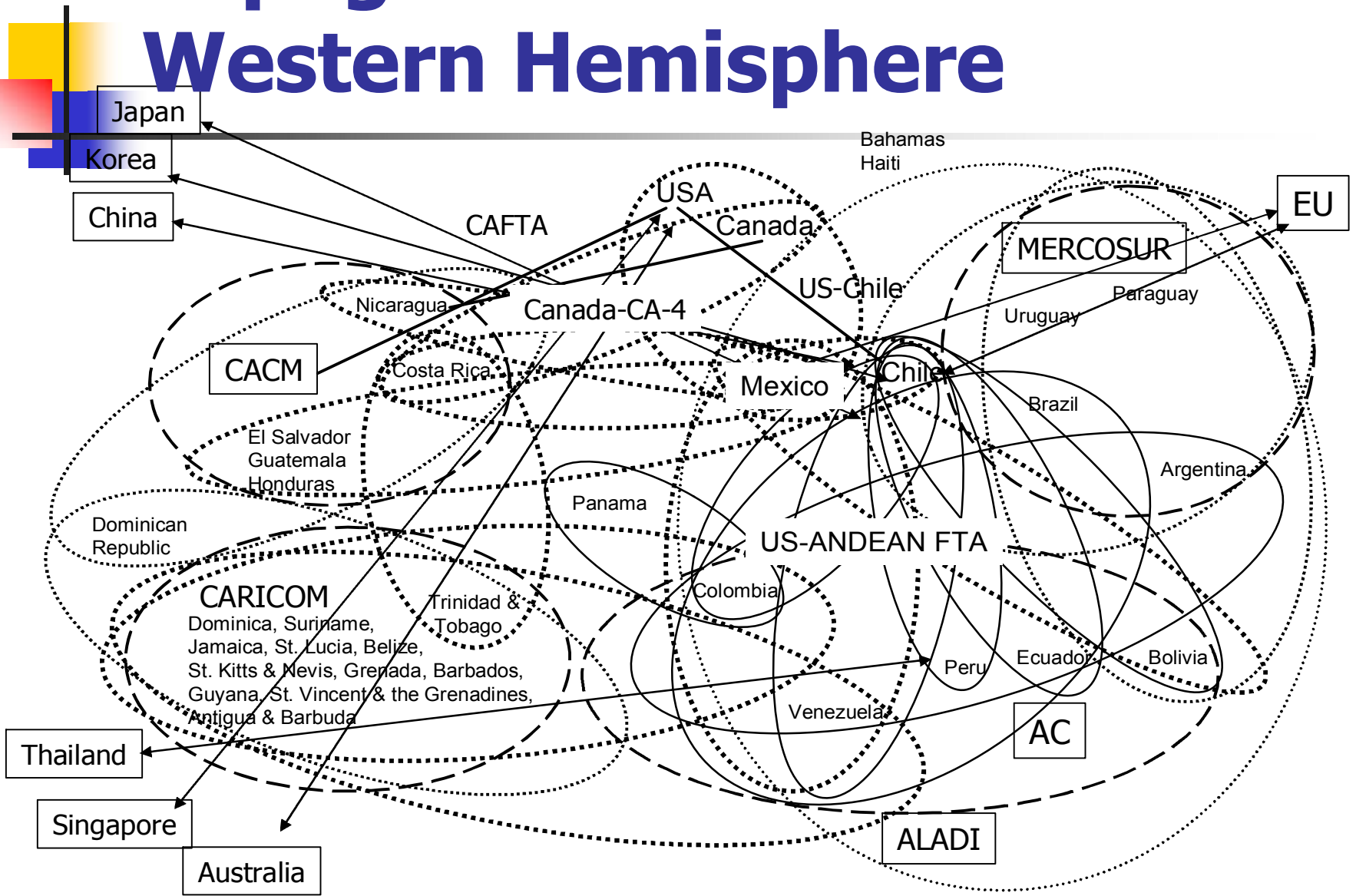
The economics of discriminatory liberalisation

- What is it – removing trade barriers, completely or in part, for some but not all trade partners
- What are the effects
 - Trade creation – displace less efficient domestic producer in favour of a more efficient foreign producer
 - Trade diversion – displace an efficient foreign supplier with an inefficient foreign supplier
- The benefits of non discriminatory trade liberalisation – essentially all trade creation

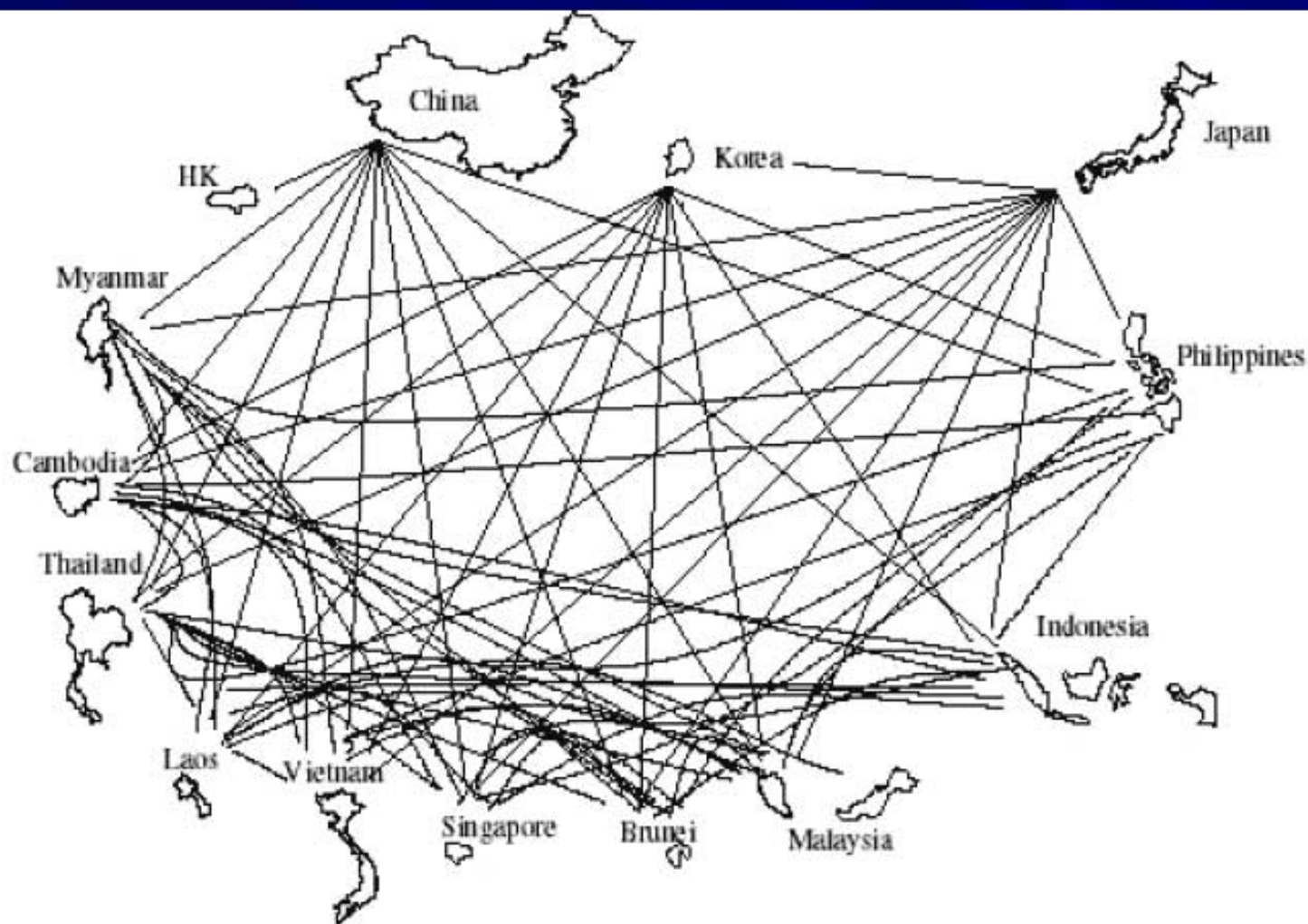
And another bad thing about RTAs!

- The Spaghetti bowl of trade agreements

'Spaghetti bowl' RTAs in the Western Hemisphere



FTAs signed or under negotiation in January 2006.



Market led regional integration

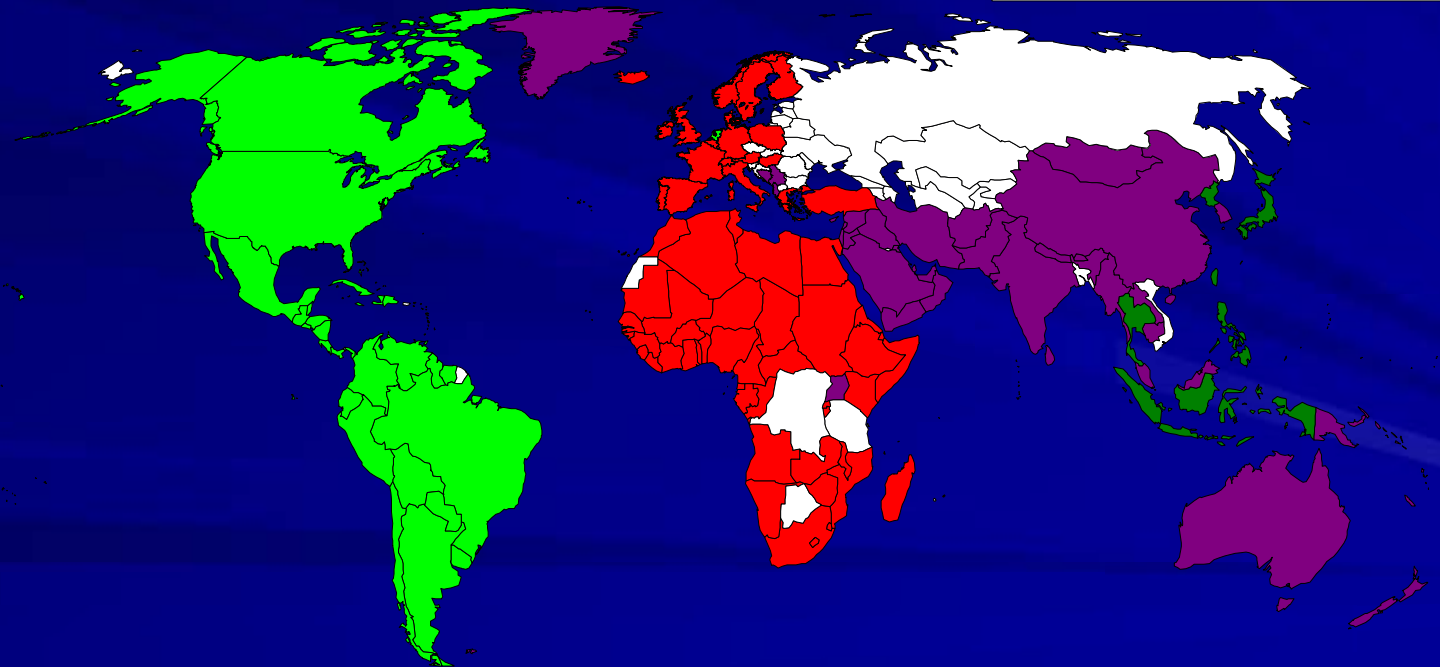
- Trade Clusters or natural trading blocs?

Trade Blocs: 1960s

1960s

World Countries and Regions

- Europe + (70)
- US + (41)
- Asia-UK (56)
- Asia-US (6)

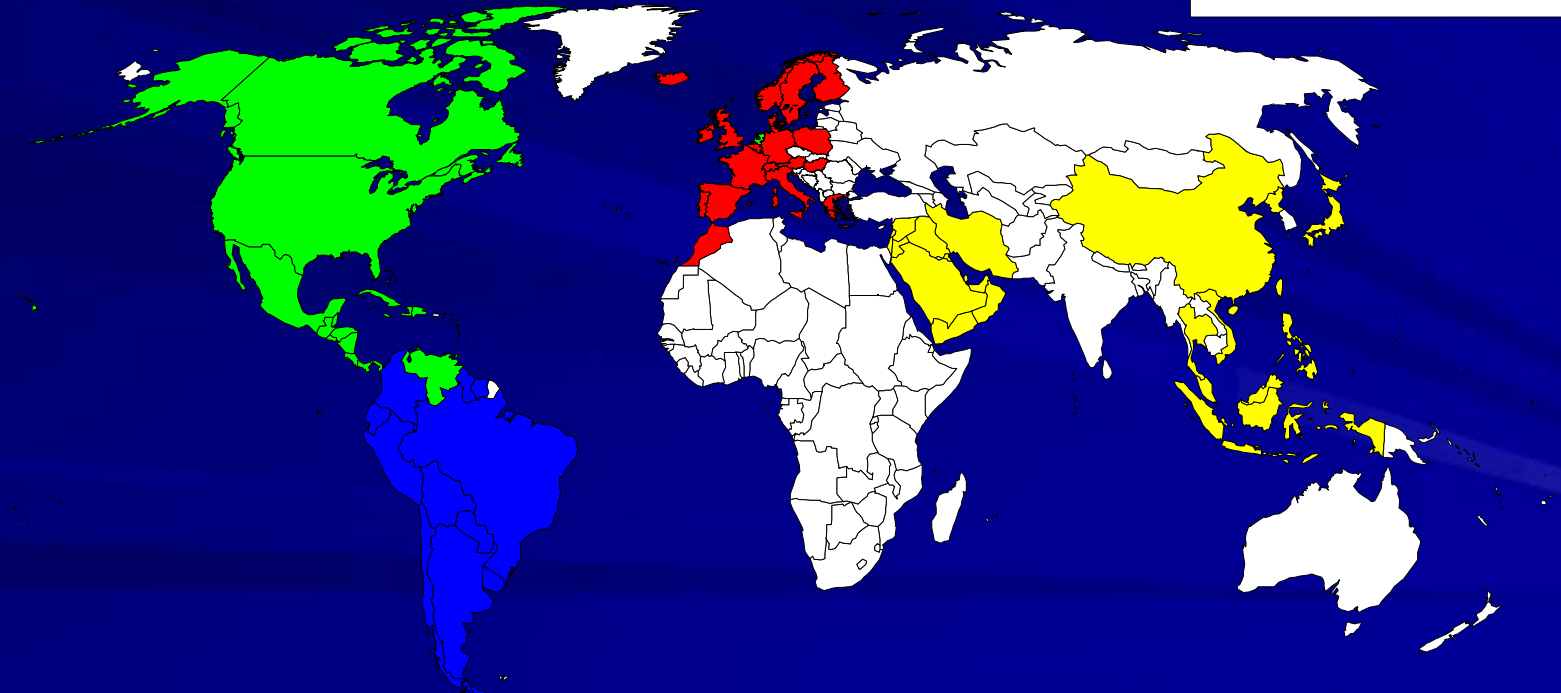


Trade Blocs: 1970s

1970s

World Countries and Regions

■ Europe +	(21)
■ N America +	(30)
■ E&SE Asia	(23)
■ S America	(11)
□ Rest	(90)

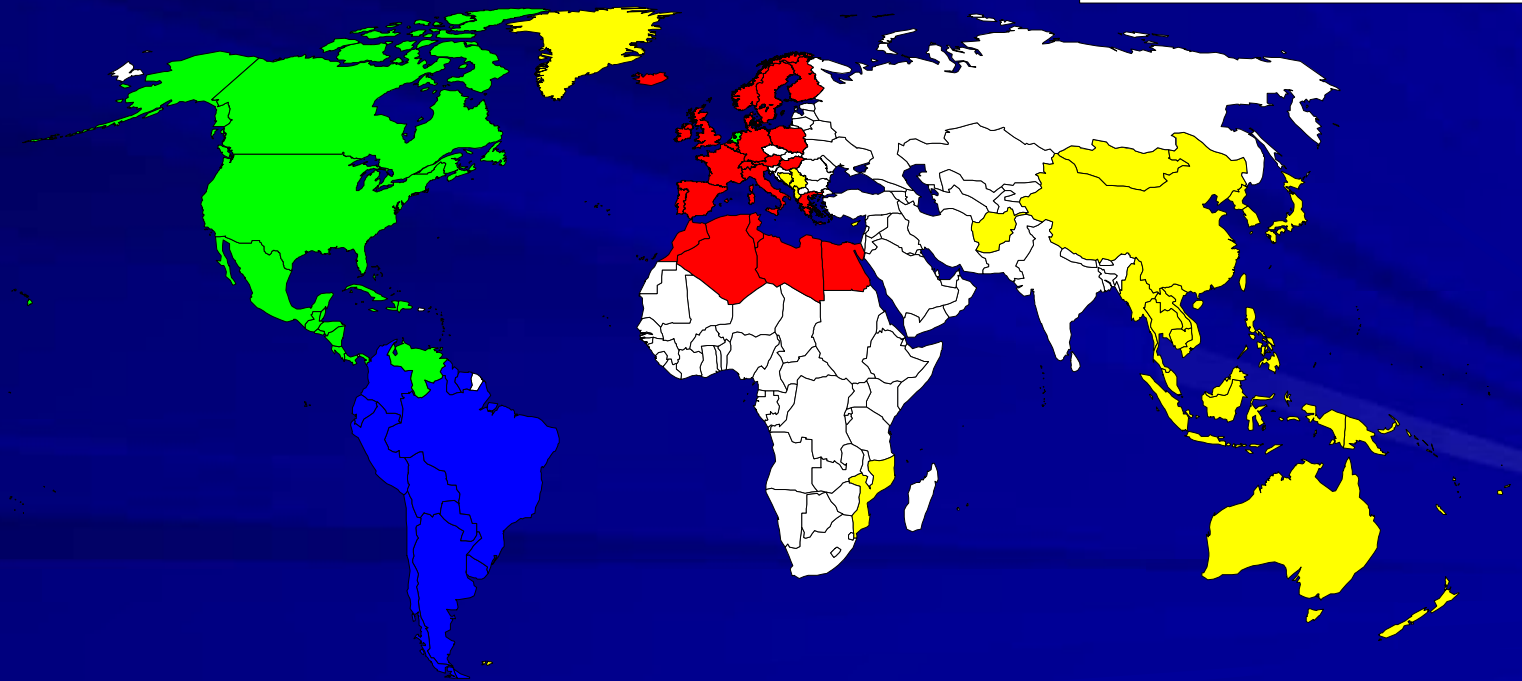


Trade Blocs: 1980s

1980s

World Countries and Regions

■	Europe +	(25)
■	N America +	(30)
■	E&SE Asia	(44)
■	S America	(11)
□	Rest	(65)

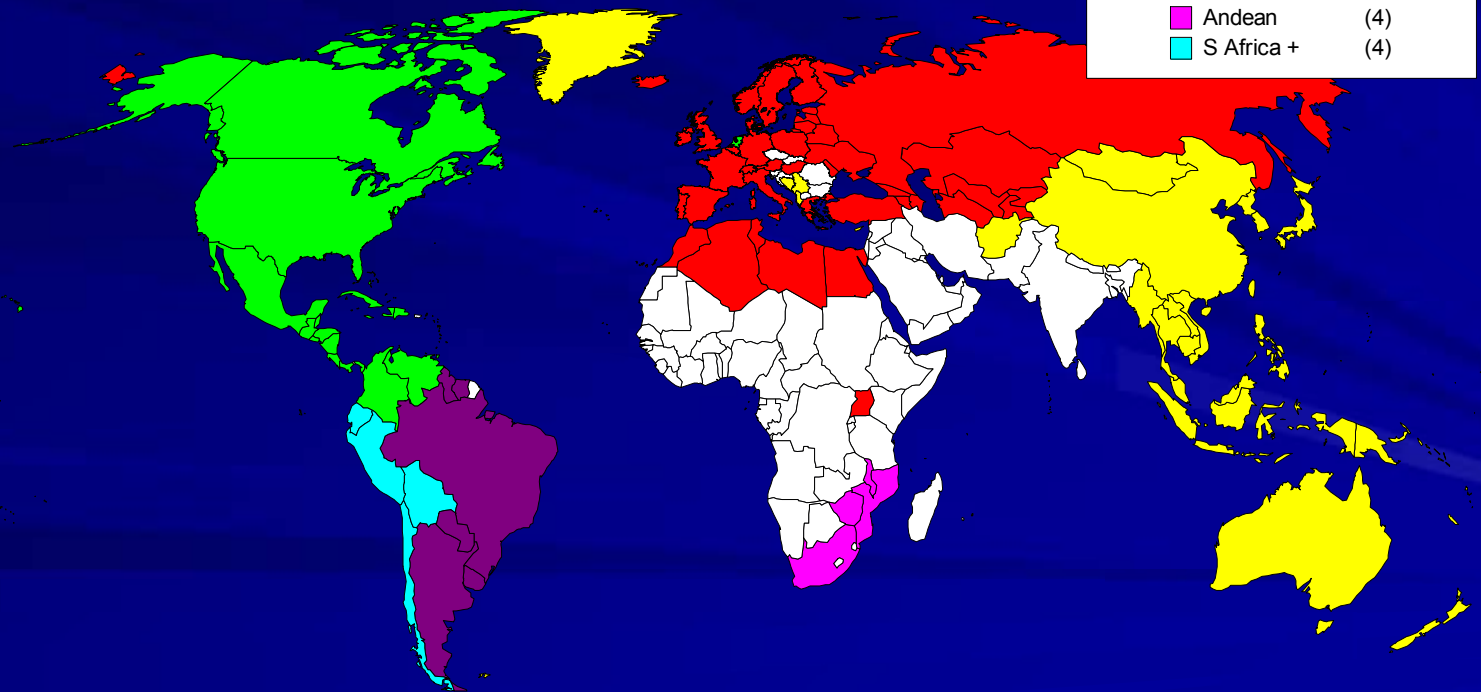


Trade Blocs: 1990s

1990s

World Countries and Regions

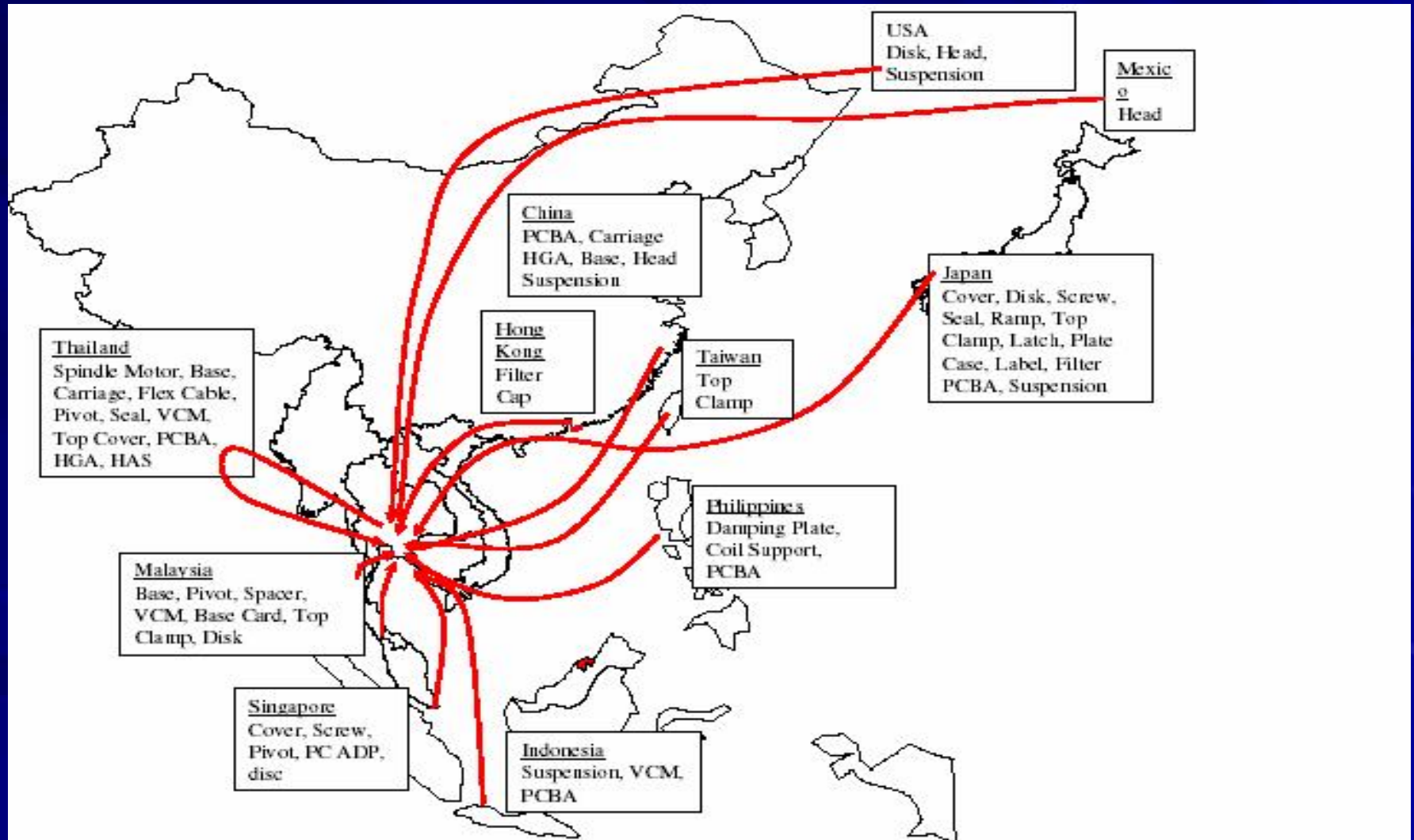
■ Europe +	(42)
■ N America +	(31)
■ E&SE Asia	(43)
■ MERCOSUR	(6)
□ Rest	(61)
■ Andean	(4)
■ S Africa +	(4)



Market led regional integration

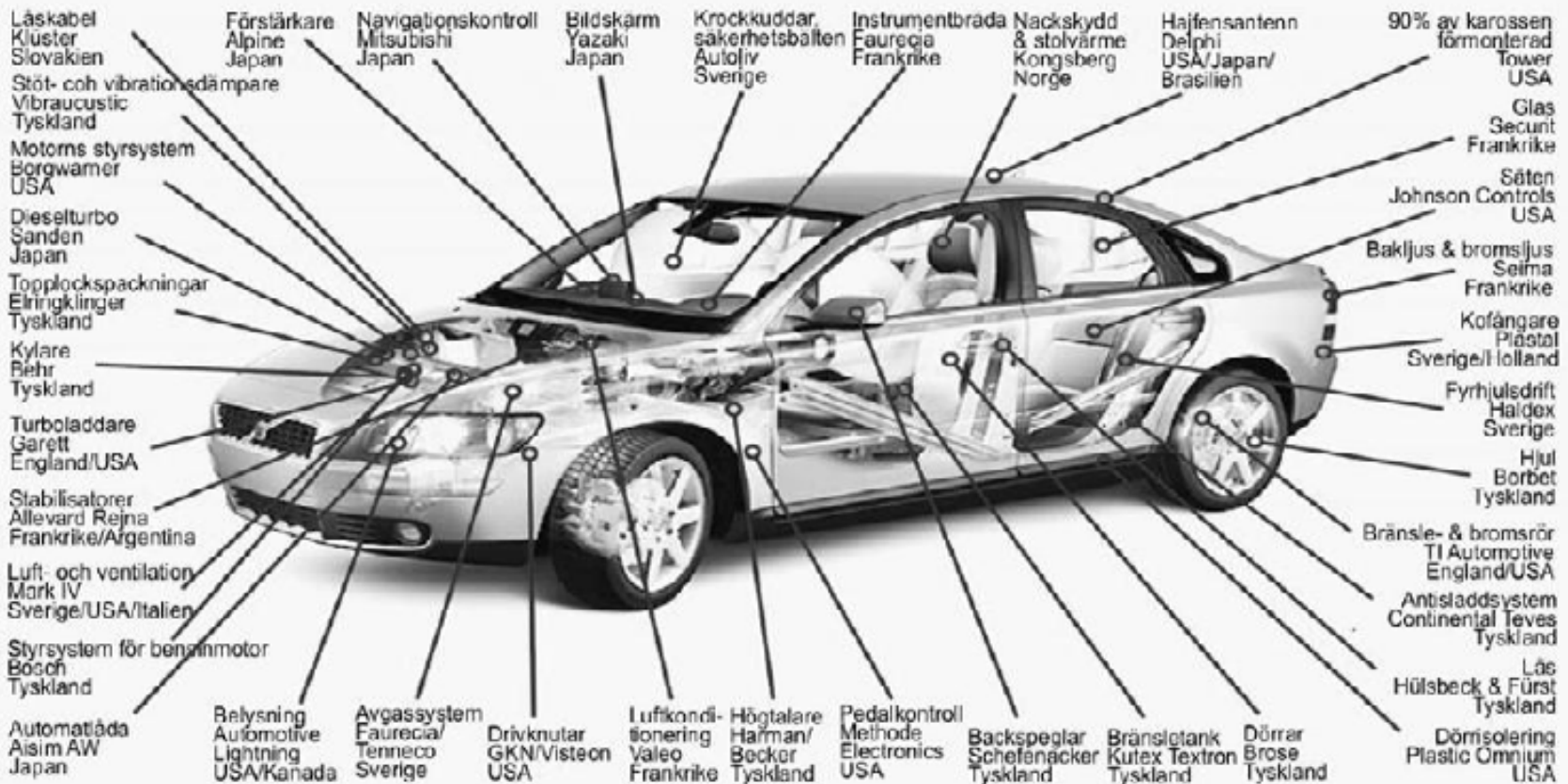
- Or welcome to the global pin factory?

Sources of components of Hard drives exported by Thailand



A complex global supply chain example: the Volvo S40

Underleverantörer till Volvo S40



Not a new story but.....

- Smithian gains from specialisation
- But modern technology and communications make it more intense
- Not ship and forget – highly integrated into product chain by firm level standards – by Investment, by proprietary technology transfer
- Key to the modern rise of China and India in trade in goods and services
- one question is whether policy of regional integration is following the market and embedding it
- Another is whether this deep integration can be harnessed through policy to help developing countries grow faster

Shallow and deep integration

- Shallow integration is the removal of barriers at the frontier notably taxes and quotas
- Deep integration is about reducing obstacles to trade presented by domestic regulation – by harmonising on global norms, by harmonising with trading partners, by mutual recognition

The challenge for policy makers

- Each preferential agreement requires detailed information and knowledge to calculate costs and benefits
- For shallow integration this is conceptually fairly straightforward – but net benefits likely to be small
- For deep integration much more difficult. Changing regulations may change costs but may also change benefits from the regulation
- All complicated – particularly for small and developing countries - by the fact that each agreement is unique and the lack of analytical capacity

The Sussex Framework: Answer to a trade negotiator's prayer?

- An attempt to sum up state of the art in an analytical and diagnostic framework which allows the costs and benefits of any given proposal.
- Strong on shallow integration and trade in goods
- Weaker on deep integration and services – which reflects a gap in the analytical armoury
- We have used it to analyse preferential integration in the Mediterranean, the Caribbean, in west and east Africa with themselves and with the EU and between the EU and Russia, Ukraine, India and Korea.
- Useful but does have gaps
- ACORTA

Challenges for Economic Analysis I

- How does deep integration work? Some plausible suggestions
 - Technology spillovers (investment)
 - Increased FDI (role of investment rules, government procurement, competition policy, IPR)
 - Improved access to markets (eg. through improved standards regime, improved rules of origin, customs procedures)
 - Elimination of wasteful rent seeking (cf. government procurement)
 - Smithian specialisation gains, e.g. local economies of scale arising from specialising in different parts of the value chain (arising from common standards + preferential market access)
 - Externalities (standards, legal system, services, transport infrastructure)

Challenges for Economic Analysis

II

- Yes, but how does it work
 - Which elements in any given regulation spur or slow the benefits?
 - How would changing a given regulation affect the behaviour of firms and consumers?
 - What is the impact of the change on productivity and potential for growth and hence on economic development?

A research Agenda?

- With colleagues exploring a research agenda and beginning a search for funding. The issues that interest me are
 - the impact of trade on firm level productivity – via theoretical advance and modelling
 - The potential impact of regulatory integration on costs, innovation and competition – asking producers and consumers – ie surveys based on particular cases
 - whether regionalism is institutionally more conducive to deep integration or are the regional clusters we see simply geography (and economic gravity)?