

# **Trade Integration and Its Future**

**Arvind Subramanian**

**Dennis Weatherstone Senior Fellow**

**Peterson Institute for International Economics and Center for  
Global Development**

**(based on Subramanian and Kessler, 2013)**

**Global Citizen Foundation (GCF), Toward a Better Global Economy  
Project**

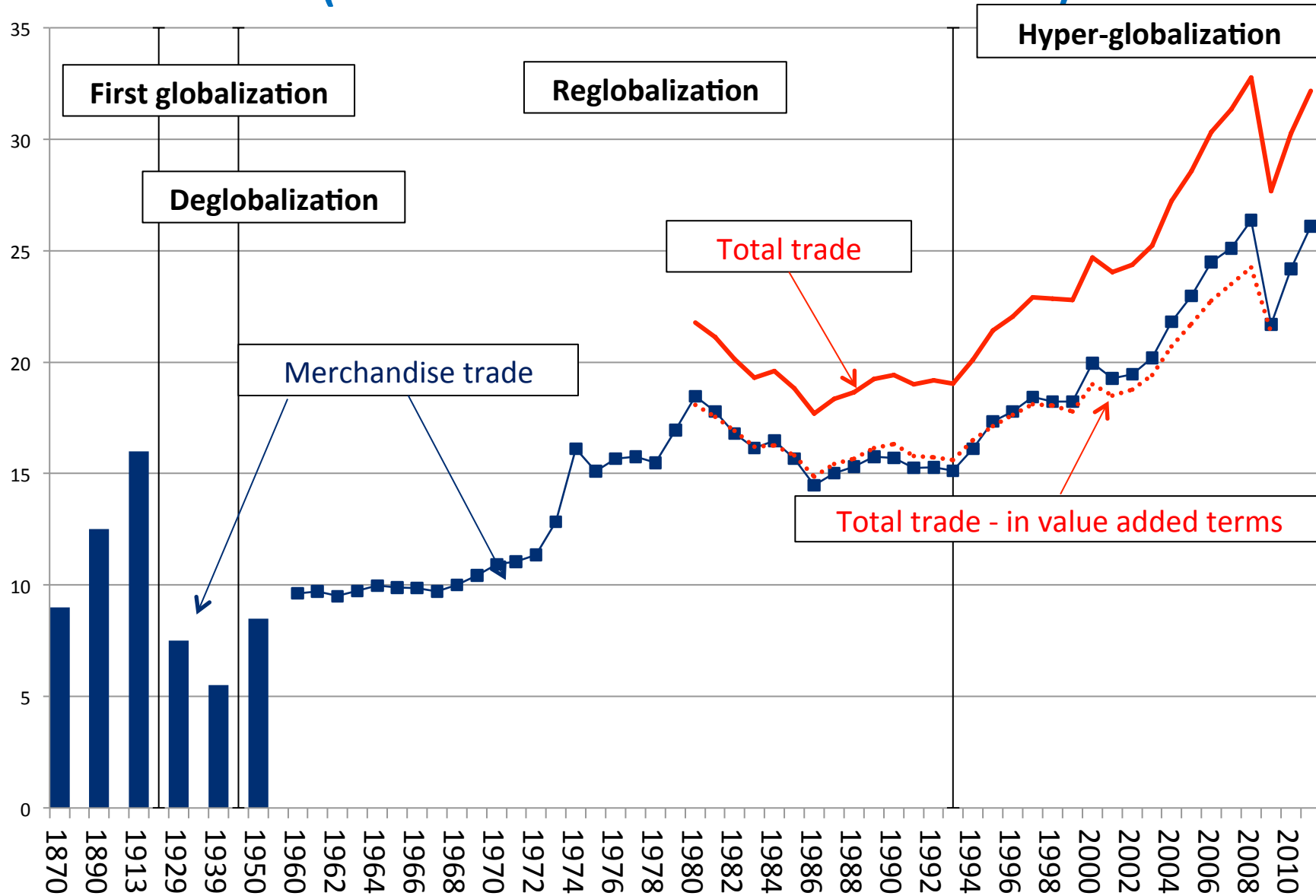
**Geneva, July 12, 2013**

# Overview

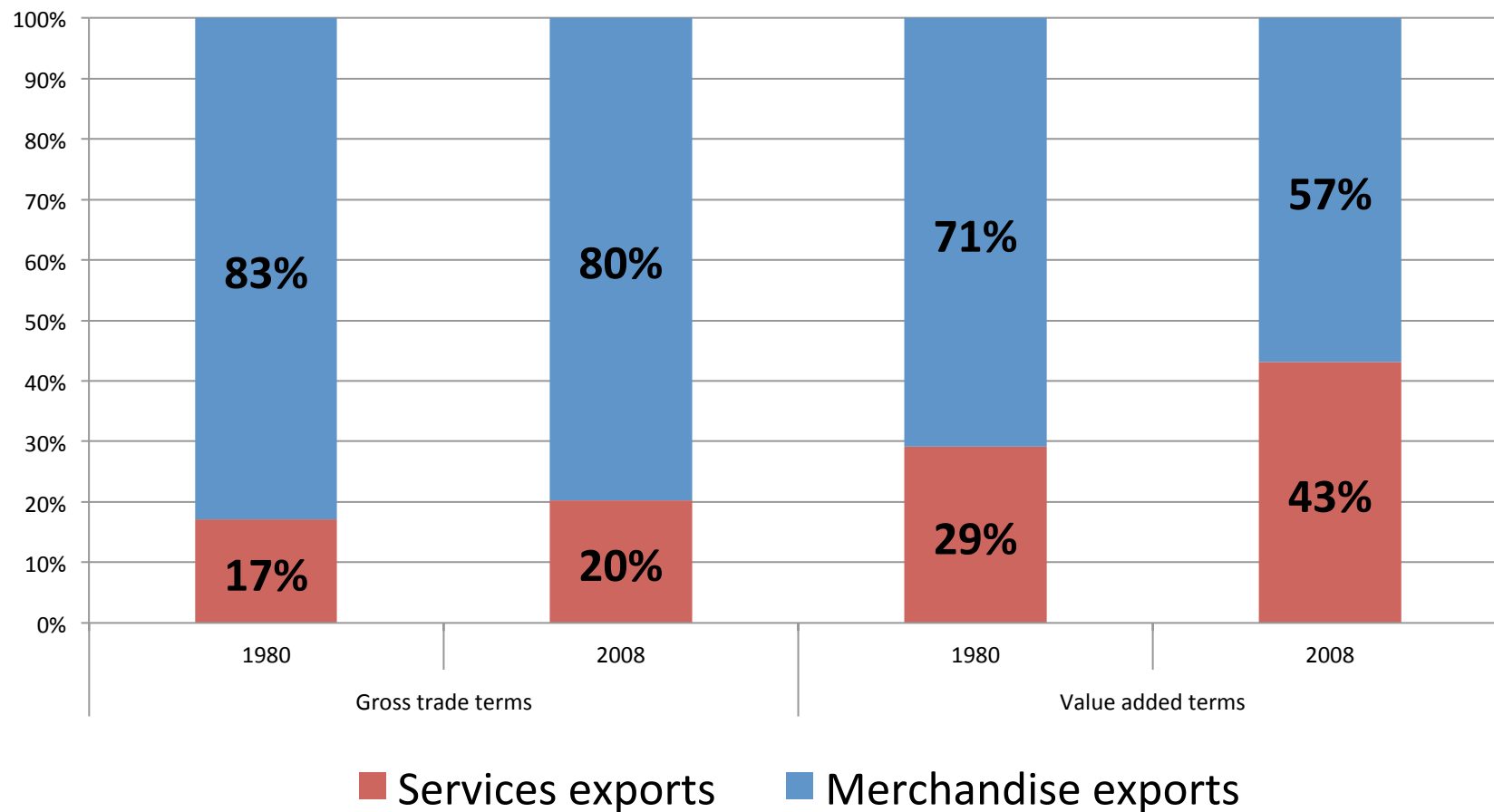
- **Features of recent trade integration**
- **Challenges**
- **West: Hyper-globalization meets economic and fiscal weakness**
- **Rise of China: Bretton Woods rules versus hyper-globalization rules**
- **Rise of mega-regionalism: Implications for multilateralism and multilateral governance**

# 1. Hyper-globalization

(World Trade as Share of World GDP)

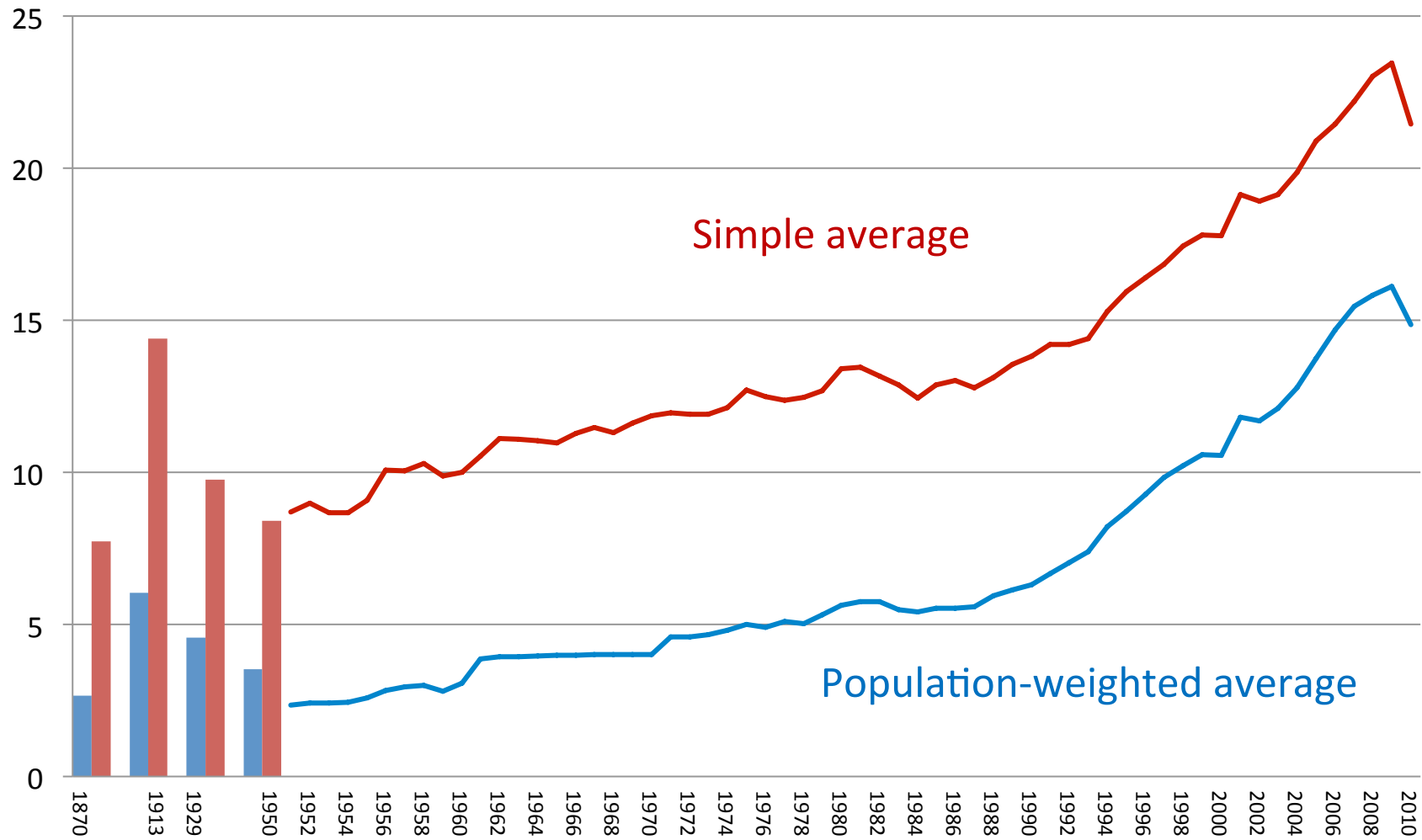


## 2. Dematerializing Globalization (Share of Goods and Services in Exports)

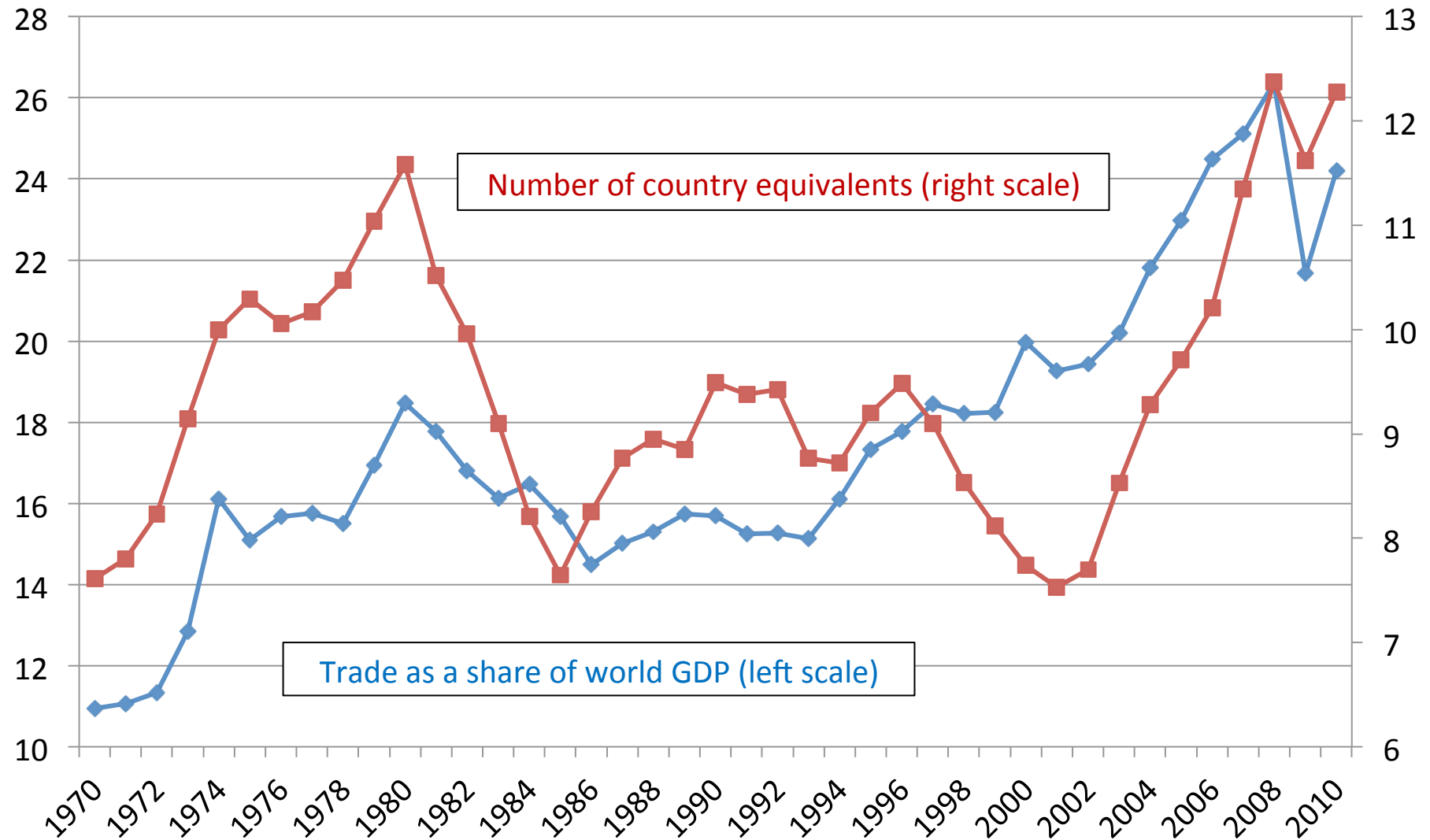


# 3a. Democratic Globalization

(World Exports as Share of World GDP)

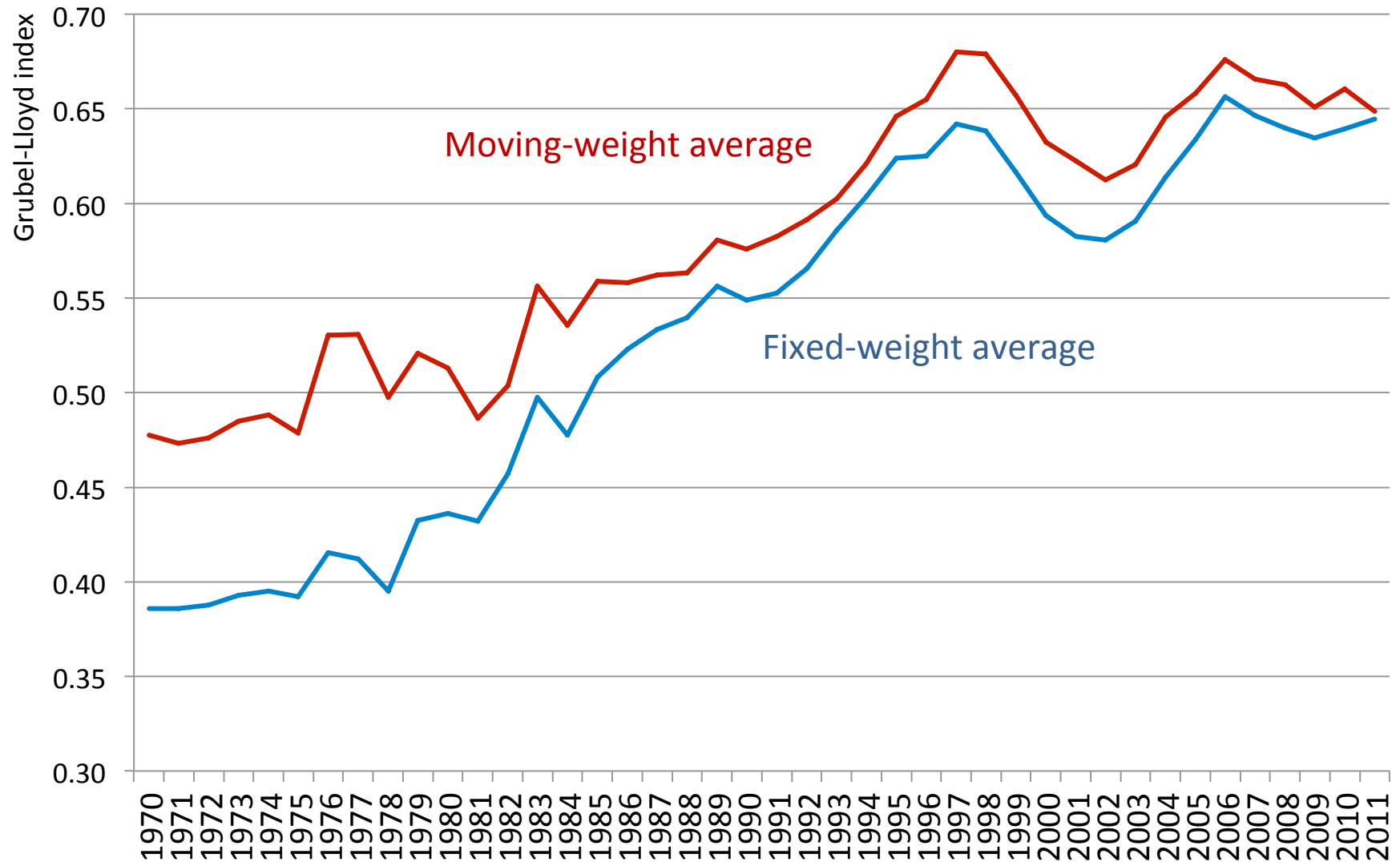


# 3b. Democratic Output



# 4. Criss-Crossing Globalization

## (Global Two-Way FDI Flows)



# 5a. China as Mega-Trader: Relative to World

(Exports as Share of World Exports)

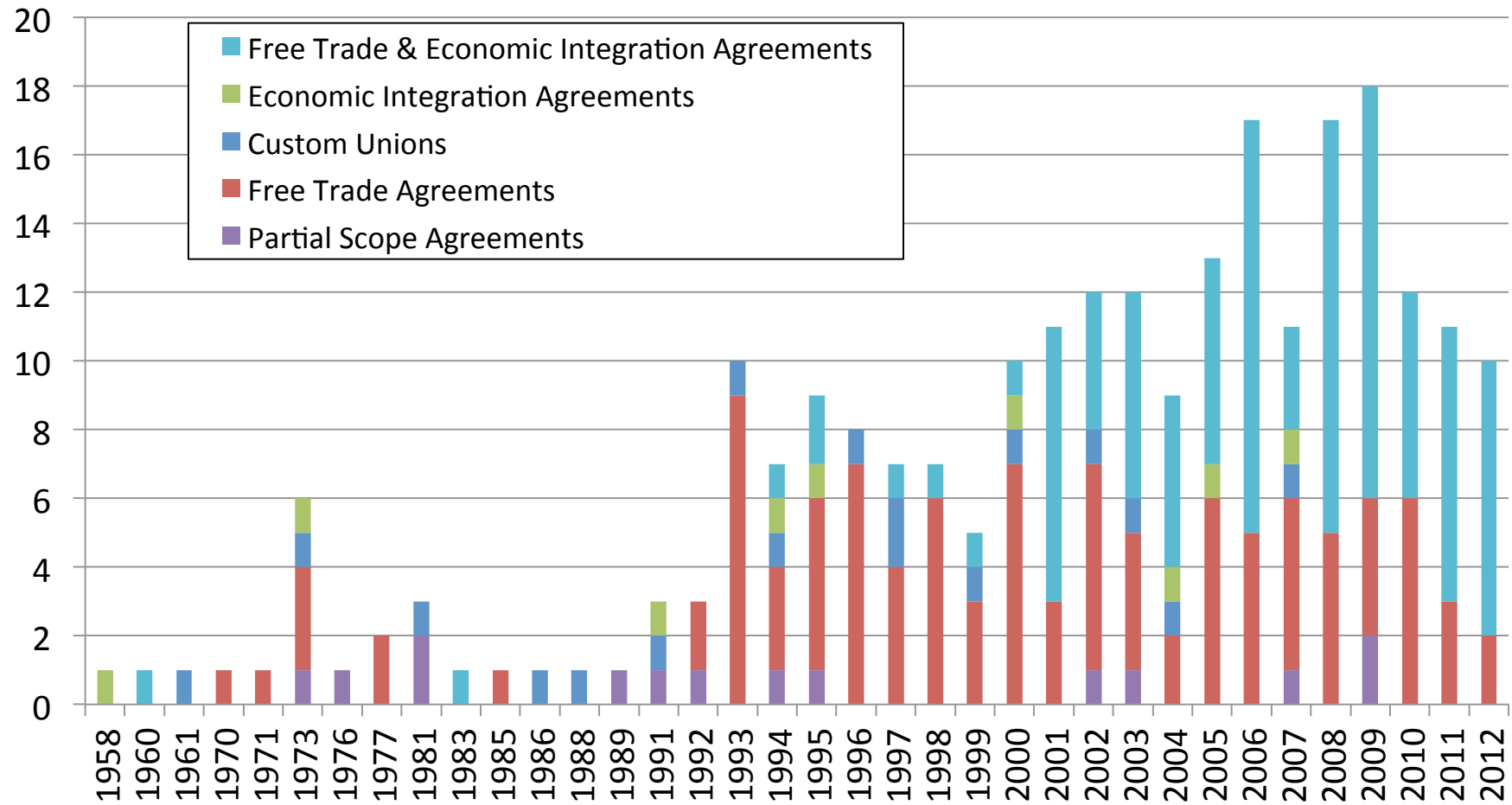
	UK	USA	Germany	Japan	China
1870	<b>24.31</b>	4.96	13.43	0.10	2.78
1913	<b>18.52</b>	9.04	<b>17.98</b>	0.79	1.98
1919					
1929	<b>15.15</b>	<b>14.38</b>	<b>16.60</b>	2.06	2.96
1939					
1950	13.31	<b>14.58</b>	4.46	1.20	2.14
1973	6.01	<b>12.75</b>	<b>10.80</b>	6.65	0.98
1990	5.81	<b>12.96</b>	<b>11.05</b>	<b>7.44</b>	1.64
2000	4.83	<b>15.56</b>	<b>8.00</b>	<b>6.55</b>	3.62
2010	2.72	10.61	7.63	4.81	<b>9.78</b>
2020	1.94	8.79	5.27	3.94	<b>12.10</b>
2030	1.38	7.28	3.64	3.23	<b>15.00</b>





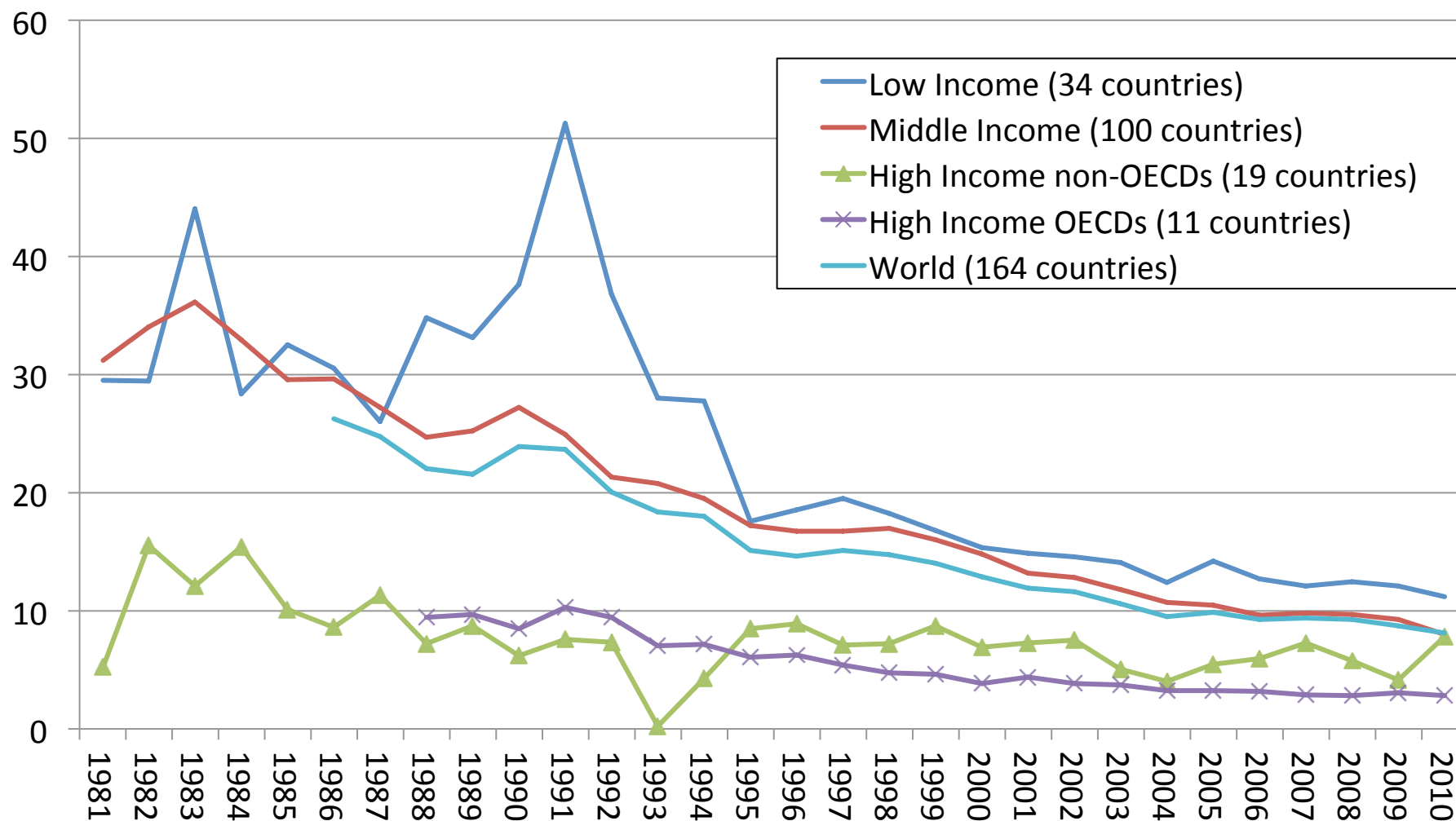
# 6. Rise of Regionalism and Impending Rise of Mega Regionalism

## (Number of Preferential Trade Agreements)



# 7. Decline in formal barriers in the manufacturing sector

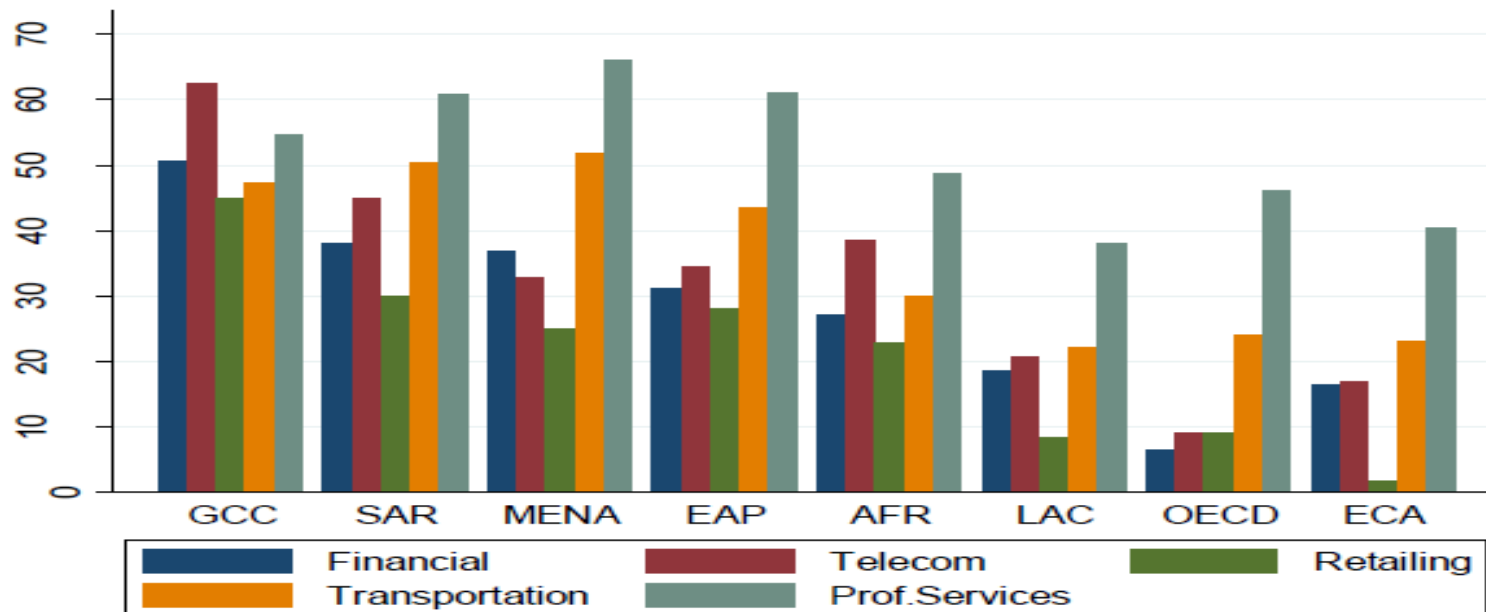
Average Most Favored Nation Tariffs in Percent



## 8. World Less Open in Policy Terms because of Compositional Shifts?

- From the manufacturing sector to the services sector
- From rich countries to poor countries

Index of Services Trade Restrictiveness, by Sector and Region, 2008–10



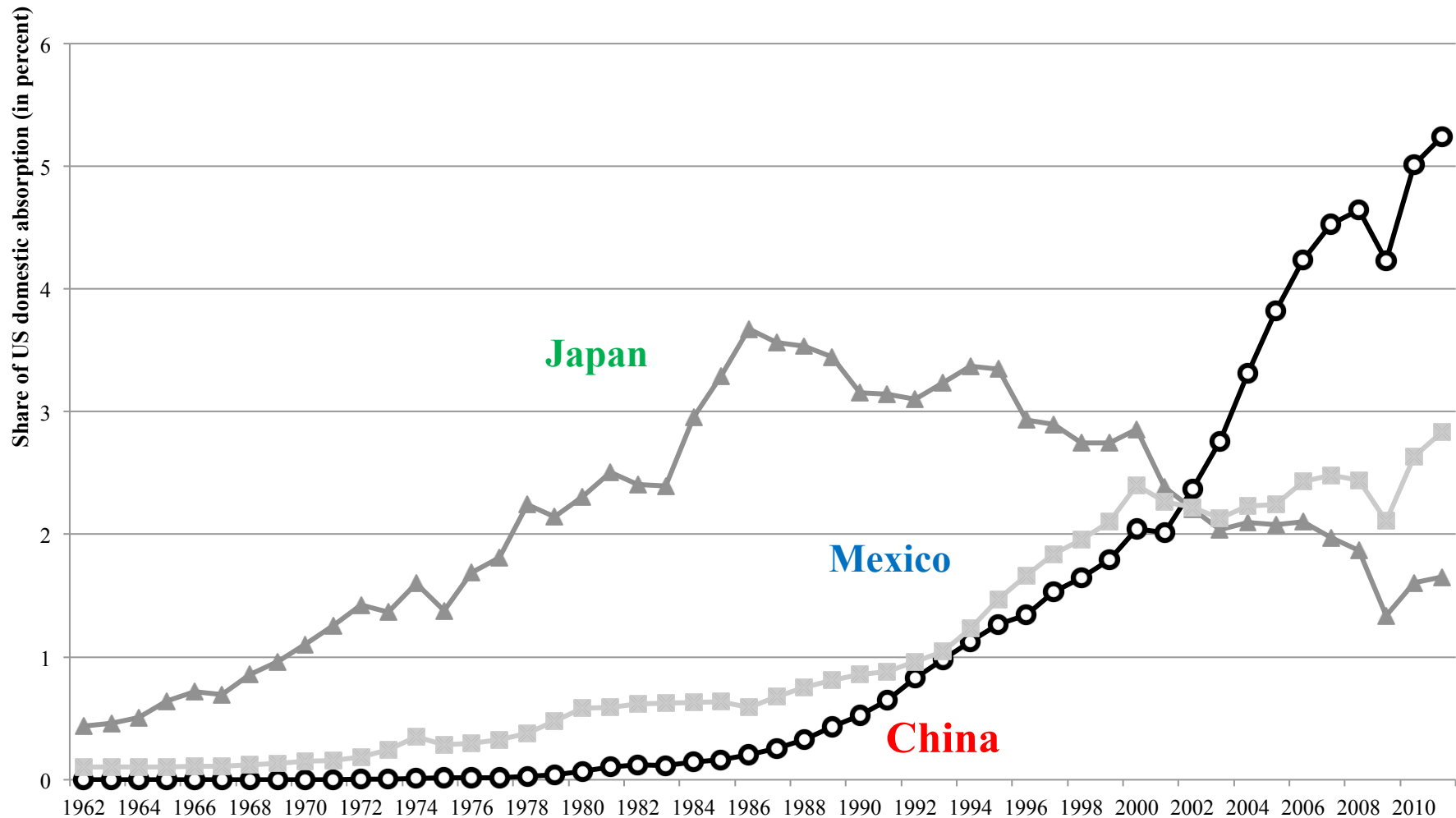
Note: 103 countries included.

Note: The services trade restrictions index (STRI) at the regional level is calculated as a simple average of individual country's STRIs. The STRI in the cross-border air passenger transportation subsector comes from the QUASAR database of WTO (2007). Regional abbreviations: HNO – High income non-OECD, SAR – South Asia, EAP – East Asia and Pacific, MENA – Middle East and North Africa, AFR – Sub-Saharan Africa, LAC – Latin America and Caribbean, ECA – Europe and Central Asia, OECD – High income OECD.

Source: Borchert, Gootiz, and Mattoo 2012.

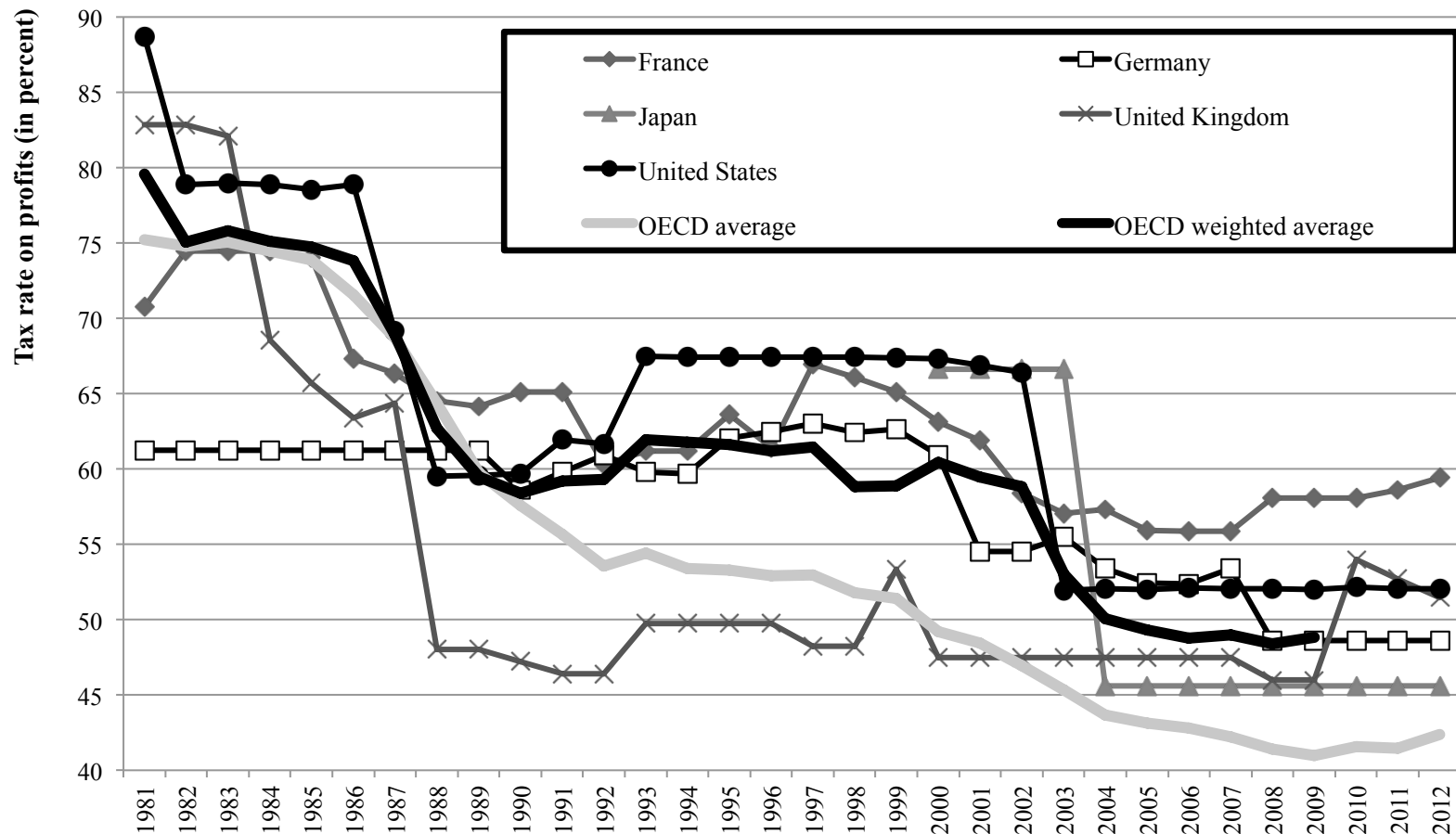
# Challenge of the West: Good news

- **Good news/puzzle: The protectionist non-surge**



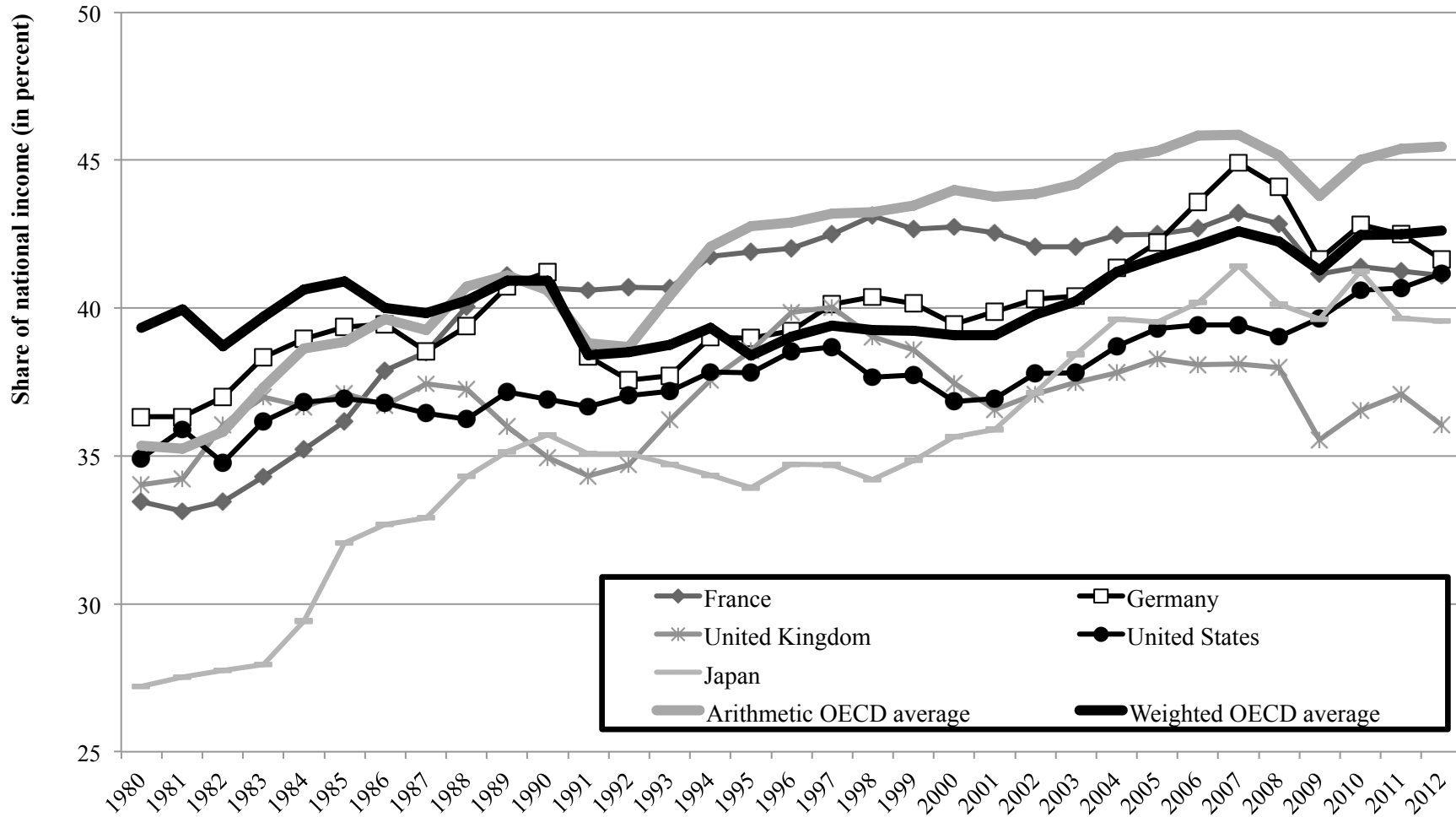
# Challenge of the West: Bad news

- Ability to provide social insurance to cushion shocks of globalization declining (tax rates)



# Challenge of the West: Bad News

Ability to provide social insurance to cushion shocks of globalization declining (tax-base)



# The China Problem and Solutions

- **China needs to liberalize to:**
  - satisfy demands for leadership; and
  - provide to others what it enjoyed
- **Unilateral and/or via international mercantilist bargains?**
- **Three bargains that could be offered by US:**
  - 1. You open otherwise I will close (Protectionism)
  - 2. You open otherwise I will trade divert against you (TPP and TTIP)
  - 3. You open and I open (Reciprocity);
- **1 is nuclear option**
- **2 may not work? Is China different?**
- **3: China Round of multilateral negotiations (Mattoo and Subramanian, 2012)**
- **Necessary Condition to make 3 work: De-democratizing the WTO**



# Conclusions

- **Trade integration still unfinished**
- **Trade integration is self-perpetuating**
  - **Innovations, Ideas, Interests, and Institutions**
- **Trade integration is under-pinned by sound domestic arrangements and healthy domestic economy**
- **Cooperation on trade important and successful**
- **Future Agenda**
  - **Tax enforcement**
  - **Reviving multilateralism**
-