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SUR LE DÉVELOPPEMENT INTERNATIONAL

# Transnational Governance: Trade and Climate links

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# OUTLINE

- Institutions/Governance, and Trade: slow motion
- Architecture for a Workable and Effective Climate Regime (Greening the GATT/WTO)
- Trade Agreements (TA): A way to improve governance?
- Private Trade Related Institutions (TRIs) and Transnational Governance

# Overview

What are institutions? is Transnational governance?

North: Institutions are the “rules of the game” ...  
problematic and subject of huge literature (see e.g. Greif  
(2006) for lessons from medieval trade)

Alternative: apply Supreme court justice Stewart definition  
of pornography to institutions and governance: “ I know it  
when I see it”

Proceed by discussion of examples:

- Architecture for a workable climate regime: crucial links with trade regime
- Trade Agreements: a delegation of authority to supra-national bodies
- Private TRIs: relation with transnational governance

# Institutions, Governance and Trade (I)

- Stage I (1960): Linder (1960): Bulk of Trade is among similar countries.
  - Stage II (1995) Trefler : Missing Trade and other mysteries. McCallum: Borders matter even among highly integrated economies).
- No role for institutions but go beyond HOV.

institutions-and-growth literatures (Acemoglu et al.) +  
Institutions & development (North et al.) →

- Stage III Current-day trade is largely co-determined by quality of contracting institutions and traditional technology and endowments. Nunn and Trefler (2015)

# Institutions, Governance and Trade (II)

Takeaway for manufacturing trade: Domestic institutions needed to solve contract problems to get economies to diversify and produce productivity-raising goods.

- Spolaore and Wacziarg (2013): deep determinants (culture and biological factors) needed to understand differences in outcomes beyond differences in geography, policies and institutions (e.g relation-based or rules-based).
- Nunn and Trefler “....conjecture that the impact of international trade on domestic institutions is the simple most important source of the long run gains from trade”

# Institutions, Governance and Trade (III)

## TRADE-GROWTH-INSTITUTION

We cannot answer assertion

“Countries with better ‘institutions’ and countries that trade more grow faster, countries with better institutions also tend to trade more ?”

- Conclusions from Nunn/Trefler survey in NH handbook
- Comparative Advantage (CA) moves towards more sophisticated and productivity-enhancing goods (Hausman et al. 2007).
- Conditioning on technology, countries with strong Institutions (WGI) have CA in contract-intensive goods
- And In the long run, institutions also shaped by CA

# Architecture for a Workable and Effective Climate Regime (Greening the GATT/WTO)

# Architecture for a Workable Climate Regime

Contributions in Barrett et al. (2015) cover elements of transnational governance needed for a workable and effective climate regime (CEPR and FERDI)

<http://www.ferdi.fr/en/publication/ouv-towards-workable-and-effective-climate-regime>

- Keohane and Victor discuss merits of experimental governance (also discussed yesterday)
- Stewart, Openheimer and Rudyck present the case for a building bloc strategy approach to a climate regime.
- Wiener on an effective system of MRV
- Aldy and Pizer on comparing emission mitigation pledges and institutions
- Bodansky on legally vs Politically binding Agreements



# Greening the GATT/WTO (I)

WTO is a negative Integration Contract  
(resembles negative goods vs positive goods on QR lists)

- GATT,GATS: individual countries can choose their own environmental policies (so long as they don't discriminate).
- Only restrictions on behavior is to prevent members from renegeing on exchange of market access
- What members can do (BTA) and cannot do (environmental subsidies)
- What is unclear for members: labelling—but case law can be overturned and likeness not left to consumers to decide but has become a matter of policy in the case of TBTs

# Greening the GATT/WTO (II)

## Environmental Goods Agreement (EGA)

- Issue-based Plurilateral negotiations on reductions in customs duties on a fluctuating (54→411?) list of environmental goods
- How? Ex-outs (rather than introduce a new national tariff classification that could be more easily contested)
- Why EGA outcome is very limited
  - Political economy: tariff low on EGs since as intermediaries they face opposition from users+ tariff peaks excluded from EG lists.
  - Scope is limited: only 2 members [China (4.8%)and Korea(6.1%)] have any substantial “offer” on the table. Davos group: 6/14 have  $t=0$  and  $TRI=3.4\%$ .
  - Simulations: 50% tariff reduction  $\Leftrightarrow$  imports  $\uparrow \approx 2-8\%$  from WTO list
  - ESs (complementary to EGs) [with tariffs 2-3 times higher than for EGs] are excluded as well as NTBs.
  - Only substantive outcome is if plurilateral agreement is extended to all members (i.e. ‘critical mass’ ) and no objection by WTO members

# Greening the GATT/WTO (IV)

- EGA negotiations—Low expectations (ESs and NTBs excluded), very little on the table except China and Korea.
- ...and depends on case law interpretation of ‘likeness’ under tariff negotiations. So far case law only allows discrimination for objective categories (e.g. LDC category). Could change under EGA
- ...but issue-oriented Plurilateral Agreement (PA) that can pave the way for later multilateralization

## **Attractiveness of PAs**

- EGA could be leader for sector agreements (HFCs and other SLCP, cement, aluminium « building bloc/ experimental governance » )-
- PAs are a complement to WTO multilateral approach.
- A multilateralized PA satisfies 3 criteria (that eluded KP): (i) full participation; (ii) Comply; (iii) change behavior substantially

# Greening the GATT/WTO (V)

## Move to a positive contract

- Obligation to address environmental damage. This involves harmonizing customs classification via WCO
- Allow for 'green' subsidies (re-instate art. 31 SCM). Potential abuse, but would ease transition to green ppms.
- Compulsory monitoring of fossil fuels subsidies. This would be equivalent of currently compulsory TPRM. (currently voluntary supply of similar information is disincentivizing).
- Legalize environmental labelling (now uncertain under case law) - via recourse to ISO standards. Using an ISO std. guarantees immunization from challenges at WTO.
- ..and Climate clubs that are no curb to multilateralism can help solve the free-rider problem (as in MP and HCF)

# Greening the GATT/WTO (VI)

- Under current negative contract, countries cannot be told to adopt climate-mitigation policies.
- ...and a club of countries cannot raise their bound tariffs –even in non-discriminatory manner—against non-members (under PTAs members cannot raise tariffs against non-members).

## **Climate Club (Nordhaus (2015))**

- Combine a critical mass and PA. Example: single out cement production ( $\approx 5\%$  Co<sub>2</sub>). Signatories agree to staged reductions perhaps after agreeing that say 80% of emitters participate.
- Punishment for non-participation not envisioned. Nordhaus (2015) sees a club with punishment for non-membership as a means to avoid free-riding

“explicitly allow for uniform tariffs on non-participants within the confines of a climate treaty... [and] prohibit retaliation against countries who will invoke the mechanism” (p.1339)

-Relatively well-targeted penalty that is incentive-compatible (for tariffs in 5-20% range punisher gains; free-riders lose huge benefits of WTO membership)

Trade Agreements (TA): A way to  
improve governance?

# TAs, development, and Governance (I)

Motives for TAs (beyond TOT theory of Bagwell and Staiger that is losing traction in a world of low tariffs needed for inclusion in GVCs)

- ✓ Early motives : credibility, signalling, insurance (Fernandes & Portes (98))
- ✓ Commitment gov't against domestic lobbies (Maggi and Rodriguez-Clare, 1997-2008).
- ✓ Investment-shifting (Ossa, 2012)
- ✓ Non-trade objectives (fight terrorism, drugs--Limão, 2007)
- ✓ Reducing Trade policy uncertainty (Handley and Limão, 2013)
- ✓ Reducing probability of conflicts/war as opportunity cost of conflict up (Mathias, Mayer, Thoenig (2011))

⇒ Evidence needed to appreciate links with institutions and of rationale to understand development impact of TAs (All references are in Melo and Olarreaga (2017))

# TAs, development, and Governance (II)

1. A lot evaluations of N-N PTAs, some on N-S (EPAs, and DCFTAs of EU need to be assessed), very few on S-S PTAs. Did costs of setting up deep S-S PTAs (SACU, UEMOA, CEMAC) have to be borne by colonizers and did they lay foundations for intensive trade later on (and less conflict as opportunity cost of conflict up) and hence improved governance ?
2. What role for WTO (is it “passé?”) as PTAs especially N-S include new ( i.e. WTO-X) groups of provisions (Labor and social clauses, environment clauses)
3. Controlling for legal inflation, are N-S PTAs about exporting regulatory approaches of N to S partners - Harmonization leading to trade deflection from S partner to N partner (Horn et al (2011) , Cadot et al (2015)
4. Can PTAs help shift political equilibrium of powerful lobbies



# Private Trade Related Institutions (TRIs) and Transnational Governance

# Private TRIs: what we would like to know (I)

- Private authority : a needed complement to Public authority for building an effective climate regime (Greene (2013?) book).
- Labelling: impacts of labelling (e.g. fair trade)
  - Who captures the rent?
  - Need to identify causality
  - Impact when scaling up these programs (less than 1 percent)
  - Impact on non-participating firms (learning, monopsony power)
  - Proliferation of labeling and competition between NGO labelling and Industry labeling may affect consumer trust

# Private TRIs: what we would like to know (II)

- Online platforms
  - A way to circumvent market and government failure (Lendle et al., 2015 Agrawal et al. 2015)
  - Impact on large versus small firms? Need for matching of online and offline firms
  - Help small firms circumvent monopsony power by intermediaries?
- Impact on income inequality through cost of consumption bundle for heterogeneous households
- Online platforms as a means to improve governance

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