

It's 2020: Do We Know What We're Fighting Over?

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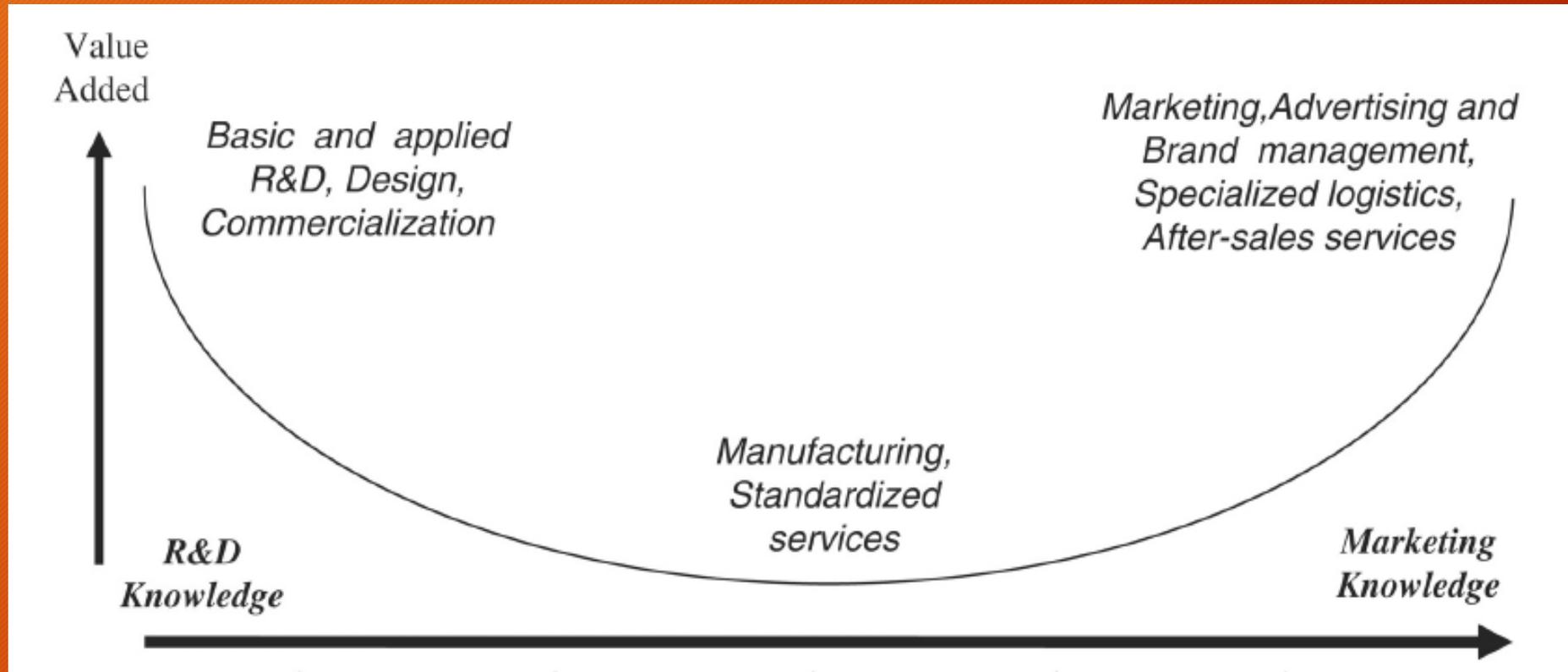
Global Economic Relations in the Trump Era and After: Challenges and Policy Options for the EU and Canada

Carleton University, 31 January 2020

Outline

- Motivation: Times are changing and institutions are solutions to the issues of their age
- What are major bones of contention?
 - Unresolved tension between the OECD and East Asian Economic Models
 - Data and the Data-Driven Economy
 - Technology “race”
 - Rear-guard actions to delay adjustment
- Implications for the Rules-Based System
- Concluding speculations on what comes next

From the Industrial to the KBE to the DDE Eras



The return of industrial policy

- US-China conflict reprises US-Japan
 - Unilateral tariff/non-tariff measures (VERs etc / managed trade)
 - Currency agreement (Plaza / US China currency manipulation measure)
 - New subsidy codes (Tokyo Round codes / US-EU-Japan subsidies proposal)
 - Structural Impediments Initiatives 1.0 and 2.0
- OECD consensus model has not evolved, notwithstanding emergence of a challenging alternative (“entrepreneurial state” as per Mazzucato)
- DDE moves investment space into public domain - the role of the state rises
 - Not a problem for China - ideological problem for the West
- Suggested reconciliation is to reframe issue of industrial policy in terms of economic criteria:
 - Appropriability (implying positive knowledge spillovers - which expands in the DDE)
 - Time horizon to recoup investment (which shortens in the DDE)
 - Risk and uncertainty (which expands in the DDE because of broadly disruptive tech)
 - Innovation to meet public policy priorities (e.g., climate change)

The Data-Driven Economy

- Key areas where novel issues need to be addressed
 - Competition policy in a “winner takes most” world becomes the new market access.
 - TRIMS 2.0 to address new concerns about inward FDI, including extractive nature of FDI in innovation space and security issues posed by investment by SOEs.
 - TRIPS 2.0 to address the non-transparency of IP in the age of AI/ML, big data and expansive interpretations of trade secrets.
 - Disciplines on subsidies must be redesigned to need for policy space for industrial policy at a transformative moment of economic evolution, including rising role of the state.
 - Trade-related Aspects of Data Exchange (TRADE) - to govern cross-border data flows, while allowing for sovereignty, security, fair sharing of the economic reward (including taxation of income generated by data captured within a jurisdiction).
 - Regulation of AI (which will be the SPS of the digital age)
- DEPA draft highlights the areas but has major substantive gaps

Technology “Race”

- Shift of innovation into machine-learning space accelerates the pace of innovation
- Advantage of elite human capital reduced and advantage of legions of tech engineers and server banks increases
- Time to the technology frontier shortens to meaningless difference
- Key point: kinetic war makes “sense” in contest for physical assets not for intangible assets - implication is détente is reached

Rear-guard actions

- Economic assets that have limited rents and are subject to tough competition require protection rather than delivering prosperity
 - Land (agriculture) - exceptions like avocados (“green gold”)
 - Manufacturing and basic services which face tough new competition from “machine knowledge capital”
 - Fossil fuels as climate action intensifies
- Well-rehearsed conflicts over use of trade remedies and subsidies
 - Much of the US-EU-Japan subsidies agreement actually targets this

Conclusions & Speculations

- Rules-based order for the industrial age of global production system was actually perfected by the WTO through the TFA
- Contest for rents is not decided by markets or rules but by power
 - KBE/DDE contest for rents for intangible assets are not suitable for adjudication by a rules-based system
- Need to wait for the “fullness of time”
 - Acceleration of pace of innovation suggests this will come sooner rather than later
 - Expect China to continue to play strict tit-for-tat and build own technological capacity to force a détente
 - Then we can talk WTO 2.0 - EU/Canada should be doing the homework on the substantive order