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Edited by Ana Fernandes, Nadia Rocha and Michele Ruta

## **Beyond Trade**

How Deep Trade Agreements  
Shape Non-Trade Outcomes

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**CEPR**

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Centre for Economic Policy Research  
33 Great Sutton Street  
London, EC1V 0DX, UK

187 boulevard Saint-Germain  
75007, Paris, France

Tel: +44 (0)20 7183 8801

Email: [cepr@cepr.org](mailto:cepr@cepr.org)

Web: [www.cepr.org](http://www.cepr.org)

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and Michele Ruta



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We are extremely grateful to the authors who dedicated their time and intellect to this project. We would also like to express our gratitude to colleagues inside and outside the World Bank who graciously gave their time to provide inputs at various stages of this project or acted as discussants: Vanessa Alviarez, Paulo Bastos, Sebastien Dessus, Alvaro Espitia, Deon Filmer, Hiau Looi-Kee, Mauricio Moreira, Gaurav Nayyar, Bob Rijkers, Sandra Rozo, and Daria Taglioni.

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More information about the project is available at: <https://datatopics.worldbank.org/dta/index.html>

Ana Margarida Fernandes, Nadia Rocha and Michele Ruta  
Washington, DC, April 2023

# Foreword

VII

Climate change. COVID-19. The war in Ukraine. In an increasingly turbulent and fragmented world, preferential trade agreements (PTAs) are emerging as potential anchors of stability and a means to tackle emerging social and environmental challenges. Half a century ago, the objective was to improve market access. Since then, PTAs have evolved to embrace investment, competition policy, and product regulations. Today, goals include protecting labour rights and cutting greenhouse gas emissions. Developing nations can reap substantial benefits by using PTAs to cement domestic reforms to attract foreign investors seeking to diversify supply chains. They can also use PTAs to expand trade at a time of declining confidence in the multilateral trading system. Have PTAs delivered on their promise?

This CEPR-World Bank eBook brings together leading experts in international trade from academia and policy institutions to provide the first empirical assessment of the effectiveness of non-trade disciplines in PTAs. The research uses the World Bank's comprehensive Deep Trade Agreements Database and builds on the 2021 CEPR eBook by Fernandes, Rocha and Ruta on *The Economics of Deep Trade Agreements*.

The book traces the evolution of non-trade disciplines in PTAs, from their emergence in the 1950s primarily focusing on reducing tariffs, to forging deeper economic relationships and harmonising national policies to accommodate the rise of global value chains. The authors discuss the intended and unintended consequences of non-trade provisions, as well as their gradual change in scope and breadth. The research highlights the importance of the design and complexity of trade agreements in shaping outcomes beyond trade, as well as the important role of trade policy complementarities. Readers will learn that PTAs have different outcomes for developed and developing economies and that their effects among developing countries also vary widely.

Overall, the research presented in this eBook provides an important first empirical assessment of the effectiveness of non-trade disciplines in PTAs to better inform policymakers. We hope that this eBook will provoke new questions and inspire new research in this area.

CEPR, which takes no institutional positions on economic policy matters, and the World Bank Group are delighted to provide a platform for an exchange of views on this important topic.

Tessa Ogden  
Chief Executive Officer  
CEPR

Mona Haddad  
Global Director  
Trade Investment and Competitiveness  
World Bank

June 2023



# CHAPTER 11

## Non-trade objectives and new frontiers for research in international economic policy

**Emily Blanchard**

U.S. Department of State, Dartmouth, and CEPR

*Globalisation has moved away from a specific focus on trade and tariff reduction to cover a large range of objectives. As the chapters of this eBook have shown, these include investment protections, intellectual property rights, child labour, migration flows, and environmental standards. The Covid-19 pandemic has further accelerated this process – new international initiatives put high emphasis on how, where, and with whom economic value is created. This chapter outlines a new research frontier in international economics. Empirical research should focus on mapping supply networks, estimating firms' agility in these networks, and measuring the social value-added content in trade. Advances along these dimensions will complement new conceptual approaches to the design of optimal policies. Policymakers will benefit substantially from careful, evidence-based research along these lines when tackling the problems of the 21st century.*

### ECONOMIC RELATIONS AND POLICIES AFTER COVID-19

Covid-19 has forever changed globalisation and the economic policy environment that supports it. The pandemic disrupted a seemingly stable world economic order through a series of synchronised shocks to global supply, demand and logistics. Shortages of critical goods and essential workers were compounded by dramatic overnight shifts in consumer spending as demand surged for some products and services and cratered for others. Changing patterns of production and consumption triggered shipping snarls that are only now resolving.

Policymakers and business leaders are working to craft a new normal, defined by resilient, secure and durable global supply chains that can better withstand unexpected events. At the same time, consumers are increasingly attentive to how and where goods are made, often demanding that products reflect their own values, from environmental sustainability, respect for universal human rights and economic inclusivity to privacy and security. Geopolitical changes and the rise of authoritarianism add further impetus to the shifts underway, as many governments pursue deeper economic partnerships with some countries and regions in order to reduce dependence on others. Three years after the virus broke out, the international economic policy landscape has been remade.

This post-pandemic evolution of policy objectives may ultimately mark the beginning of a fundamentally new era of deeper and more complex behind-the-border policy arrangements. Already, the world is witnessing a host of new international initiatives to reshape how, where and with whom economic value is created in the modern economy. From the US-EU Trade and Technology Council and the Americas Partnership for Economic Prosperity to the Indo-Pacific Economic Framework and Minerals Security Partnership, governments are actively taking measures to simultaneously strengthen and rewire global supply chains.

Policymakers will need to balance determination with caution in implementing policies to meet new objectives. There is no handbook for the novel policy changes that are now being debated and discussed in capitals around the world. The need for smart, creative, evidence-based research has never been greater.

### **A NEW RESEARCH FRONTIER**

A new frontier in international economic research is needed to study the objectives, design and consequences of the unprecedented initiatives, tools and agreements under consideration and underway. This research should encompass a host of areas running deep behind national borders, including digital security, standards and privacy; supply chain transparency; export controls, sanctions and trusted trade networks for advanced technologies; labour practices; environmental sustainability; governance and corruption; and enabling frameworks to accelerate the green energy transition and global elimination of forced labour. The chapters in this eBook illustrate some of the excellent work already undertaken to understand the broad-ranging consequences of deep agreements, but there is much more to do.

Two simple but critical observations are useful in charting a path forward for future research. First, despite recent rhetoric, goods (and increasingly services) are made in the world through global value chains. This is unlikely to change (nor should it) due to the inescapable logic and force of comparative advantage. But exactly how and where production happens in the world is sensitive to targeted policy nudges, particularly when those nudges work in tandem with market forces. It is far easier to divert or channel a river's current than to dam it completely.

Second, many of today's post-Covid-19 policy initiatives are designed precisely to shape the pattern of production and trade outside of a country's own national borders. For trade economists especially, this shift constitutes a fundamental change in how to think about (and model) governments' objectives. Traditionally, distributional considerations are restricted to the domestic sphere and foreign policies, practices and production are relevant only to the extent they influence a country's terms of trade.

The upshot: economists need both a richer empirical description of global production patterns and linkages as well as an updated theoretical toolbox to study the changing international economic policy landscape. Excellent work is underway on both fronts, positioning research to inform policy implementation in the coming pivotal years that will shape the global economy of the future.

On the measurement front, there are three core challenges: mapping supply networks, estimating the elasticity of linkages (or firms' agility) in these networks, and measuring the 'values' embedded in the value-added content of products beyond a simple pecuniary price tag. On the first front, mapping supply networks, the primary challenge is in the level of aggregation. There is a chasm between the refinement and richness of product-, transaction- and even firm-level data and the highly aggregated measures of input-output linkages (and by extension, trade in value added). We need greater granularity to identify the nodes and linkages in supply chains where market power and bottlenecks create security or other vulnerabilities to global shocks.

In contrast, recent research has already made significant progress in measuring trade elasticities at the product and even bilateral-product level, but identification requires strong assumptions. Perhaps more challenging are the underlying counterfactual questions about the extent to which elasticities measured using relatively modest observed deviations in supply or demand can be scaled up to yield predictions for major disruptions or synchronised global shocks. A related challenge is in estimating the extent to which inventories or the creation of new extensive-margin supply networks may serve to mitigate the impact of future global shocks. To the extent that some firms have begun stockpiling or diversified their buyer and supplier networks since Covid-19, supply networks may prove more agile, elastic and resilient than pre-pandemic measures suggest.

Measuring the environmental, labour and social value-added content is hardest of all. Yet, it is arguably most crucial for answering critical policy questions around the design and consequences of policy initiatives to build a more sustainable and inclusive global economy. Here too there is progress. Recent ambitious government initiatives to develop natural capital accounting will significantly advance the potential for substantive economic analysis of the non-pecuniary consequences of policy changes. Likewise, direct scientific measurement of greenhouse gas emissions has advanced dramatically in recent years and promises to be a critical input for future policy. Finally, there is a rapidly growing body of firm- and firm-worker-level research that matches labour practices and outcomes with firm production and trade. Coupled with the emerging literature on micro, small and medium-sized enterprises, this work yields valuable insights into the international policy initiatives to foster economic inclusion.

## BRINGING REFINED EMPIRICAL APPROACHES AND POLICY DESIGN TOGETHER

Recent and future advances in measurement will complement new conceptual approaches to optimal policy design. Theory-based research on international economic policy is on the cusp of renaissance. The practice of policy design has much to gain from the crisp logic and clarity economics provides. Each new policy initiative can be held to the light. What problem is the policy designed to solve? What aren't markets getting right on their own (what is the nature of market failure)? What are the design features of the first- (or second-)best policy, and what are the likely unintended consequences or spillover effects? Finally – and in close keeping with the questions explored in this book – what role, if any, can international cooperation play at the bilateral, plurilateral and multilateral level?

Governments today are grappling with thorny questions tied to ambitious objectives and new challenges. Climate change, security risks embedded in new technologies, the rise of authoritarianism and a new awareness of the potential for synchronised, systemic, global shocks demand consideration of policy initiatives informed by careful research. The post-Covid-19 imperative for new research in international economic policy is as urgent as it is exciting. No time to waste. Godspeed and good luck.

### ABOUT THE AUTHOR

**Emily Blanchard** is Chief Economist at the U.S. Department of State. She is a leading expert on international economic policy, a professor at Dartmouth's Tuck School of Business, and a CEPR Research Fellow. Professor Blanchard's research lies at the intersection of international economics and public policy. She has written extensively on how foreign investment and global value chains are changing the role of trade and trade agreements in the 21st century, and how globalization and education shape policy outcomes and the distribution of income within and across countries. Her research is published in leading journals and has been covered by major publications including the *Wall Street Journal*, Bloomberg, *Financial Times*, *Washington Post*, and the *New York Times*. She has partnered with leading institutions including the World Trade Organization, the World Bank, the UN, and the IMF, to bring research to practice; she has recently served on the editorial boards of the *Journal of International Economics*, *Review of World Economics*, *Economics and Politics*, and the *World Trade Review*; and she is former Chair and a Founding Board member for the national non-partisan, non-profit National Economic Education Delegation.