

Econ 340

Lecture 9 World Trade Arrangements and the WTO

Outline: World Trade Arrangements and the WTO

- International Organizations
- World Trade Organization
 - History, as GATT
 - GATT Rounds
 - WTO Today
 - Functions
- Current Issues
 - Seattle Protests and Beyond
 - Doha Round
 - Disputes
 - Other Issues
- WTO Critiques

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2

International Organizations

- International Organizations Related to Trade
 - WTO = World Trade Organization
 - Formerly GATT = General Agreement on Tariffs and Trade
 - More on this below

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3

International Organizations

- International Organizations Related to Trade
 - OECD = Organization for Economic Cooperation and Development
 - Group of mostly rich countries
 - Collects data
 - Discusses reforms
 - 36 members
 - Including Mexico, Korea, Czech Rep., Poland
 - Most recent: Lithuania, added 5 July 2018
 - Russia is not a member (discussions of that were postponed in 2014)

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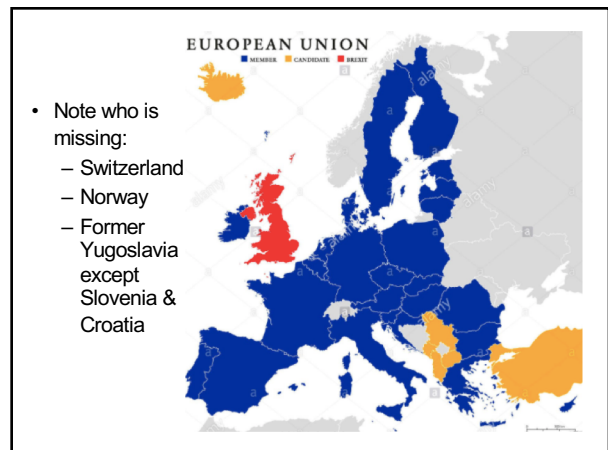
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International Organizations

- International Organizations Related to Trade
 - EU = European Union
 - Group of 28 countries, among which there is free flow of
 - Goods
 - Capital
 - Labor (but not yet including Croatia, which joined most recently)
 - Added 10 countries Jan 1, 2004
 - Added Romania and Bulgaria on Jan 1, 2007
 - Added Croatia July 1, 2013
 - UK voted to leave June 23, 2016 (Brexit)
 - Initiated the process at end of March, 2017
 - That started 2-year period to negotiate terms of "Brexit"
 - Deadline: March 29, 2019, postponed to October 31, 2019

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5



International Organizations

- International Organizations Related to Trade
 - NAFTA = North American Free Trade Agreement
 - Group of 3 countries, US, Canada, Mexico that have
 - Zero tariffs on each other's exports
 - Rules to facilitate investment, intellectual property, etc.
 - We'll learn more about it later in the course
 - President Trump has now renegotiated it
 - USMCA: United States, Mexico, Canada Agreement

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7

International Organizations

- United Nations (UN) Organizations
 - UNCTAD = UN Conference for Trade and Development
 - Voices views of developing countries
 - ILO = International Labor Organization
 - Promotes labor standards and rights
 - Has no authority to limit trade
 - WIPO = World Intellectual Property Organization
 - Promotes use and protection of intellectual property (Copyrights, Trademarks, Patents)
 - Also has no authority to limit trade

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8

International Organizations

- Non-governmental Organizations (NGOs)
 - Far too many to list – here are a few
 - Fraser Institute
 - Oxfam International
 - Third World Network
 - Worldgrowth.org
 - NGOs have been increasingly active in trying to influence trade policies and negotiations

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9

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10

World Trade Organization: History

- 1930s:
 - Tariffs raised, to high levels
 - 1930 US Smoot-Hawley Tariff Act
 - Raised tariffs on 890 items
 - Prompted retaliation by other countries, who then also raised tariffs

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11

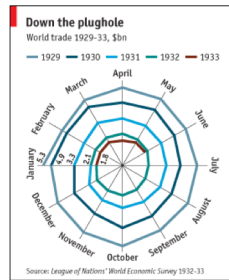


Hawley

Smoot

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12



Source: Economist, "The battle of Smoot-Hawley," December 18, 2008.

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13

World Trade Organization: History

- Mid-1940s:
 - Created IMF and World Bank at meeting in Bretton Woods, New Hampshire
 - US tried to create ITO = International Trade Organization
 - Interim agreement: GATT = General Agreement on Tariffs and Trade
 - When ITO failed to be approved (by US!), GATT governed trade policy by default

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14

World Trade Organization: History

- What GATT Does
 - (GATT is still the largest part of WTO)
 - Rules for trade policy
 - Forum for negotiation
 - Of both trade policies (e.g., tariffs) and rules
 - Major negotiations took place in "Negotiating Rounds"
 - Decisions made at occasional meetings of trade ministers: "Ministerial Meetings"

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15

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16

World Trade Organization: Rounds

Rounds of GATT Multilateral Trade Negotiations			
No.	Years	Name	Accomplishments
1-5	1947-61		Reduced tariffs

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17

World Trade Organization: Rounds

Rounds of GATT Multilateral Trade Negotiations			
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18

World Trade Organization: Rounds

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7	1973-79	Tokyo	Tariffs + NTBs

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19

World Trade Organization: Rounds

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8	1986-94	Uruguay	Tariffs, NTBs, Services, Intellectual Property, Textiles, Ag., Dispute Settlement, Created WTO

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20

World Trade Organization: Rounds

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8	1986-94	Uruguay	Tariffs, NTBs, Services, Intellectual Property, Textiles, Ag., Dispute Settlement, Created WTO
9	2001-15	Doha	FAILED: Doha Development Agenda

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21

World Trade Organization: Rounds

- How negotiations took place
 - Tariffs:
 - In early rounds, tariff cuts were negotiated between "principal supplier" country and "principal demander" country
 - Cuts are extended to all other members (MFN)
 - But large countries dominate this process
 - In recent rounds, negotiations start with a formula for tariff cuts, then negotiate exceptions
 - Swiss Formula: $Z = AX/(A+X)$
 - » X = initial tariff rate
 - » A = coefficient and maximum tariff rate
 - » Z = resulting lower tariff rate
 - Proposed by Switzerland in Tokyo Round
 - Reduces high tariffs more than low tariffs

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22

World Trade Organization: Rounds

- How negotiations took place
 - Rules:
 - Groups of countries draft changes, then persuade others
 - Again, large countries dominate

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23

World Trade Organization: Rounds

- Do small and poor countries lose?
 - They need not lose, if they participate in the process
 - They benefit from the "rule of law": Otherwise the large countries would be even more powerful
 - By grouping together, small countries can also exert bargaining power
 - They may well lose if they do not participate: growth of trade may exclude them
 - Tariffs did not fall on their major exports

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24

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25

World Trade Organization: Today

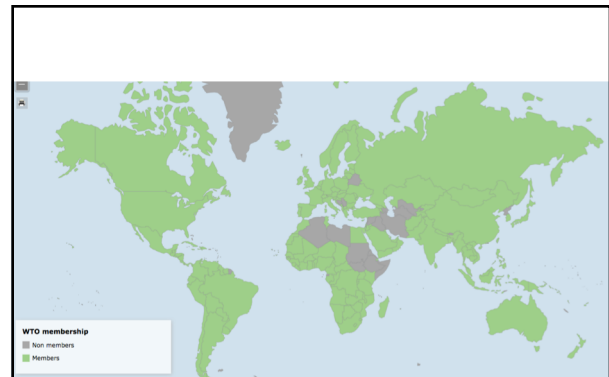
- WTO Today
 - Established Jan 1, 1995
 - Members: 164
 - Most recent: Afghanistan 2016
 - Including:
 - China (as of 2001)
 - Russia (as of 2012)
 - Not including: Iran, Iraq, N. Korea
 - Headquarters: Geneva, Switzerland
(also home of ILO, WIPO, and others)

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26



The entrance to the Centre William Rappard



Interactive: https://www.wto.org/english/res_e/statis_e/statis_maps_e.htm

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28

World Trade Organization: Today

- WTO's Three Parts
 1. GATT (Still exists, as largest part of WTO)
 2. GATS = General Agreement on Trade in Services
 3. TRIPs Agreement = Trade Related aspects of Intellectual Property Rights

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29

World Trade Organization: Today

- WTO's Two Basic Principles
 1. MFN = Most Favored Nation
 - Each member country should treat all members as well as it treats its "most favored nation" (i.e., the member that it treats the best)
 2. National Treatment
 - Once a product or seller has entered a country, it should be treated the same as products or sellers that originated inside that country

(There are many permitted exceptions to both of these principles)

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30

World Trade Organization: Today

- WTO Decision Making
 - Decisions by consensus: all countries present at ministerial meetings must agree,
 - Alternatively, a certain fraction, 2/3 or 3/4, of all members must agree
 - In practice, large and rich countries dominate this process
 - They first agree among themselves (This originally done in "Green Room", hence "Green Room Group")
 - Then seek consensus based on that
 - Is this "democratic"?
 - Yes: Every country has one vote
 - No: Rich countries dominate decisions in practice

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31

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32

WTO Functions

- See table in Deardorff

Functional Outline of the World Trade Organization
Communication
Constraints
Exceptions
Dispute Settlement

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33

WTO Functions

Communication	Ministerials
	Negotiating Rounds
	Working Groups
	Trade Policy Review Mechanism
	Councils and Committees

Trade Ministers (USTR, etc.) Meet Every Two Years

Tariff Reductions; Changes in Rules

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34

WTO Functions

Constraints	Tariff Bindings
	Customs Valuation
	Product Regulations
	Quantitative Restrictions
	Subsidies
	Foreign Direct Investment (TRIMS)
	Services (GATS)
	Intellectual Property (TRIPs)

Countries negotiate and commit to maximum tariffs

National Treatment for Service Firms (only in some industries)

Enforce Patents, Copyrights, Trademarks

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35

WTO Functions

Exceptions	Anti-Dumping
	Countervailing Duties
	Safeguards
	Balance of Payments Protection
	Preferential Trade Agreements

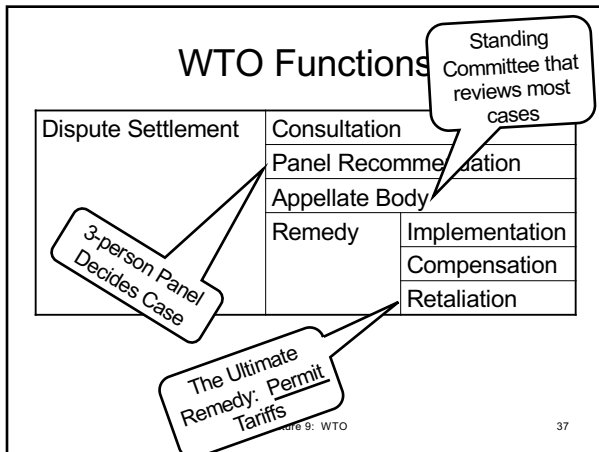
Permitted; not required

Most commonly used

Allows NAFTA, EU, etc.

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36



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WTO Current Issues

- Seattle Protest and Beyond
 - Seattle Ministerial – December 1999
 - Intended to start a new Round
 - Protesters flocked to Seattle, with objections

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43



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44

WTO Current Issues

- Seattle Protest and Beyond
 - Seattle Ministerial – December 1999
 - Intended to start a new Round
 - Protesters flocked to Seattle, with objections
 - Labor issues
 - Environmental issues
 - Corporate dominance
 - Lack of transparency, democracy
 - Meeting ended in failure

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45

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46

WTO Current Issues

- Doha Round
 - Began at WTO Ministerial at Doha, Qatar, Fall 2001 (after Sep 11)
 - Emphasis on development:
 - “Doha Development Agenda”
 - Major issues to be included
 - US and EU agricultural subsidies and tariffs
 - Developing-country tariffs on manufactures
 - Market access for services into developing countries

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47

WTO Current Issues

- Doha Round
 - Cancún Ministerial Sep 2003: Failed
 - July 2004: framework agreement achieved
 - Hong Kong Ministerial Dec 2005: Agreed, but on little
 - 2006-2015: Talks stumbled along
 - December 2015: Nairobi Ministerial meeting
 - Ended without reaffirming intent to complete the Doha Round
 - Implicitly, that was admission that it had ended in failure

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48

WTO Current Issues

- What happens without Doha?
 - Tariffs may rise because bound tariffs won't fall
 - Bound tariffs are almost twice as high as applied ones
 - Some argue that world trade will fall
 - Has it happened?
 - Trade stopped growing for a while, then grew again
 - Not clear that tariffs rose (until Trump)

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49

WTO Current Issues

- Other negotiations have been more successful
 - December 2013: Bali Ministerial salvaged a limited agreement, mainly on Trade Facilitation
 - July 2014: Implementation of the "Bali Package" was delayed by objections from the new India Prime Minister Modi
 - November 2014: Modi and Obama met and resolved the disagreement. Bali Package was adopted at WTO.
 - December 2015: Nairobi Ministerial agreed on several commitments, including to
 - Abolish export subsidies on farm exports.
 - December 2017: Buenos Aires Ministerial met but accomplished essentially nothing
 - Was more about friction between US (Trump) & others

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50

WTO Current Issues

- WTO has also succeeded in negotiating "plurilateral agreements"
 - These are agreements the members can sign or not, and are only binding on those who do
 - Agreements that have been negotiated:
 - Information Technology Agreement (with an update currently being negotiated)
 - Financial Services Agreement
 - Basic Telecommunication Services Agreement
 - Anti-Counterfeiting Trade Agreement

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51

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52

WTO Current Issues

- WTO Disputes
 - There have been 590 disputes brought to the WTO since its creation in 1995 (as of 10/1/19)
 - Some of the more notable are (or were)
 - EU ban on hormone treated beef (ruled by WTO to have no scientific basis)
 - US shrimp-turtle import prohibition (struck down by WTO)



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53

WTO Current Issues

- WTO Disputes
 - More
 - Boeing-Airbus dispute over subsidies by EU and US (WTO ruled that both were using illegal subsidies)
 - Canada and Mexico complaint about US Country-of-Origin Labeling (COOL) law for meats (WTO ruled against US law)

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54

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55

WTO Current Issues

- Other WTO Issues
 - Independence
 - US (under Obama) vetoed reappointment of a member of the Appellate Body
 - He had found against the US in several cases
 - Others worry that this will undermine the body's independence
 - This made US look like a bully to others
 - Since then, US under Trump has blocked further appointments (see Schlesinger)
 - The Appellate Body may soon lack a quorum to make decisions.

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56

WTO Current Issues

- Other WTO Issues
 - China's "market economy status" (see Schlesinger)
 - Because China is currently classed as a non-market economy, its prices need not be used in deciding anti-dumping cases
 - This leaves others free to base dumping decisions on prices in other countries, hurting China
 - China is arguing for market economy status, and the issue is likely to be addressed soon by the Appellate Body

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57

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58

WTO Critiques

- Trump
 - Oct 25, 2017, on Fox interview with Lou Dobbs:
 - "The WTO, World Trade Organization, was set up for the benefit for everybody but us."
 - "we lose the lawsuits, almost all of the lawsuits ... within the WTO"
 - In fact, like other countries, US
 - Wins most of the cases it brings
 - Loses most the cases brought against it
 - Since 1995, in all cases complainant has won 90%
 - As complainant, US has won 91%
 - As respondent, US has lost 89%
 - But...Trump may be closer to right if we've been respondent much more than complainant

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59

WTO Critiques

- Trump
 - Oct 30, 2018, FT:
 - **Donald Trump threatens to pull US out of the WTO**
 - "If they don't shape up, I would withdraw from the WTO," Mr Trump said in an interview.

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60

WTO Critiques

- Rodrik
 - WTO extended GATT into “inside the border” policies that countries resist
 - It is not well suited to dealing with countries that are very different (China)
 - US would have had a hard time developing under WTO rules
 - WTO has been unable to adapt to change, and instead the Appellate Body has made new law

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61

WTO Critiques

- The future of WTO?
 - May slip into irrelevance as US and others ignore its rules
 - Or maybe these issues will prompt it to restructure itself to work better

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62

Next Time

- Migration
 - Causes
 - Effects
 - Policies

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63