

PubPol 201

Module 3: International Trade Policy

Class 1

Introduction to Trade and Trade Policy

Class 1 Outline

Introduction to Trade and Trade Policy

- Growth of world and US trade
- The World Trade Organization (WTO)
- Regional trade agreements
- US trade policies and institutions
- Recent events

Lecture 1: Introduction

2

Class 1 Outline

Overview of Trade and Trade Policy

- Growth of world and US trade
- The World Trade Organization (WTO)
- Regional trade agreements
- US trade policies and institutions

Lecture 1: Introduction

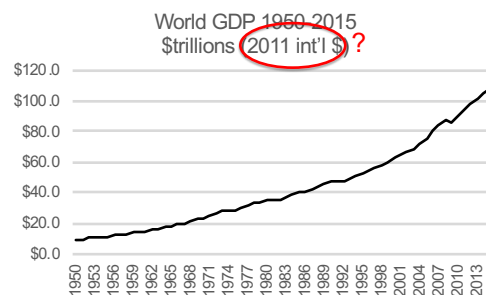
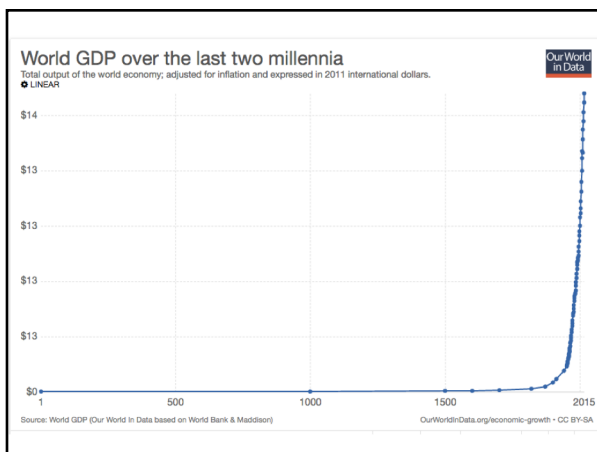
3

Growth of world and US trade

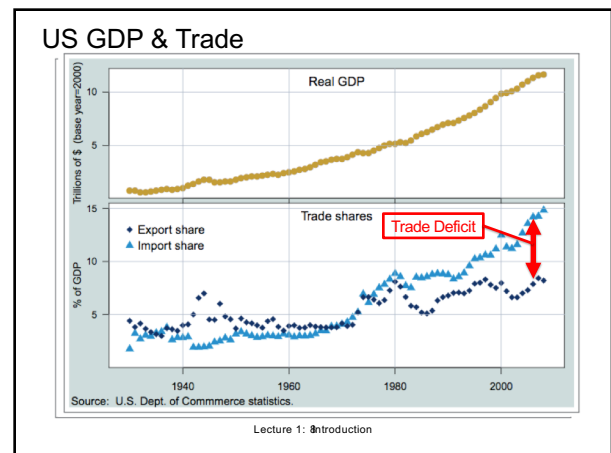
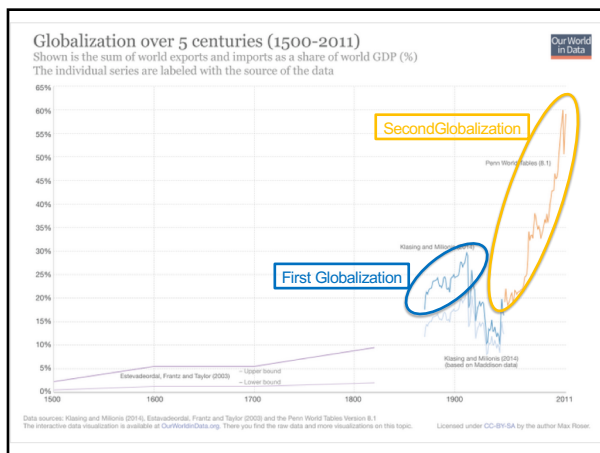
- The world economy, GDP, has grown dramatically over time
- World trade has grown even faster

Lecture 1: Introduction

4



6

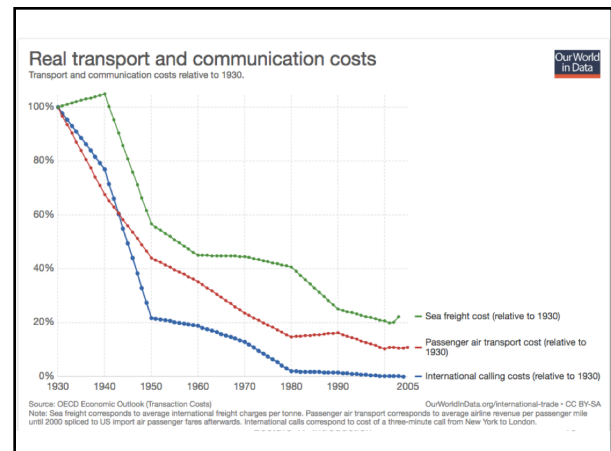


Discussion Question

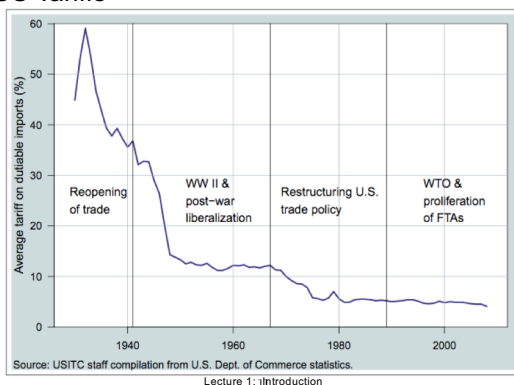
- Why has trade grown so fast?
 - The next two slides will show just two reasons
 - Your ideas?

Lecture 1: Introduction

9



US Tariffs



Class 1 Outline

Overview of Trade and Trade Policy

- Growth of world and US trade
- The World Trade Organization (WTO)
- Regional trade agreements
- US trade policies and institutions

Lecture 1: Introduction

12

World Trade Organization

- WTO (and before it, the GATT)
 - Rounds of multilateral tariff reductions
 - Discipline on nontariff barriers
 - Expanded coverage to include
 - Services
 - Intellectual Property
 - Members
 - GATT 1947: 23
 - WTO now: 164



Lecture 1: Introduction

World Trade Organization

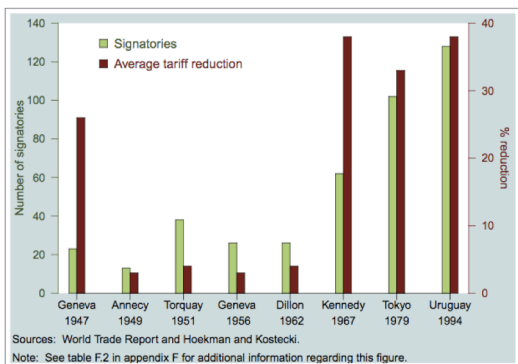


Interactive: https://www.wto.org/english/res_e/status_e/status_maps_e.htm

Lecture 1: Introduction

14

FIGURE 3.3 GATT round summary: number of signatories (left axis) and weighted average tariff reductions (right axis)



World Trade Organization

- International Rule of Law
 - GATT/WTO agreed rules for uses of trade policies
 - Must not raise tariffs above levels that countries commit to
 - Must not use certain other trade barriers
 - Enforced through permitted retaliation

Lecture 1: Introduction

World Trade Organization

- Rules do permit “trade remedies,” but constrain their use
 - Safeguards tariffs
 - Against imports causing injury
 - Anti-dumping duties
 - Against imports “unfairly priced”
 - Countervailing duties
 - Against subsidized imports
 - (More on these below)

Lecture 1: Introduction

World Trade Organization

- Donald Trump
 - Has been critical of WTO
 - Trump Threatens To Pull The U.S. Out Of The World Trade Organization**
HUFFPOST Jul 24, 2016
 - Wants to ignore WTO
 - Trump suggests ignoring World Trade Organization in major policy shift



Mar 1, 2017

Lecture 1: Introduction

Discussion Question

- What are your views, and what have you heard, pro and con, about the WTO?

Lecture 1: Introduction

Class 1 Outline

Overview of Trade and Trade Policy

- Growth of world and US trade
- The World Trade Organization (WTO)
- Regional trade agreements
- US trade policies and institutions

Lecture 1: Introduction

20

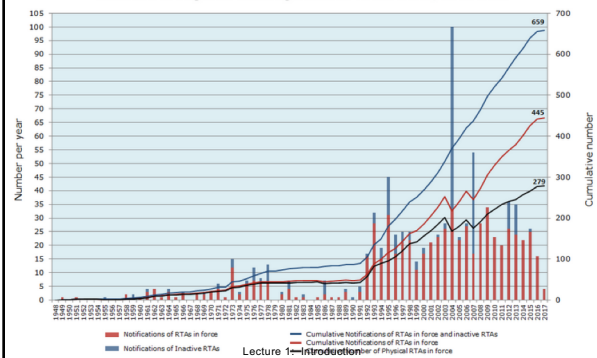
Regional trade agreements

- Pairs or groups of countries that
 - Eliminate most tariffs on imports from members
 - Tariffs on outsiders?
 - Leave unchanged and different
 - FTA = Free Trade Area
 - Example: NAFTA
 - Adopt common external tariffs
 - CU = Customs Union
 - Example: European Union

Lecture 1: Introduction

21

Evolution of Regional Trade Agreements in the world, 1948-2017



Lecture 1: Introduction

US FTAs

Date	Agreement	Date	Agreement
1985	US-Israel	2006	CAFTA-DR (US-Dominican Rep-Central America)
1989	US-Canada	2006	US-Bahrain
1994	NAFTA (US-Canada-Mexico)	2009	US-Peru
2001	US-Jordan	2009	US-Oman
2004	US-Singapore	2012	US-Colombia
2005	US-Chile	2012	US-Panama
2005	US-Australia	2012	US-South Korea
2006	US-Morocco		

Lecture 1: Introduction

23

US FTAs

- Donald Trump
 - Pulled US out of TPP = Trans-Pacific Partnership
 - FTA among US, Canada, Mexico, Japan, and 8 others (not including China)
 - Threatened to pull out of NAFTA
 - Has just renegotiated it
 - US-Korea FTA
 - Amended it, but in a way that reduces trade

Lecture 1: Introduction

24

Discussion Question

- What have you heard about NAFTA and other US FTAs?
- We'll be studying NAFTA during our last week of this module.

Lecture 1: Introduction

25

Class 1 Outline

Overview of Trade and Trade Policy

- Growth of world and US trade
- The World Trade Organization (WTO)
- Regional trade agreements
- US trade policies and institutions

Lecture 1: Introduction

26

US Trade Policy

- Who Is Responsible?
 - Department of International Trade?
 - No, we don't have one
 - US Constitution gives power to set import tariffs to Congress
 - Congress has sometimes delegated that to the President
 - See "Fast Track" below

Lecture 1: Introduction

27

US Trade Institutions

- Responsibility for trade issues is spread over many entities
 - Congress
 - USTR = US Trade Representative
 - Commerce Department
 - US International Trade Commission
 - Export-Import Bank
 - and several others

Lecture 1: Introduction

28

US Trade Institutions

- Trump's USTR is Robert Lighthizer
- Cabinet-level official of US government
- Role
 - Handles negotiations on trade issues
 - Drafts trade legislation for Congress



Lecture 1: Introduction

29

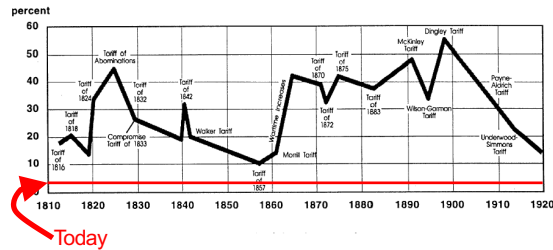
US Trade Institutions

- Congress
 - Sets tariffs and other trade policies (thus approves trade agreements)
 - Two committees are responsible
 - House: Ways and Means
 - Senate: Finance
 - Why these?
 - Because trade policy was originally about collecting revenue

Lecture 1: Introduction

30

US tariff history: 1810-1920



Lecture 1: Introduction

31

US Trade Remedies

- Escape Clause = Section 201 (Called “Safeguards” in WTO)
 - Temporary protection from injurious imports
 - Does NOT allege that the imports are “unfair”
 - Eligibility is decided by USITC alone
 - Injury (must be serious)
 - Causation (must be due to imports)
 - Tariff must be non-discriminatory
 - Implemented by President, who may say NO.

Lecture 1: Introduction

32

US Trade Remedies

- Unfair Trade Laws
 - Permit protection (not temporary) from “unfair” imports
 - Must also be injurious, but less than escape clause
 - “Unfair” if
 - “Dumped”, i.e., priced too low by firm
 - Subsidized by foreign government
 - Results:
 - Anti-dumping duties (AD)
 - Countervailing duties (CVD)
- President cannot say no

Lecture 1: Introduction

33

US Trade Remedies

- Section 301
 - Permits tariffs against countries that use “unfair trade practices”
 - Vague. & illegal in GATT/WTO unless done through the WTO dispute settlement process
 - Usage:
 - Used in 1980's against Japan
 - Had not been used since WTO began in 1995
 - Now being used by Trump against China for intellectual property theft

Lecture 1: Introduction

34

Other US Trade-Related Policies

- Trade Adjustment Assistance
 - Provides help to workers and firms displaced by trade (since 1962)
 - Not very large or effective
- “Fast Track” (=Trade Promotion Authority)
 - Authorizes President to negotiate trade
 - Congress commits to vote yes or no, but not change

Lecture 1: Introduction

35

Other US Trade-Related Policies

- GSP = Generalized System of Preferences
 - Lower tariffs for imports from least developed countries
 - Permitted by GATT/WTO, and used by most developed countries

Lecture 1: Introduction

36

US Trade Policies

- What motivates US trade policies? (See Baldwin)
 - Political parties, but they changed:

	Democrats	Republicans
1930s	Lower tariffs	Protection
Today	Protection	Lower tariffs

- Presidents of both parties (until Trump) favored lower tariffs
 - For foreign policy reasons (Cold War)

Lecture 1: Introduction

37

Discussion Question

- Do you view the United States as mainly a free trader, mainly protectionist, or somewhere in between?

Lecture 1: Introduction

38