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

International Organizations

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

- International Organizations Related to Trade
  - OECD = Organization for Economic Cooperation and Development
    - Group of mostly rich countries
      - Collects data
      - Discusses reforms
    - 35 members
      - Including Mexico, Korea, Czech Rep., Poland
      - Most recent: Estonia, added 9 December 2010
      - Russia is not a member (discussions of that were postponed in 2014)

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

- Note who is missing:
  - Switzerland
  - Norway
  - Former Yugoslavia except Slovenia & Croatia
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

• 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

• 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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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

Hawley Smoot
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

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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World Trade Organization: Rounds

<table>
<thead>
<tr>
<th>No.</th>
<th>Years</th>
<th>Name</th>
<th>Accomplishments</th>
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<tr>
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<tr>
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### World Trade Organization: Rounds

#### Rounds of GATT

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<td>7</td>
<td>1973-79</td>
<td>Tokyo</td>
<td>Tariffs + NTBs</td>
</tr>
<tr>
<td>8</td>
<td>1986-94</td>
<td>Uruguay</td>
<td>Tariffs, NTBs, Services, Intellectual Property, Textiles, Ag., Dispute Settlement, Created WTO</td>
</tr>
<tr>
<td>9</td>
<td>2001-15</td>
<td>Doha</td>
<td>FAILED: Doha Development Agenda</td>
</tr>
</tbody>
</table>
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

Rules:

- Groups of countries draft changes, then persuade others
- Again, large countries dominate

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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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)
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

• 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)
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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WTO Functions

- See table in Deardorff

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

WTO Functions

- Constraints
- Tariff Bindings
- Customs Valuation
- Product Regulations
- Quantitative Restrictions
- Subsidies
- Foreign Direct Investment (TRIMS)
- Services (GATS)
- Intellectual Property (TRIPs)
- National Treatment for Service Firms (only in some industries)
- Enforce Patents, Copyrights, Trademarks

WTO Functions

- Exceptions
- Anti-Dumping
- Countervailing Duties
- Safeguards
- Balance of Payments Protection
- Preferential Trade Agreements
- Permitted; not required
- Allows NAFTA, EU, etc.
WTO Functions

- Dispute Settlement
- Consultation
- Panel Recommendation
- Appellate Body
- Remedy
- Implementation
- Compensation
- Retaliation

The Ultimate Remedy: Permit Tariffs

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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
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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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

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
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 has stopped growing
    • Not clear that tariffs had risen prior to Trump

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 Aries Ministerial met but accomplished essentially nothing
    • Was more about friction between US (Trump) & others

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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WTO Current Issues

- WTO Disputes
  - There have been 567 disputes brought to the WTO since its creation in 1995 (as of 10/5/18)
  - 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)
  - 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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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.

- 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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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

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.
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

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

Next Time

• Migration
  – Causes
  – Effects
  – Policies