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

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
    • 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)

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
    • 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 State, Mexico, Canada Agreement

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

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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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

<p>| Rounds of GATT Multilateral Trade Negotiations |</p>
<table>
<thead>
<tr>
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World Trade Organization: Rounds

Rounds of GATT
Multilateral Trade Negotiations

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<td>7</td>
<td>1973-79</td>
<td>Tokyo</td>
<td>Tariffs + NTBs</td>
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<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>
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Lecture 9: WTO

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: \( Z = \frac{AX}{A+X} \)
      - \( X \) = 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)

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

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)
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

<table>
<thead>
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<th>Functional Outline of the World Trade Organization</th>
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<tr>
<td>Communication</td>
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<td>Trade Policy Review Mechanism</td>
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<td>Product Regulations</td>
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<td>Quantitative Restrictions</td>
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<td>Subsidies</td>
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<td>Foreign Direct Investment (TRIMS)</td>
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<td>Services (GATS)</td>
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<td>Intellectual Property (TRIPs)</td>
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<td>Constraints</td>
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<td>Countries negotiate and commit to maximum tariffs</td>
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<td>National Treatment for Service Firms (only in some industries)</td>
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<td>Enforce Patents, Copyrights, Trademarks</td>
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WTO Functions

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

Standing Committee that reviews most cases

3-person Panel Decides Case

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

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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
      - 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 stopped growing for a while, then grew again
    • Not clear that tariffs rose (until 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 Aires 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 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)

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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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.

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