

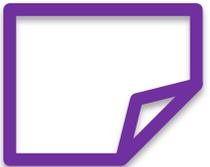
PubPol/Econ 541

Classes 7, 8

Policies and Institutions: International

by

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University of Michigan
2023



Pause for News

Announcements

- Feedback: I'd welcome it
 - Ford School students got a link to send anonymous feedback about their courses
 - Non-Ford School students may not have that option, but I'd love to hear from you

Quiz Scores

	Q1	Q2	Q3
Mean	7.86	6.67	7.10
Median	8.25	6.5	7
Max	10	10	10
Min	1	4	3.5
S.D.	2.27	1.98	1.85

Announcement

- Papers
 - Avoid “spurious specificity”
 - Nothing here is known exactly
 - So don’t report more than a few (3?) significant digits
 - Eg, “\$162 million”
 - NOT “\$161.629 million”
 - NOT “\$161,629,418

Announcement

- Papers

- Elasticities

- These are (for both supply and demand)

$$\frac{\Delta Q}{Q} / \frac{\Delta P}{P}$$

- They could be either

$$\frac{Q_1 - Q_0}{Q_0} / \frac{P_1 - P_0}{P_0} \text{ or } \frac{Q_1 - Q_0}{Q_1} / \frac{P_1 - P_0}{P_1}$$

- Use whichever is more convenient (typically, the one that you know).
 - They are not the same, but the difference is small compared to our larger uncertainty.

Outline (for 2 classes)

- The Problem
- History
- GATT
- WTO
- Issues
- Other Institutions

The Problem

- Countries think they can benefit themselves at the expense of others by using tariffs or other import protection
- But they know that if all do, they all lose
- It's a Prisoners' Dilemma

The Problem of Trade Warfare

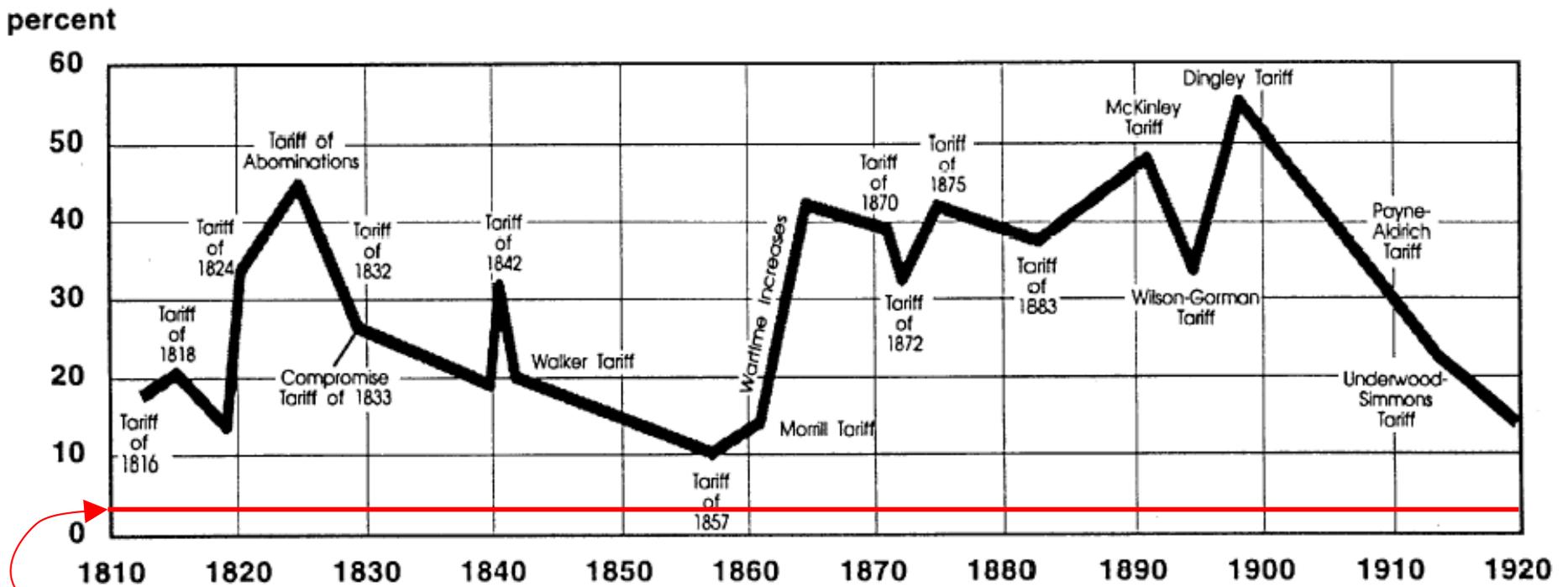
		Japan	
		Free Trade	Protection
US	Free Trade	10	20
	Protection	-10	-5

(Nash) Equilibrium

The Outcome

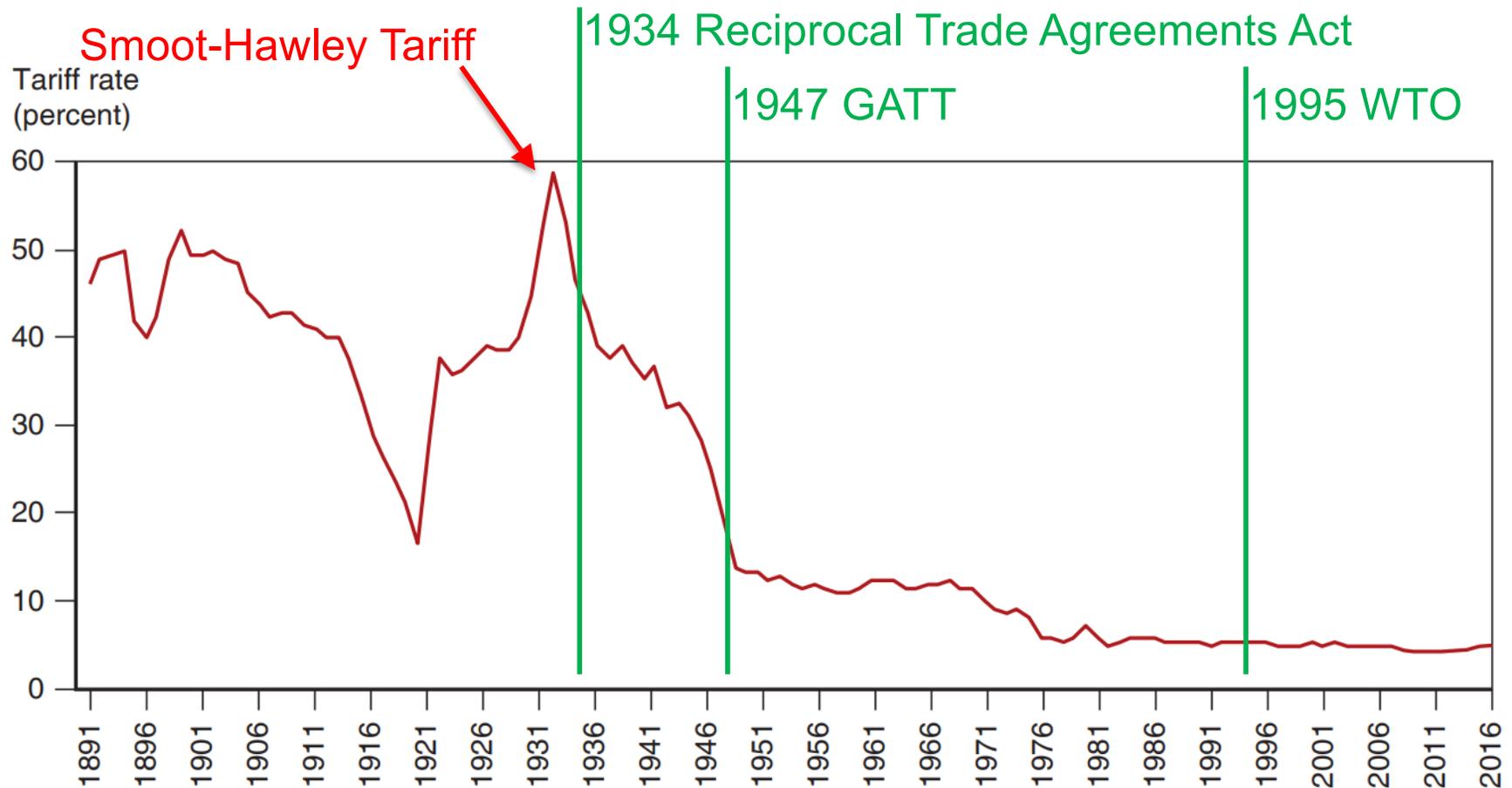
- Equilibrium: All countries use tariffs, and all are worse off
- The solution: Cooperation
 - Bilateral
 - Pairs of countries agree to reduce tariffs on each other
 - They worry that partners will later do better deals with others
 - So they promise “Most Favored Nation” (MFN)
 - = Promise partners the best they do later for others
 - Multilateral: GATT, and later WTO
 - Both had MFN and core requirement

- US tariff history: 1810-1920



Today

Figure 10.5 The U.S. Tariff Rate



After rising sharply at the beginning of the 1930s, the average tariff rate of the United States has steadily declined until the eve of the U.S.-China trade war.

History

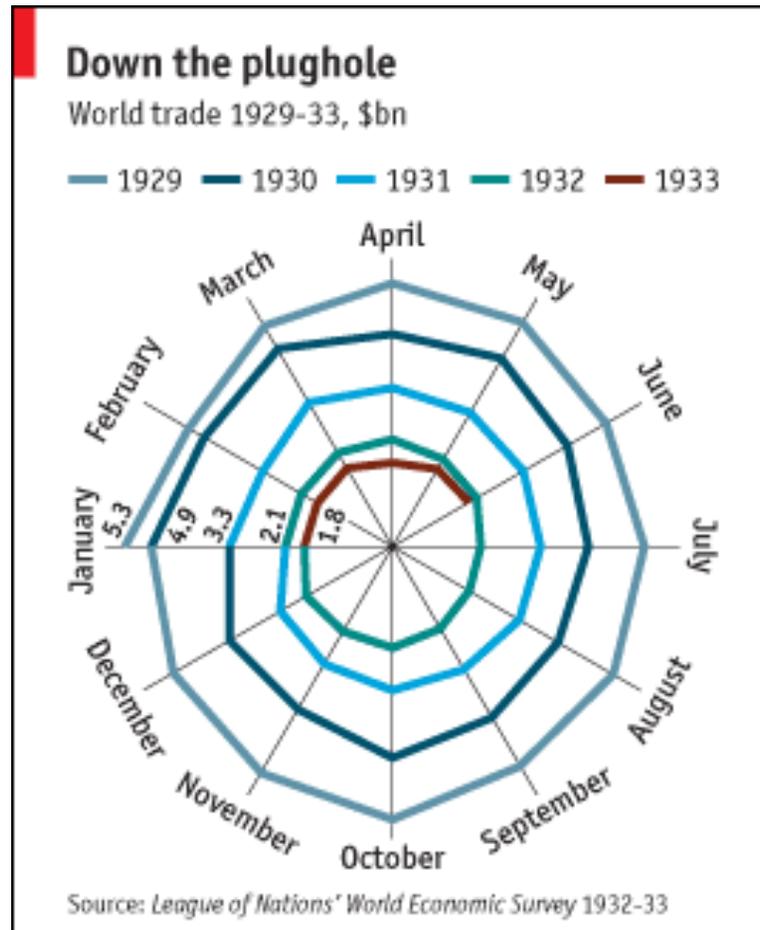
- Before 1934
 - Massive use of tariffs
 - Especially by US
 - Often for government revenue
 - Also for protection of North-east manufacturers
 - 1930: Smoot-Hawley Tariff
 - Result of “logrolling” in Congress
 - Prompted retaliation by others
 - Worsened (did not cause) the Great Depression



Hawley

Smoot

Kindleberger Spiral



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

History

- 1934: Reciprocal Trade Agreements Act
 - US Congress authorized President to negotiate bilateral tariff reductions
 - Used MFN to spread tariff cuts to, and from, multiple countries

History

- 1947: General Agreement on Tariffs and Trade (GATT)
 - Accompanied (but not part of) the Bretton Woods negotiations that created
 - IMF
 - World Bank
 - Meant as temporary until International Trade Organization (ITO) would be ratified.
 - GATT was adopted via Protocol of Provisional Application
 - ITO failed (in US)
 - GATT became the rules for ~50 years by default

Pause for Discussion

Questions on KOM

- What reasons may motivate countries to use tariffs on imports?
- By how much were US tariffs reduced from the 1930s to just after World War II, just before the GATT? How was this accomplished?
- What do KOM mean by the “levers” and the “ratchets”?

GATT

- What GATT did
 - Set rules for countries to follow in their trade policies
 - Still does, as part of WTO
 - Included weak enforcement of rules
 - Hosted “Rounds” of multilateral negotiations

GATT Negotiations

Rounds of GATT Multilateral Trade Negotiations			
No.	Years	Name	Accomplishments
1-5	1947-61		Reduced tariffs
6	1964-67	Kennedy	Tariffs + anti-dumping
7	1973-79	Tokyo	Tariffs + NTBs
8	1986-94	Uruguay	Tariffs, NTBs, Services, Intellectual Property, Textiles, Ag., Dispute Settlement, Created WTO
9	2001-15	Doha	FAILED: Doha Development Agenda

GATT Negotiations

- How negotiations took place
 - Tariffs:
 - In early rounds, tariff cuts were negotiated between “principal supplier” country and “principal demander” country
 - Cuts extended to all other members (MFN)
 - Large countries dominated this process
 - In more recent rounds, negotiations started with a formula for tariff cuts, then negotiated exceptions

GATT Negotiations

- Swiss Formula:

$$Z = AX/(A+X)$$

Swiss Formula with A=16:

Old tariff:	5	10	20	50
New tariff:	3.8	6.2	8.9	12.1

- 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

Pause for Discussion

Questions on Jackson

- What is the date of the Jackson book?
- Was it written before or after:
 - The expansion of world trade?
 - The appearance of global supply chains?
 - The creation of the WTO?
 - The creation of the internet / web?
 - The proliferation of Free Trade Agreements?

WTO

- World Trade Organization
 - Created by Uruguay Round, in 1994
 - Went into effect Jan 1, 1995
 - Members as of 2023: 164
 - Latest: Afghanistan in 2016
 - Led by Director General
 - Position last filled Feb 2021, after some controversy
 - Little power

WTO Appoints Nigeria's Ngozi Okonjo-Iweala as First Female Leader,
Feb 15, 2021





The entrance to the Centre William Rappard
International



The World Trade Organization HQ in Geneva. The trade rule book needs to catch up with reality to make a real difference © Robert Hradil/Getty

WTO

- How it works
 - Decides by “consensus”
 - = “no member present objecting”
 - Otherwise fraction (2/3 or 3/4) of all members
 - In practice, major countries decide
 - Ministerial meetings intended every two years
- 2 Fundamental principles
 - MFN = Most Favored Nation
 - National Treatment.
 - Imports treated same as domestic once inside

Pause for Discussion

Questions on Alden, “Free Trade is Dead, ...”

- Is it really “free trade” that Alden is saying we once had and now are losing?
- Why are countries departing from nondiscrimination?
- If the concerns that are motivating these policies are valid, why is he concerned?
- What WTO principle should be given more emphasis?

Discussion Question

- What do you think the world of trade would be like today now if we hadn't had the GATT/WTO?

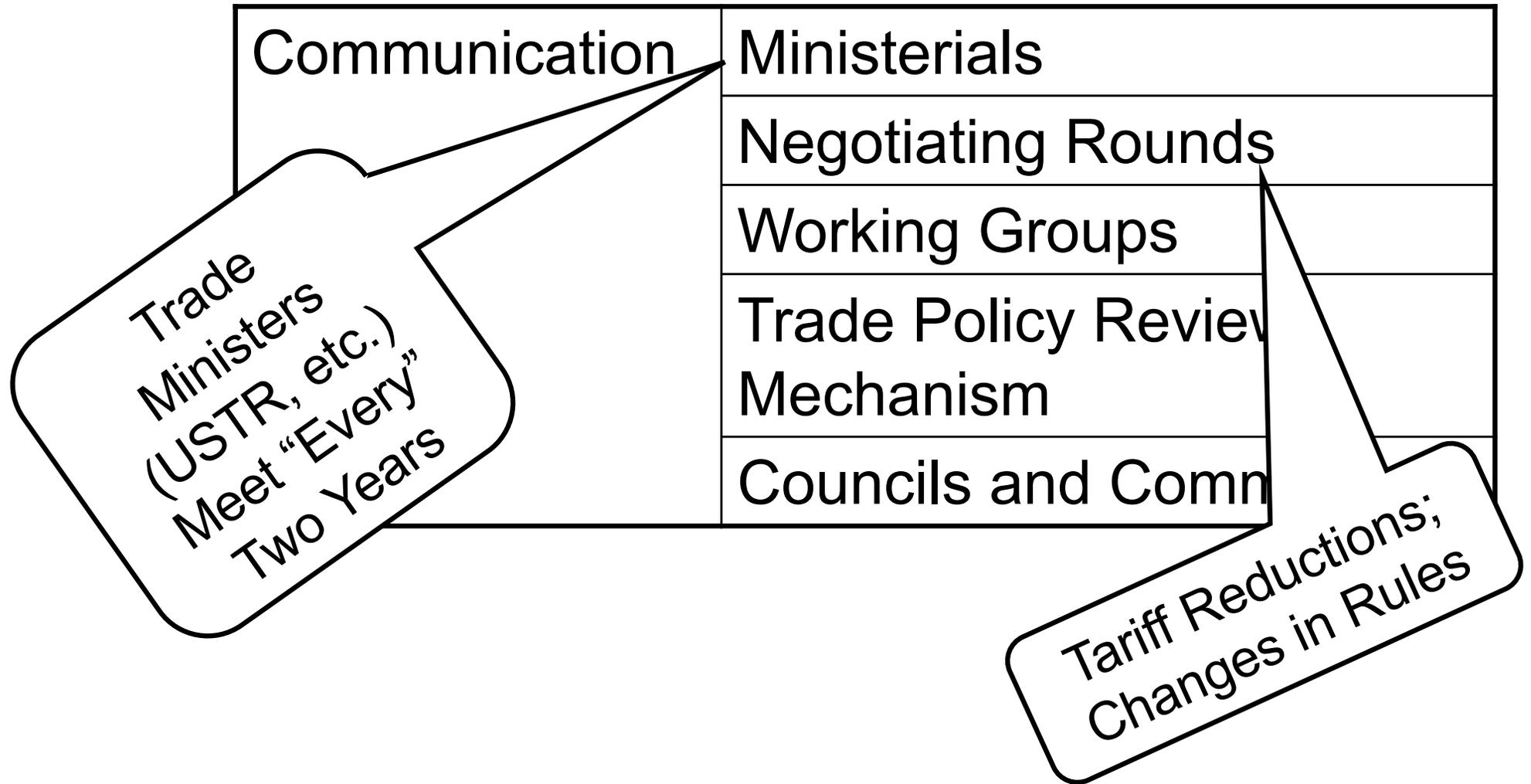
WTO

- Three parts:
 - GATT = General Agreement on Tariffs and Trade
 - GATS = General Agreement on Trade in Services
 - TRIPs = Trade-Related Aspects of Intellectual Property Rights
- Functions (see below)

WTO Functions

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

WTO Functions



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

WTO Functions

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

Most commonly used

Permitted; not required

Allows NAFTA, EU, etc.

WTO Functions

Dispute Settlement	Consultation	Standing Committee that reviews most cases
	Panel Recommendation	
	Appellate Body	
	Remedy	
3-person Panel Decides Case	Implementation	The Ultimate Remedy: <u>Permit Tariffs</u>
	Compensation	
	Retaliation	

3-person Panel Decides Case

The Ultimate Remedy: Permit Tariffs

Standing Committee that reviews most cases

Pause for Discussion

Questions on Jackson

- Jackson lists 11 important achievements of the Uruguay Round in its creation of the WTO. Are any of them flawed or incomplete in his view or others'?
- What are the two principles that promote nondiscrimination? Are there exceptions to these principles?
- Does the WTO permit export subsidies? Why or why not?

WTO Early Issues

- 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



WTO Early Issues

- Doha Round
 - Began at WTO Ministerial at Doha, Qatar, Fall 2001 (after Sep 11)
 - Emphasis on development:
 - Cancún Ministerial Sep 2003
 - Meeting ended without agreement: Failure!
 - December 2015: Nairobi Ministerial meeting
 - Ended without reaffirming intent to complete the Doha Round
 - Implicitly, admitted Round had ended in failure

WTO Early 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 (1995 with update 2015)
 - Financial Services Agreement
 - Basic Telecommunication Services Agreement
 - Anti-Counterfeiting Trade Agreement

WTO Ministerials

- December 2013: Bali Ministerial salvaged a limited agreement, mainly on Trade Facilitation
- December 2015: Nairobi Ministerial agreed on several commitments, including
 - Abolished export subsidies on farm exports.
- December 2017: Buenos Aries Ministerial met but accomplished essentially nothing (note: Trump)
- [Missed meeting in 2019; not sure why]
- June 12-17, 2022: Geneva, Switzerland
 - Originally planned for Nur-Sultan, Kazakhstan, June 8-11, 2020.
 - Put on hold due to COVID-19,
 - Then rescheduled for Geneva
- Next will be in 2024, in United Arab Emirates

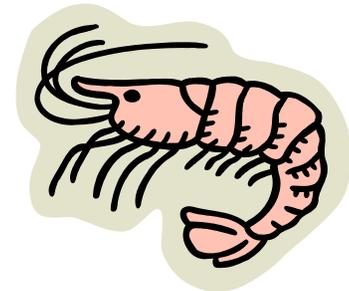
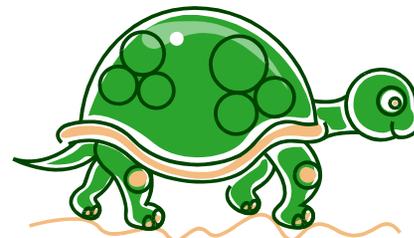
Pause for Discussion

Questions on Beattie, “The WTO’s Marathon Exercise...”

- Did the 2022 Geneva Ministerial address important issues? Did it make progress on them?
- Does the author fault the leaders of the WTO?
- What countries are criticized? Why?

WTO Disputes

- There have been 614 disputes brought to the WTO since its creation in 1995 (as of 9/21/22)
- Two of the more notable 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 Disputes

- Boeing-Airbus
 - Both countries lost cases against the other
 - Settled bilaterally June 2021
- COOL dispute (Country of Origin Labeling)
 - US requires it on meat
 - Canada and Mexico objected
 - US lost and Congress repealed its law
- China's "Market-economy status" for anti-dumping cases
 - China lost

WTO Disputes

- Semiconductors

- December 12, 2022, China filed a complaint against the US:

- **DS615** United States — Measures on Certain Semiconductor and other Products, and Related Services and Technologies

- In response to “sweeping export controls” on chips

- US says

- “these targeted actions relate to national security”

- “WTO is not the appropriate forum to discuss issues related to national security”

- Status of case: “In consultations”

Pause for Discussion

Questions on White et al., “China Hits Back at US Chip...”

- On what basis did the US claim it was restricting chip exports to China?
- Aside from this complaint, how is China responding to these restrictions?
- Are any other countries involved?

Trump and the WTO

- 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%



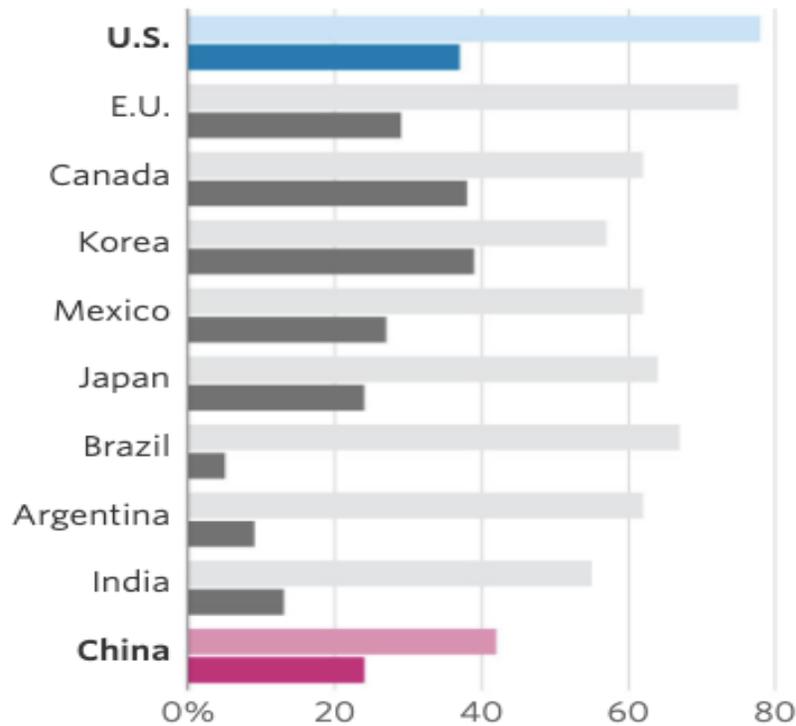
Who Wins at the WTO

The success rate of WTO members in filing claims, or defending against them, at the dispute panel level



Won claims it filed against another member

Won claims filed against it



Note: Includes cases from 1995 through Feb. 23, 2016; countries shown were involved in at least 10 cases.

Source: Louise Johannesson and Petros C. Mavroidis

Source:
Schlesinger

US and the WTO

- **National-Security Tariffs (on steel, aluminum)**
 - Cases brought by EU and many others
 - EU, Canada, & Mexico cases settled by negotiation
 - Other cases status: panel composed
- **How did WTO rule?**
 - Panel report in December 2022 found against the US
 - Said action was not “in time of war or other international emergency”
 - US appealed (but has blocked the Appellate Body)
- **WTO provision:**
 - Article XXI: “[n]othing in this Agreement shall be construed . . . to prevent any contracting party from taking any action which it considers necessary for the protection of its essential security interests . . . taken in time of war or other emergency in international relations[.]”

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US and the WTO

- Dispute Settlement Body (DSB)
 - Lacks a quorum since Dec 11, 2019
 - Trump blocked all new appointments
- Without DSB no case can finish if it is appealed
- Other countries formed an alternative mechanism
 - See below and Geneva Trade Platform reading

US and the WTO

- Trade war with China
 - Tariffs levied under US Section 301 not consistent with GATT/WTO
 - WTO panel ruled against US Sep 15, 2020
 - Panel: “Trump’s tariffs violated several global rules” (NYT)
 - US appealed but case cannot be completed
 - Even without that, would WTO permission for China to levy tariffs be meaningful?

US and the WTO

- Lighthizer (NYT 9/15/2020)
 - Trump's USTR
 - “This panel report confirms what the Trump administration has been saying for four years: The W.T.O. is completely inadequate to stop China’s harmful technology practices”
 - “Although the panel did not dispute the extensive evidence submitted by the United States of intellectual property theft by China, its decision shows that the W.T.O. provides no remedy for such misconduct.”

Biden and the WTO

- Biden’s “Trade Policy Agenda” (see next class):
 - 2021 included:
 - “Reengage and be a leader in international organizations, including the World Trade Organization”
 - 2023 includes:
 - “The United States is also stepping up engagement in multilateral institutions and international organizations, such as the World Trade Organization.
 - We will continue our collaboration to make trade work for more people, and will work with partners to reform institutions as needed to achieve a more resilient and just global economy.”

Fixing the WTO

- Does the WTO need fixing?
 - Trump thought so (or just kill it)
 - Biden shares concerns about Appellate Body
 - New DG Okonjo-Iweala says WTO hadn't helped in the pandemic
 - It permits trade restrictions to protect health
 - It requires they be reported, but often they aren't

Fixing the WTO

- Does the WTO need fixing?
 - “Intellectual property rules are too rigid, and protect pandemic profiteers over the poor”
 - Some want to drop patents for vaccines. But DG O-I does not
 - Rodrik critiques (of both WTO and FTAs)
 - With tariffs reduced under GATT, WTO shifted from resisting import protection to promoting interests of exporters
 - GATS and TRIPs agreements were results of big business lobbying

Pause for Discussion

Questions on Rodrik

[NOTE: Much of Rodrik critique is about FTAs, not WTO, so I'll have questions on that later.]

- How does Rodrik change the political economy of trade policy?
- Why are the welfare effects different?
- What groups of companies does Rodrik criticize specifically?

Fixing the WTO

- A temporary fix for the broken Appellate Body: MPIA
 - A large group of WTO member countries agreed to handle appeals separately from the WTO

Parties to the MPIA:

The following WTO members are parties to the MPIA: Australia; Benin; Brazil; Canada; China; Chile; Colombia; Costa Rica; Ecuador; European Union; Guatemala; Hong Kong, China; Iceland; Japan; Macao, China; Mexico; Montenegro; New Zealand; Nicaragua; Norway; Pakistan; Peru; Singapore; Switzerland; Ukraine and Uruguay.



Also
Japan

Questions on Geneva Trade Platform, on MPIA

- What does MPIA stand for?
- What country's actions prompted the creation of the MPIA? How?
- How many countries are members of the MPIA? And who are not?
- Who will decide appeals?
- What objections to the Appellate body are mentioned?

Other International Institutions

- IMF (International Monetary Fund)
- World Bank (International Bank for Reconstruction and Development)
- G-7, G-8, G-20
- OECD (Organization for Economic Cooperation and Development)
- EU (European Union)

Other International Institutions

- United Nations
 - UNCTAD (United Nations Conference on Trade and Development)
 - ILO (International Labor Organization)
 - WIPO (World Intellectual Property Organization)
- FTAs (Free Trade Agreements)
 - USMCA (United States Mexico Canada Agreement)
 - CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership)
 - RCEP (Regional Comprehensive Economic Partnership)
 - Many others ...

Major Economic Institutions Compared

	Members	Budget \$ mil	Employees	from Countries
UN	193	3,400	125,436	
IMF	190	1,411	2,400	Over 190
World Bank	189	2,851	18,946	Over 170
WTO	164	217	Over 600	Around 80

IMF

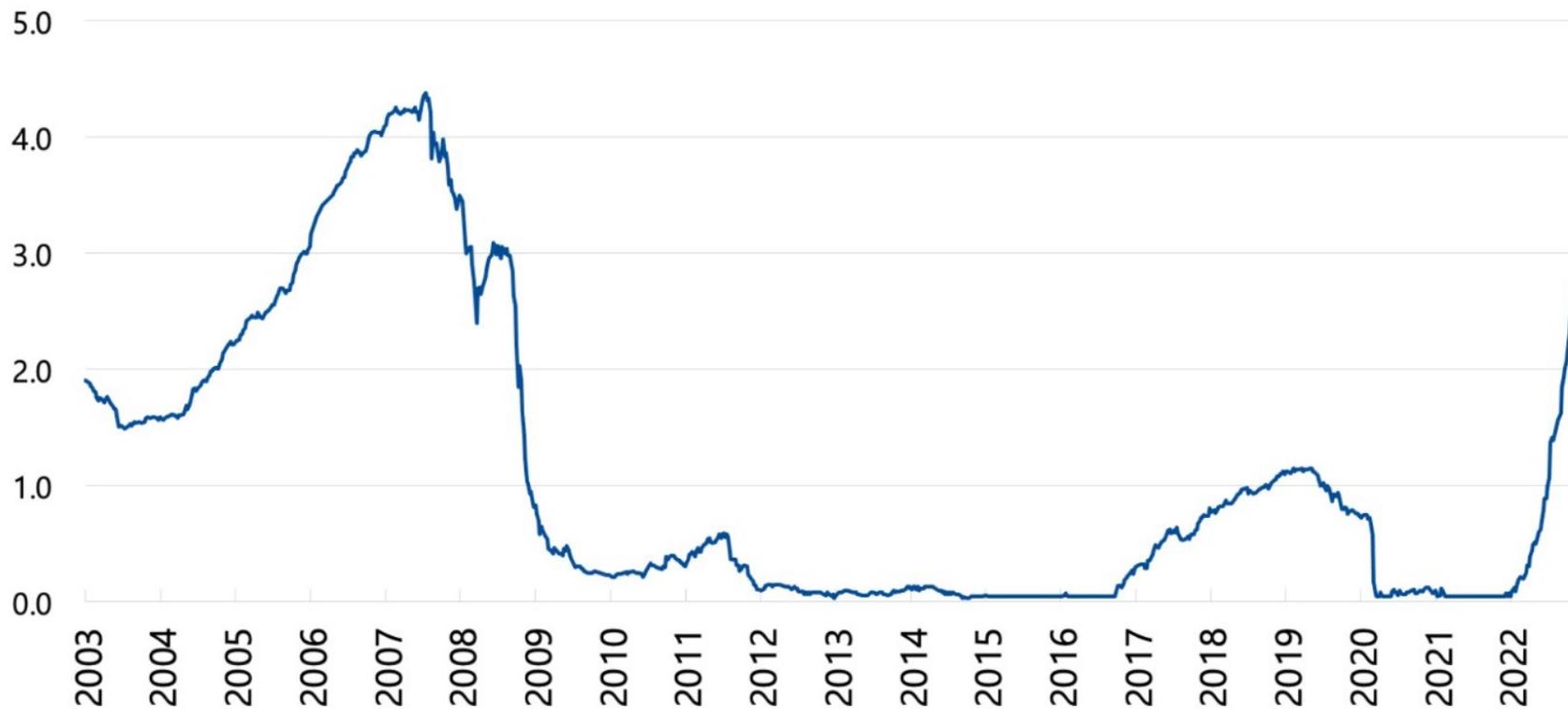
- IMF = International Monetary Fund
 - Created at Bretton Woods 1944
 - Original purpose
 - To prevent international financial crises by
 - Overseeing exchange rates pegged to the US dollar
 - Providing resources to central banks to assist in exchange-rate management
 - Current purpose
 - No longer pegged exchange rates
 - “Promote financial stability and monetary cooperation”

IMF

- Things the IMF does
 - Loans to countries in financial distress
 - Conditional on agreeing to “undertake certain policy actions” (“Policy conditionality”)
 - Ceilings on external debt, government wage bill
 - Improve tax administration, fiscal transparency, anti-corruption
 - Charges interest rate based on the SDR interest rate (see below) plus a margin that is currently 100 basis point (1%)

IMF

Interest Rate on SDR, 2003-end November 2022 (percent a year)



Source: IMF Finance Department.

IMF

- SDRs
 - SDR = Special Drawing Right
 - A “supplementary international reserve asset”
 - Created in 1969 in failed attempt to preserve the system of pegged exchange rates
 - Additional SDRs can be created by the IMF and allocated to members
 - “Not a currency, but an asset that can be exchanged for currency when needed”
 - Value is a basket of world currencies

SDR

Currency	Weights determined in the 2022 review	Fixed number of units of currency for a 5 year period <i>Starting Aug 1, 2022</i>
US dollar	43.38	0.57813
Euro	29.31	0.37379
Chinese Renminbi	12.28	1.0993
Japanese Yen	7.59	13.452
Pound Sterling	7.44	0.080870

World Bank

- World Bank Group
 - Original purpose
 - To assist war-destroyed countries to recover from WWII
 - Current purpose
 - To assist developing countries with
 - Loans
 - Policy advice
 - Assistance

World Bank

- World Bank Institutions:
 - International Bank for Reconstruction and Development
 - International Development Association
 - International Finance Corporation
 - Multilateral Investment Guarantee Agency
 - International Centre for Settlement of Investment Disputes

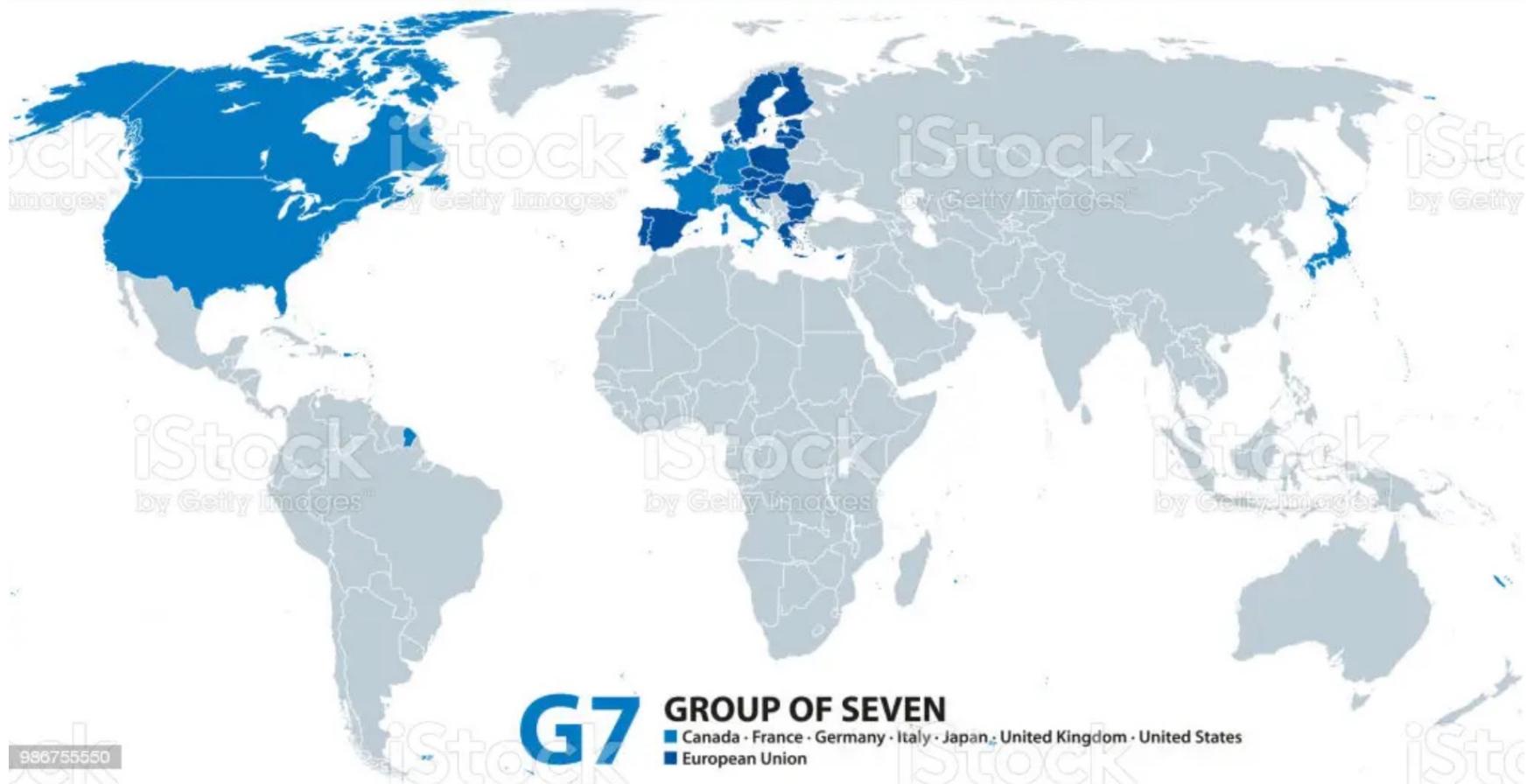
World Bank

- World Bank Aims
 - Reduce the share of the global population that lives in extreme poverty to 3 percent.
 - Increase the incomes of the poorest 40 percent of people in every country.

Groups, G7, etc.

- G7: US, Canada, Japan, Britain, France, Germany, and Italy (plus the EU)
 - Began annual meetings of heads of state in 1976
 - Added Russia, forming G8, in 1998, but expelled Russia in 2013 after Crimea
 - Discusses economic and political issues
 - Meetings are informal and take no mandatory decisions

G7 accounts for 27% of global GDP in 2022



Groups, G7, etc.

- G20: G7 plus 13 others, both major developed and developing countries
 - Founded 1999 with only finance ministers, it began head-of-state meetings after financial crisis of 2008
 - “Summit on Financial Markets and the World Economy”
 - Today, G7 deals more with politics, G20 with economics

G20 accounts for 80% of global GDP in 2022



OECD

- OECD = Organization for Economic Cooperation and Development
 - 38 member countries
 - *Economist* calls it a “rich-country think tank”
 - “provides governments a setting in which to discuss, develop and perfect economic and social policy”

OECD

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT



United Nations Economic Orgs

- UNCTAD = United Nations Conference on Trade and Development
 - Supports “developing countries to access the benefits of a globalized economy more fairly and effectively.”

6 UNCTAD facts and figures

Promoting development



59

years

Membership



195

members States

People in our team



698+

Regular budget for 2022



81+

million

technical cooperation expenditure



53

million

Projects



255

in 73 countries

United Nations Economic Orgs

- ILO = International Labor Organization
 - Created 1919 by Treaty of Versailles
 - Tripartite: governments, employers and workers
 - Sets labor standards, develops policies, and devises programs promoting decent work
 - Has no power to enforce, but only shame

Fundamental ILO Conventions

1. Freedom of Association
 - a. Right to Organize (157)
 - b. Right to Collective Bargaining (168)
2. Abolition of Forced Labor
 - a. Forced Labor (180)
 - b. Abolition of Forced Labor (178*)
3. Equality
 - a. Discrimination (174)
 - b. Equal Remuneration (175)
4. Elimination of Child Labor
 - a. Minimum Age (175)
 - b. Worst Forms of Child Labor (187*)

(# countries ratifying)

* USA ratified

United Nations Economic Orgs

- WIPO = World Intellectual Property Organization
 - Global forum for intellectual property policy, services, information and cooperation.
 - IP includes
 - Patents
 - Copyrights
 - Trademarks
 - Trade secrets
- Has no power to enforce