

PubPol/Econ 541

Classes 7, 8

Policies and Institutions: International

by

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2022

Announcements

- News
- Quiz

	Q1	Q2	Q3
Mean	8.62	6.69	6.78
Median	9	6.5	6.5
Max	10	10	9.5
Min	5.5	2.5	4
S.D.	1.27	2.08	1.97

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).
 - 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

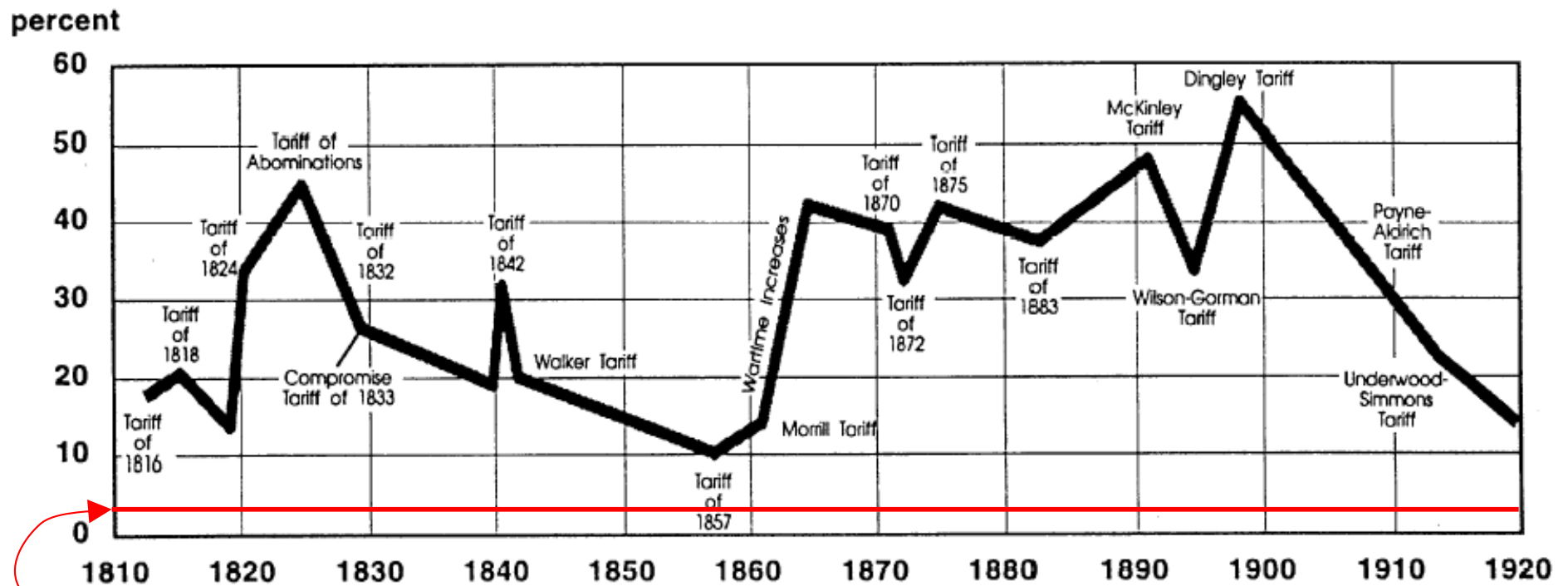
		Japan	
		Free Trade	Protection
US	Free Trade	10, 10	20, -10
	Protection	-10, 20	-5, -5

(Nash) Equilibrium

The Outcome

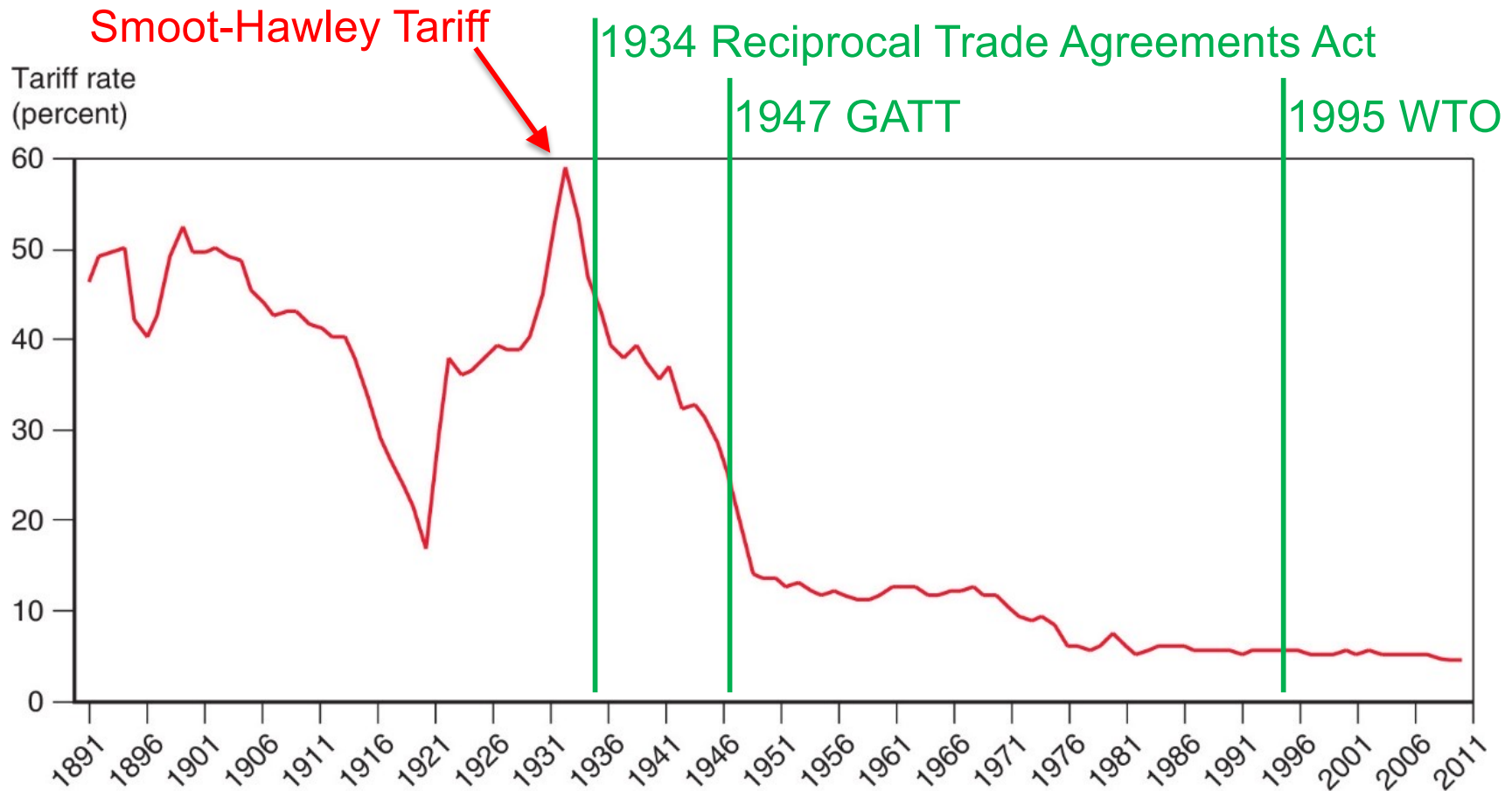
- Equilibrium: All countries use tariffs, and all are worse off
- The solution: Cooperation
 - Bilateral
 - Pairs of countries agree to reduce tariffs on each other
 - They worry that partners will later do better deals with others
 - So they promise “Most Favored Nation”
 - = Promise partners the best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

- 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.

History

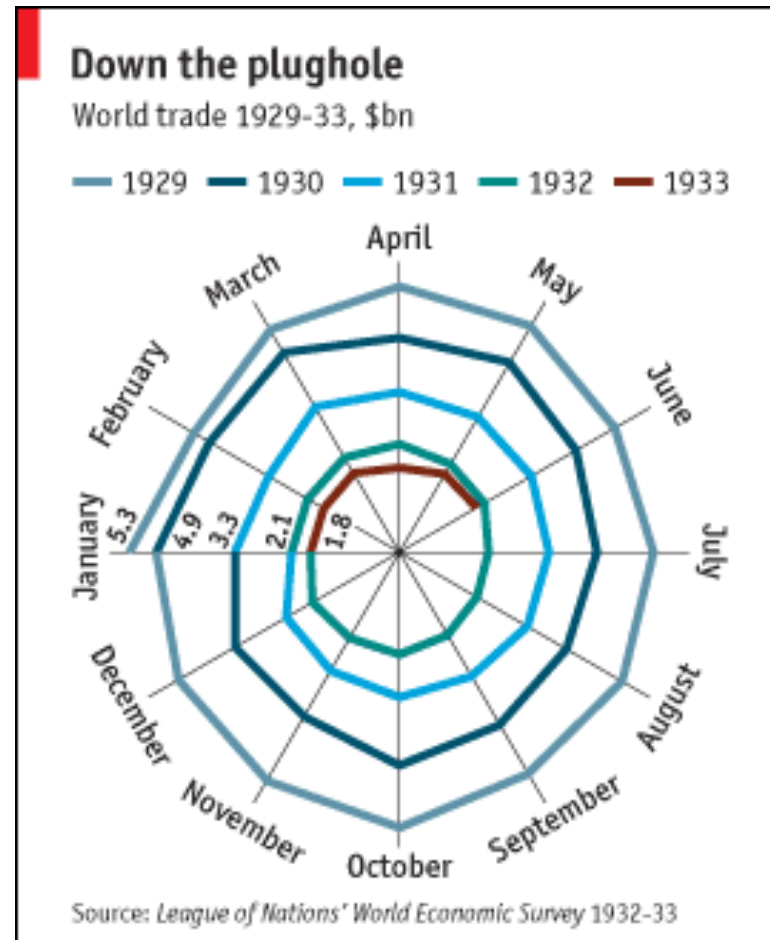
- Before 1934
 - Massive use of tariffs
 - Especially by US
 - Often for government revenue
 - Also for protection of North-east manufactures
 - 1930: Smoot-Hawley Tariff
 - Result of “logrolling” in Congress
 - Prompted retaliation by others
 - Worsened (did not cause) the Great Depression



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 become 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 does
 - Sets rules for countries to follow in their trade policies
 - Includes 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 2022: 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



Membership status :

■ WTO Member

■ Observer negotiating accession

WTO

Disclaimer





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

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 now if we hadn't had the GATT/WTO?

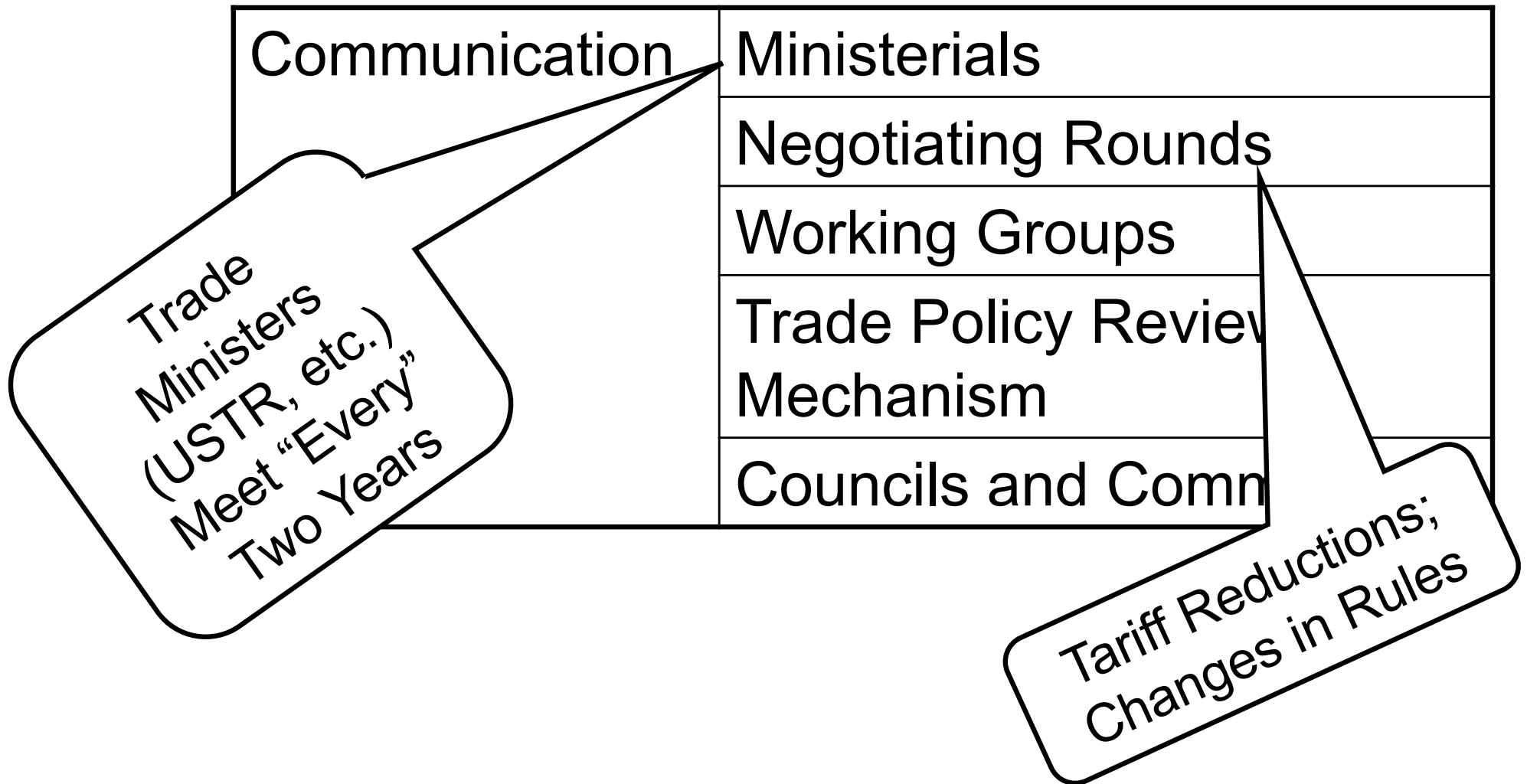
WTO

- 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

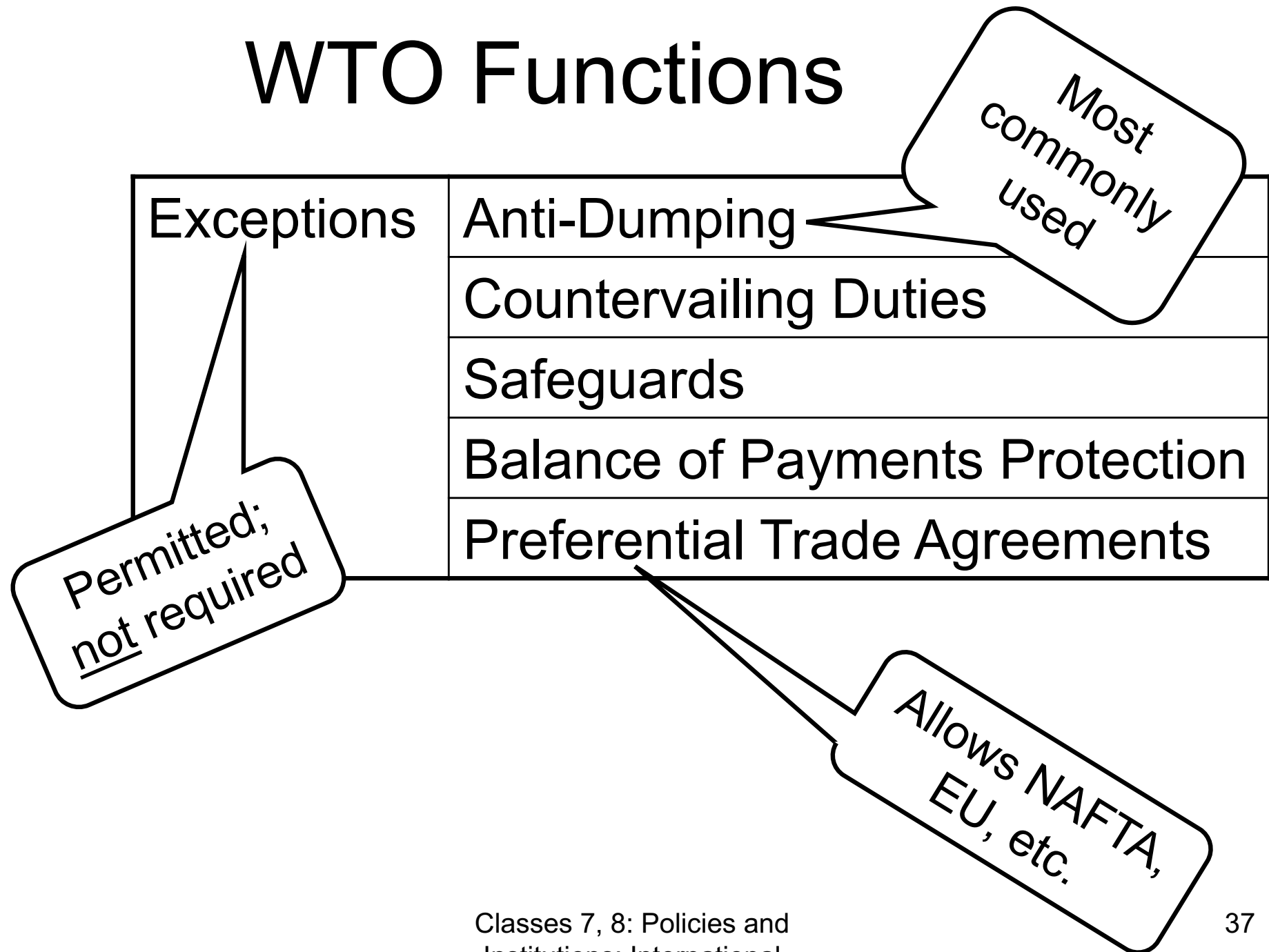
Constraints	Tariff Bindings
	Customs Valuation
	Product Regulations
	Quantitative Restrictions
	Subsidies
	Foreign Direct Investment (TRIMS)
	Services (GATS)
	Intellectual Property (TRIPs)

Countries negotiate and commit to maximum tariffs

National Treatment for Service Firms (only in some industries)

Enforce Patents, Copyrights, Trademarks

WTO Functions



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

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

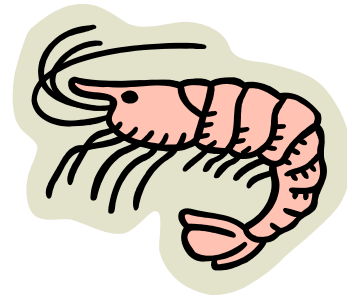
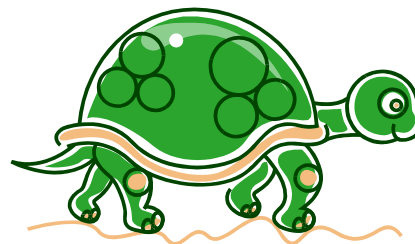
Pause for Discussion

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
- China's "Market-economy status" for anti-dumping cases
 - China lost

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%



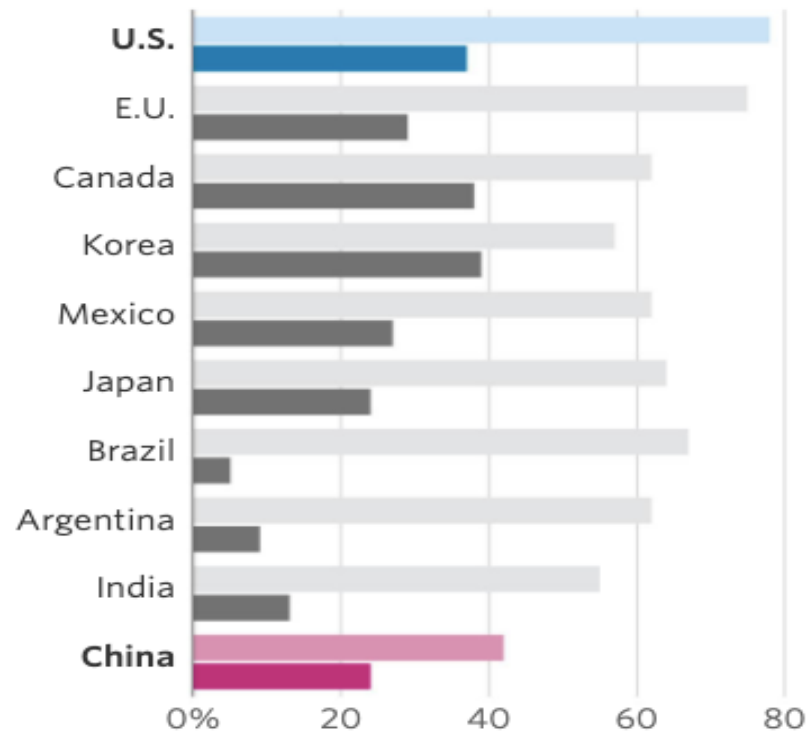
Who Wins at the WTO

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

Trump 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 will WTO rule?
 - If no, Trump will further blame WTO
 - If yes, other countries will use that excuse
- 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[.]”

Trump and the WTO

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Trump 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

Trump 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)
 - Case cannot be completed if US appeals
 - Even without that, would WTO permission for China to levy tariffs be meaningful?

Trump 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"
 - 2022 does not mention WTO, World Trade Organization, or Appellate Body
- But Swanson says Biden's USTR is renewing support for WTO

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 hasn'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; Macao, China; Mexico; Montenegro; New Zealand; Nicaragua; Norway; Pakistan; Peru; Singapore; Switzerland; Ukraine and Uruguay.



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 ...