Introduction to the World Trade Organization

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Lecture 4
Nankai University
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What Is the WTO?

One Opinion:
World Trade Organization: History

• Mid-1940s:
  – Meeting in Bretton Woods, New Hampshire, Created IMF and World Bank
  – 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 (and WTO) Does
  – Rules for trade policy
  – Forum for negotiation
    • Of both trade policies (tariffs) and rules
    • Negotiations take place in “Negotiating Rounds”
    • Decisions made at occasional meetings of trade ministers: “Ministerial Meetings”
      – (US trade minister is United States Trade Representative, Susan Schwab)
World Trade Organization: Rounds

Rounds of GATT
Multilateral Trade Negotiations

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<td>Doha</td>
<td>(Doha Development Agenda) FAILED</td>
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World Trade Organization: History

• What GATT (and WTO) Does NOT Do
  – Regulate international financial transactions and markets
    • Except in recent negotiations on trade in financial services (e.g., banking, insurance)
    • That’s left up to IMF
  – Assist developing countries
    • Even though the Doha Round was the “Doha Development Agenda”
    • That’s left up to World Bank
World Trade Organization: Rounds

• How negotiations take place
  – On Tariffs:
    • Tariff cuts are negotiated between “principal supplier” country and “principal demander” country
      – Cuts are extended to all other members
      – But large countries dominate this process
      – In recent rounds, negotiations start with a formula for tariff cuts, then negotiate exceptions
  – On Rules:
    • Groups of countries draft changes, then persuade others
    • Again, large countries dominate
World Trade Organization: Rounds

• 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, they can also exert bargaining power
  – They may well lose if they do not participate: growth of trade may exclude them
World Trade Organization: Today

• WTO Today
  – Established Jan 1, 1995
  – Members: 162
    • Most recent: Kazakhstan November 30, 2015
    • 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
  – GATT (Still exists, as largest part of WTO)
  – GATS = General Agreement on Trade in Services
  – TRIPs Agreement = Trade Related Aspects of Intellectual Property Rights
World Trade Organization: Today

- WTO’s Most Basic Principles
  - 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)
  - 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 exceptions to both of these principles)
World Trade Organization: Today

• WTO Decision Making
  – Decisions by consensus: all 162 countries must agree, at ministerial meetings
    • In contrast to IMF and World Bank
  – In practice, large and rich countries dominate this process
    • They first agree among themselves
      (This done in “Green Room”)
    • Then seek consensus based on that
  – Is this “democratic”
    • Yes: Every country has one vote
    • No: Rich countries dominate decisions
WTO Functions

<table>
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<th>Functional Outline of the World Trade Organization</th>
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<td>Communication</td>
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<td>Constraints</td>
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<td>Trade Policy Review Mechanism</td>
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<td>Councils and Committees</td>
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- Trade Ministers (USTR, etc.) meet every two years.
- Tariff reductions; changes in rules.
## WTO Functions

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<th>Tariff Bindings</th>
<th>National Treatment for Service Firms</th>
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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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Countries negotiate and commit to maximum tariffs.

Enforce Patents, Copyrights, Trademarks.
# WTO Functions

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<th>Exceptions</th>
<th>Safeguards</th>
<th>More on these below</th>
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<td>Anti-Dumping</td>
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<td>Countervailing Duties</td>
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<td>Balance of Payments Protection</td>
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<td>Permit, not required</td>
<td>Preferential Trade Agreements</td>
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- Allows NAFTA, EU, etc.
# WTO Functions

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3-person Panel Decides Case

The Ultimate Remedy: **Permit Tariffs**
Bottom Line

• WTO extends the Rule of Law to international commercial policies.

• As such, it protects small and weak countries from abuse by larger, more powerful ones.
Administered Protection

• Permitted (but not required) by WTO:
  – Safeguards
  – Anti-dumping duties
  – Countervailing duties (against subsidies)

• All three permit the use of tariffs ("duties") above bound levels in specified circumstances

• WTO is not involved unless countries are alleged to have not followed WTO rules
Administered Protection

• Safeguards
  – Use of a tariff to protect an industry from injury
  – Injury must be “serious”
  – Protection must be
    • Temporary
    • Non-discrimination (against all imports)
      – Even if the injury was caused by only one exporter
  – Do economists approve of safeguards?
    • Yes
Administered Protection

• Dumping defined
  – Export of a good for a price below the “fair price”
  – Fair price may be either
    • Price exporter charges in its home market
    • Cost
  – Do economists agree that dumping should be stopped?
    • No
Administered Protection

• Anti-Dumping
  – Anti-dumping duty (ADD) may be levied equal to the difference between the actual price and the fair price (the “dumping margin”)
  – ADD may be
    • Renewed indefinitely
    • Applied against only the firm and/or country that has dumped
  – Do economists approve of ADD?
    • No
Administered Protection

• Countervailing duties (CVDs)
  – Permitted by WTO against “actionable subsidies”
  – CVDs
    • Equals size of subsidy
    • Renewed indefinitely
    • Applied against only the firm and/or country that has dumped
  – Do economists approve of CVD?
    • Yes, if only to discourage undesirable subsidies
Administered Protection

• Non-market economies (important for China)
  – If not a market economy, market prices, costs, and subsidies are (said to be) impossible to discern
  – Therefore
    • CVDs are not used
    • ADDs may be based on data from other countries
    • This is assumed to lead to higher ADDs on non-market economies than otherwise
  – That’s why China wants market-economy status