

PubPol 201

Module 3: International Trade Policy

Class 1

Introduction to Trade and Trade Policy

Class 1 Outline

Introduction to Trade and Trade Policy

- Growth of world and US trade
- The World Trade Organization (WTO)
- Regional trade agreements
- US trade policies and institutions
- Recent events

Class 1 Outline

Overview of Trade and Trade Policy

- **Growth of world and US trade**
- The World Trade Organization (WTO)
- Regional trade agreements
- US trade policies and institutions

Growth of world and US trade

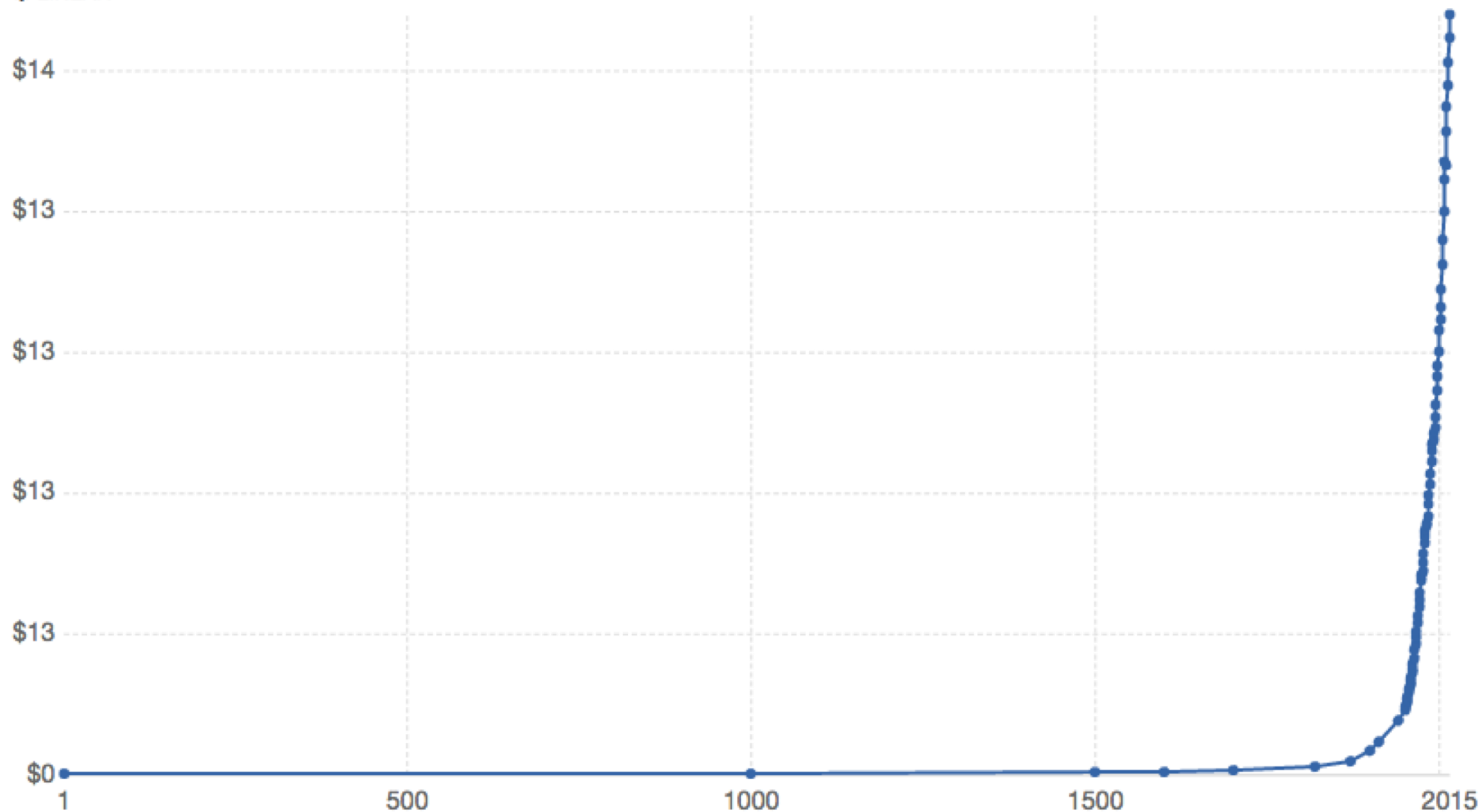
- The world economy, GDP, has grown dramatically over time
- World trade has grown even faster

World GDP over the last two millennia

Total output of the world economy; adjusted for inflation and expressed in 2011 international dollars.

⚙ LINEAR

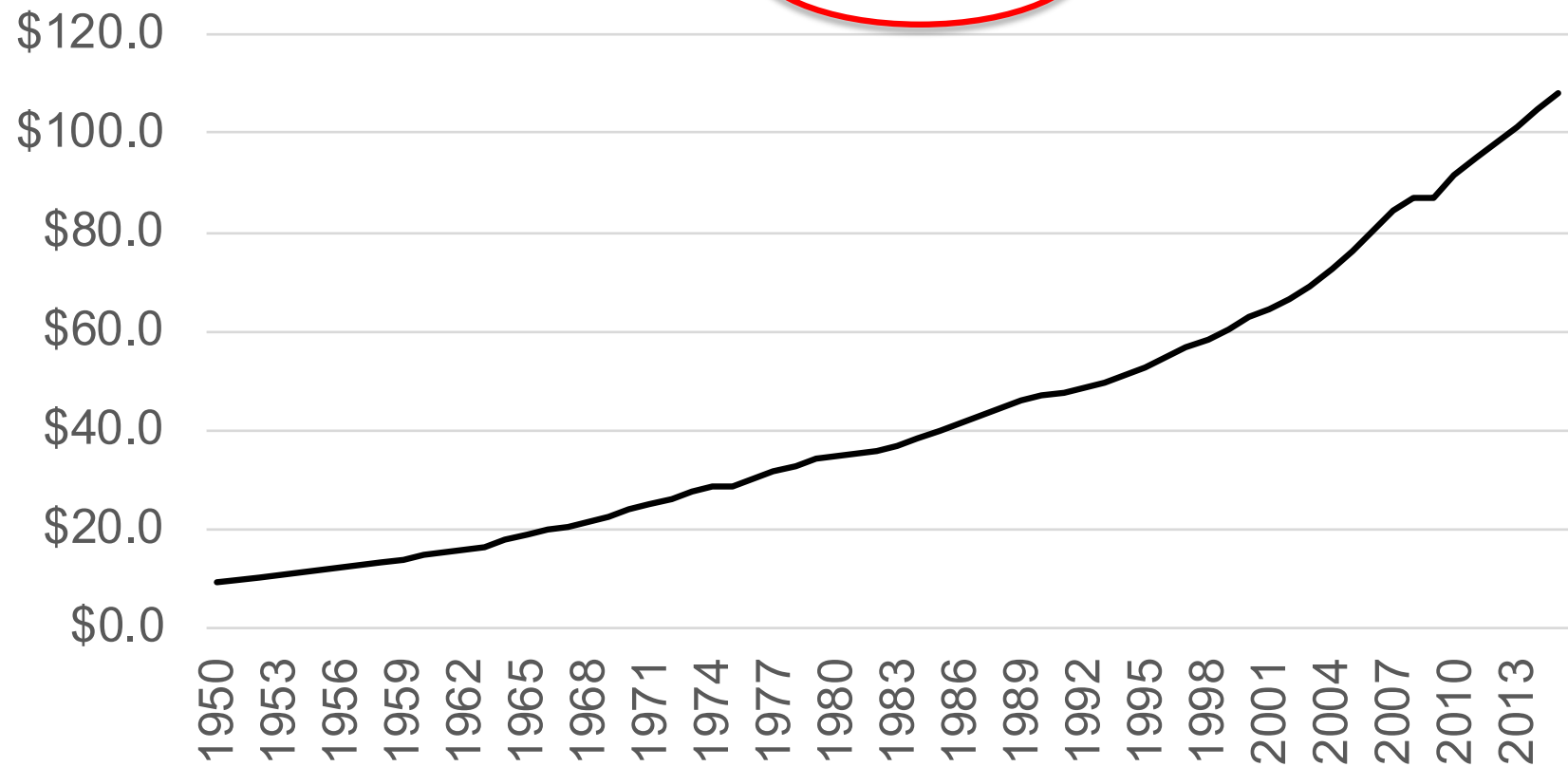
Our World
in Data



Source: World GDP (Our World In Data based on World Bank & Maddison)

OurWorldInData.org/economic-growth • CC BY-SA

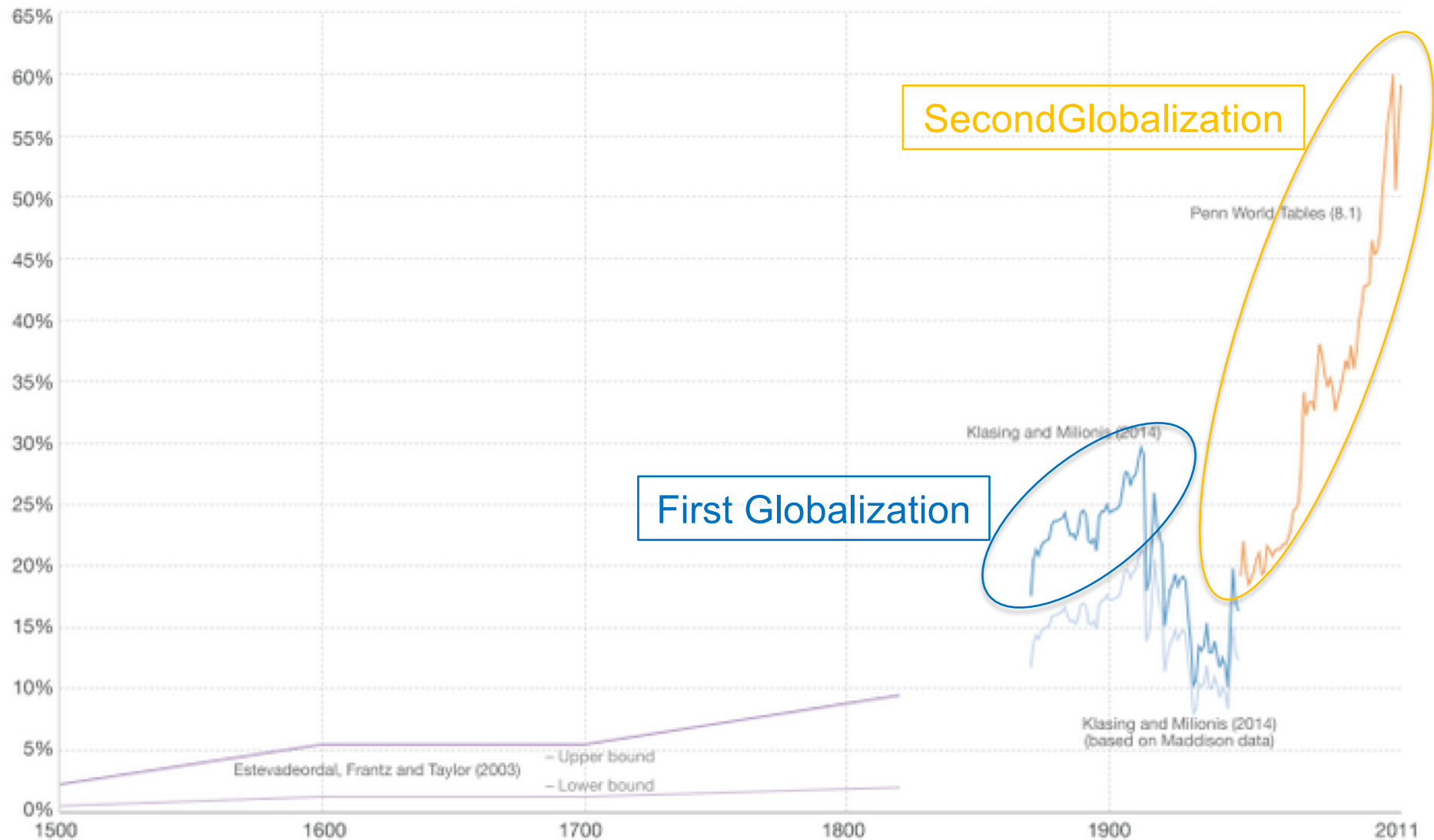
World GDP 1950-2015
\$trillions (2011 int'l \$) ?



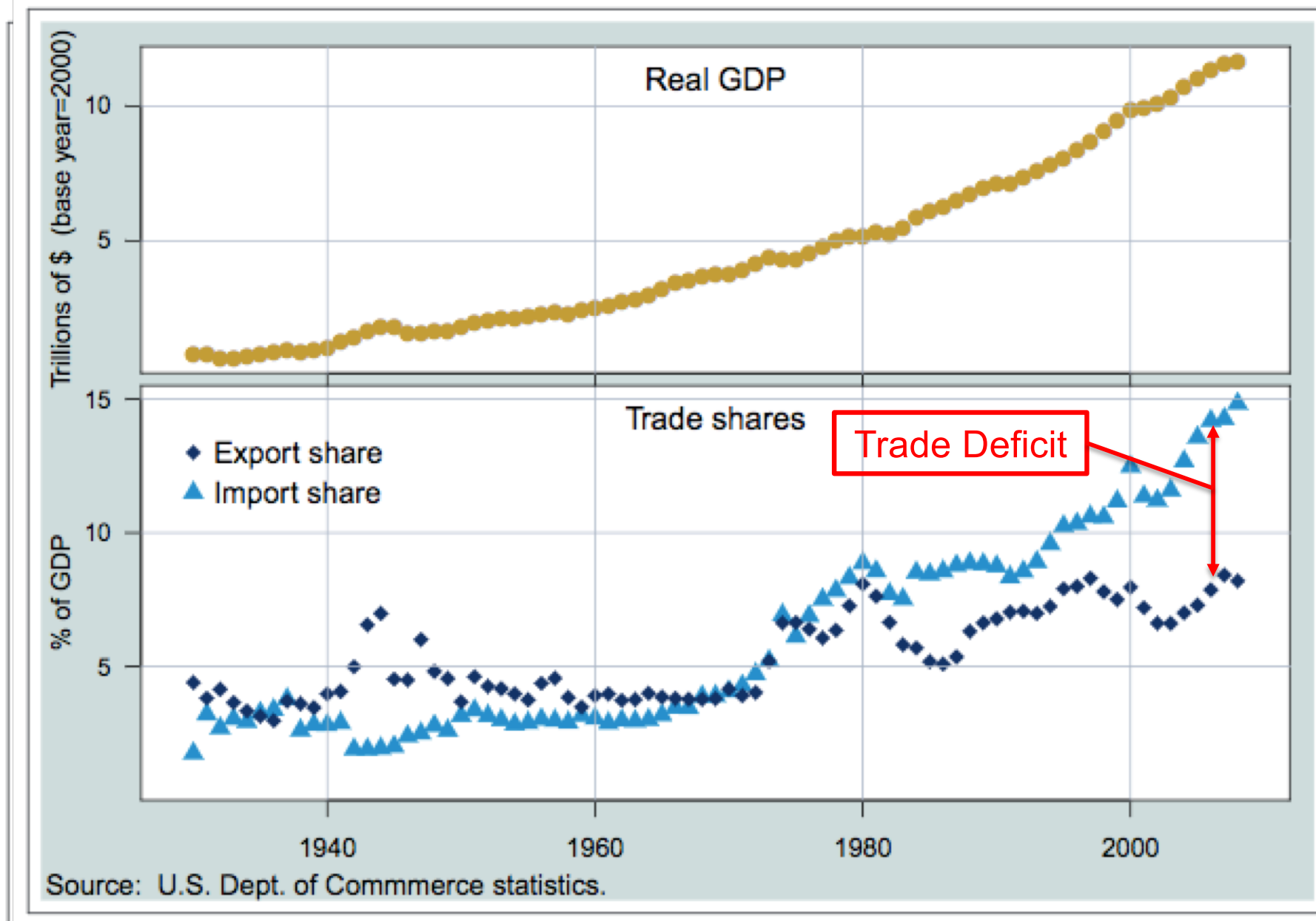
Globalization over 5 centuries (1500-2011)

Shown is the sum of world exports and imports as a share of world GDP (%)

The individual series are labeled with the source of the data



US GDP & Trade

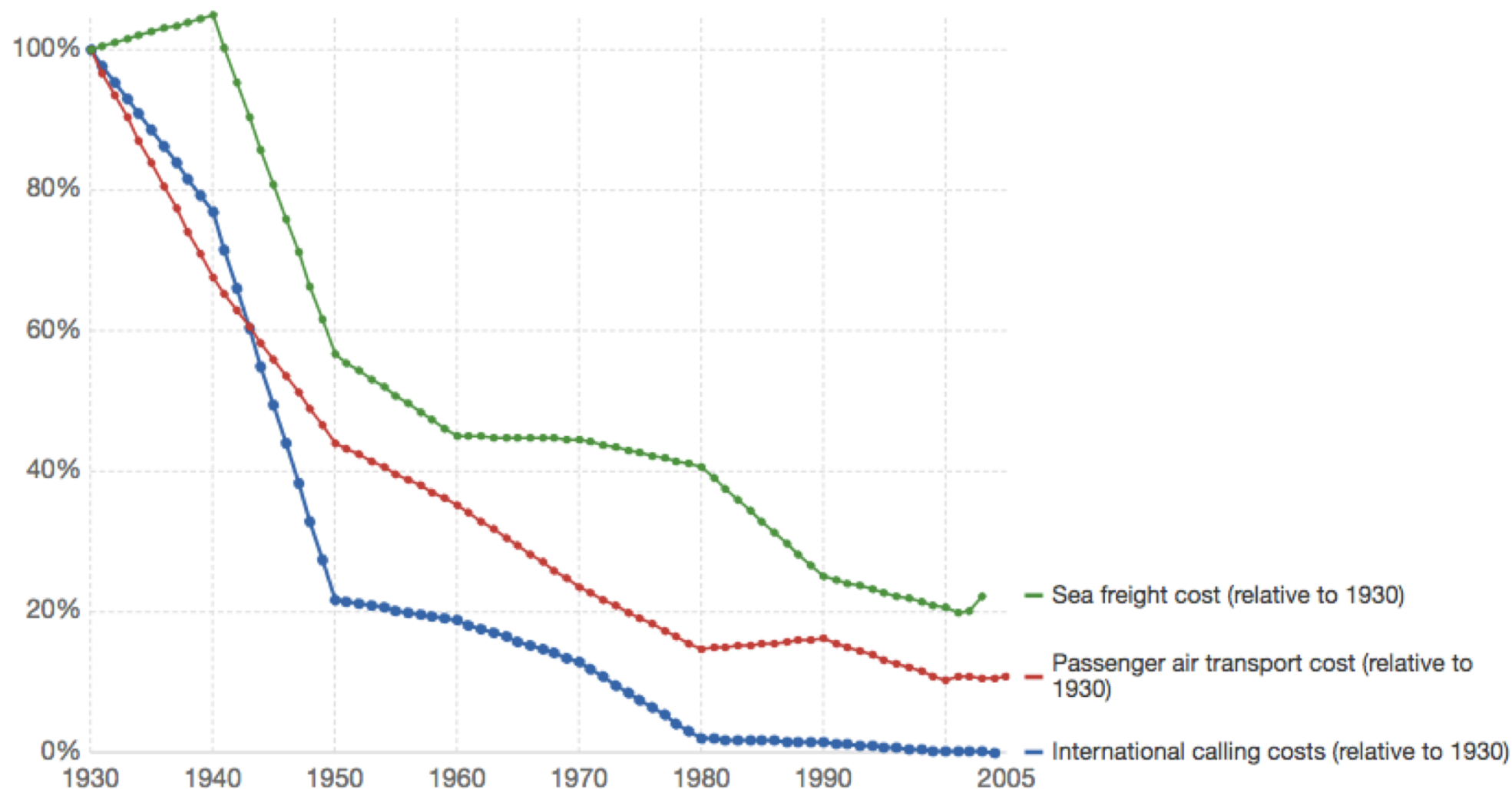


Discussion Question

- Why has trade grown so fast?
 - The next two slides will show just two reasons
 - Your ideas?

Real transport and communication costs

Transport and communication costs relative to 1930.

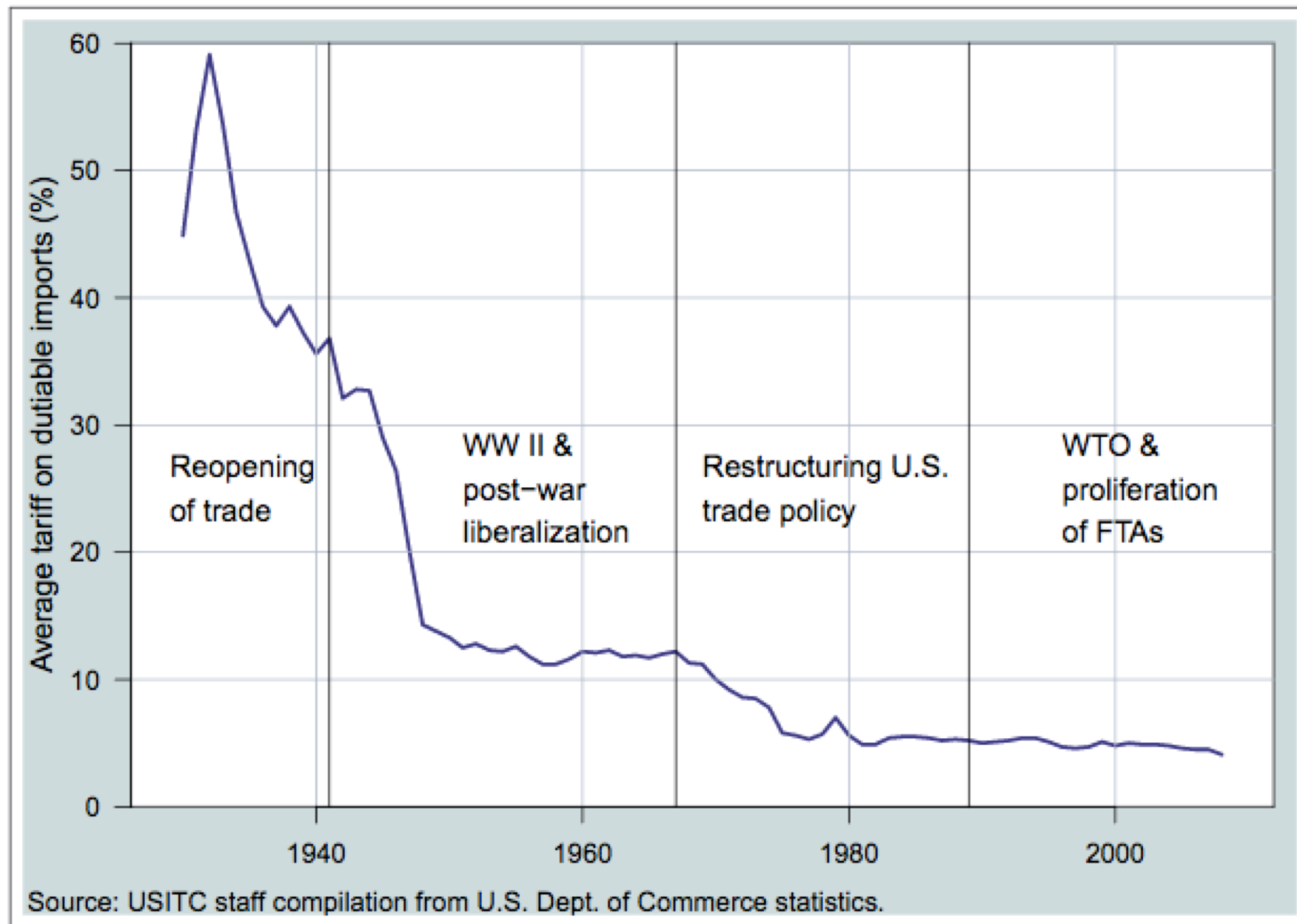


Source: OECD Economic Outlook (Transaction Costs)

OurWorldInData.org/international-trade • CC BY-SA

Note: Sea freight corresponds to average international freight charges per tonne. Passenger air transport corresponds to average airline revenue per passenger mile until 2000 spliced to US import air passenger fares afterwards. International calls correspond to cost of a three-minute call from New York to London.

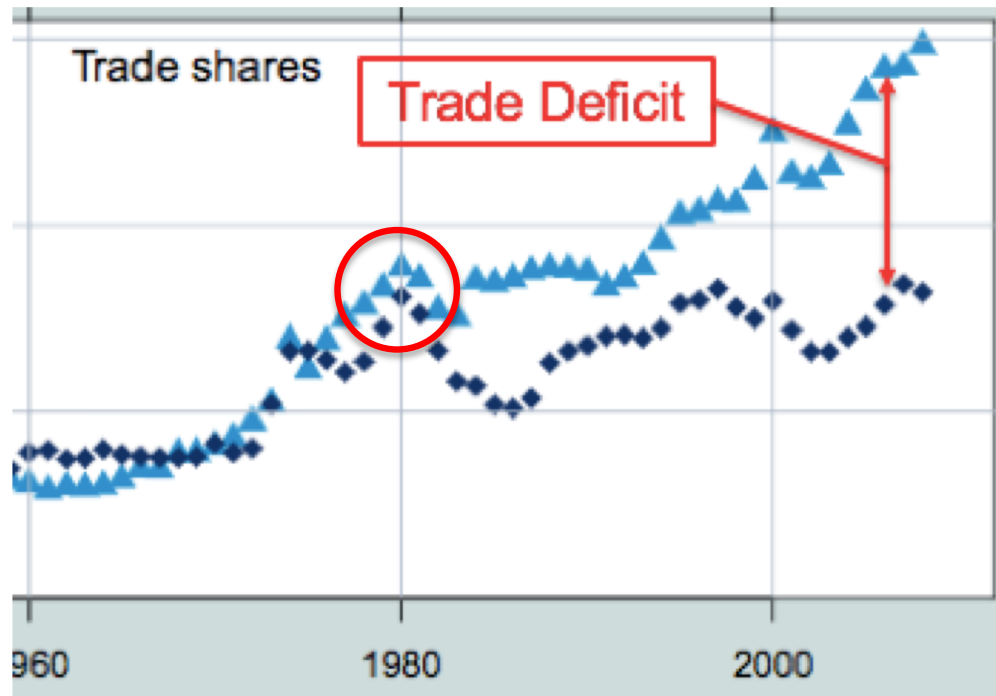
US Tariffs



Clicker Question

When did the US start running trade deficits?

- a) 1940
- b) 1960
- ✓ c) 1980
- d) 2000
- e) 2010



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Overview of Trade and Trade Policy

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- **The World Trade Organization (WTO)**
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- US trade policies and institutions

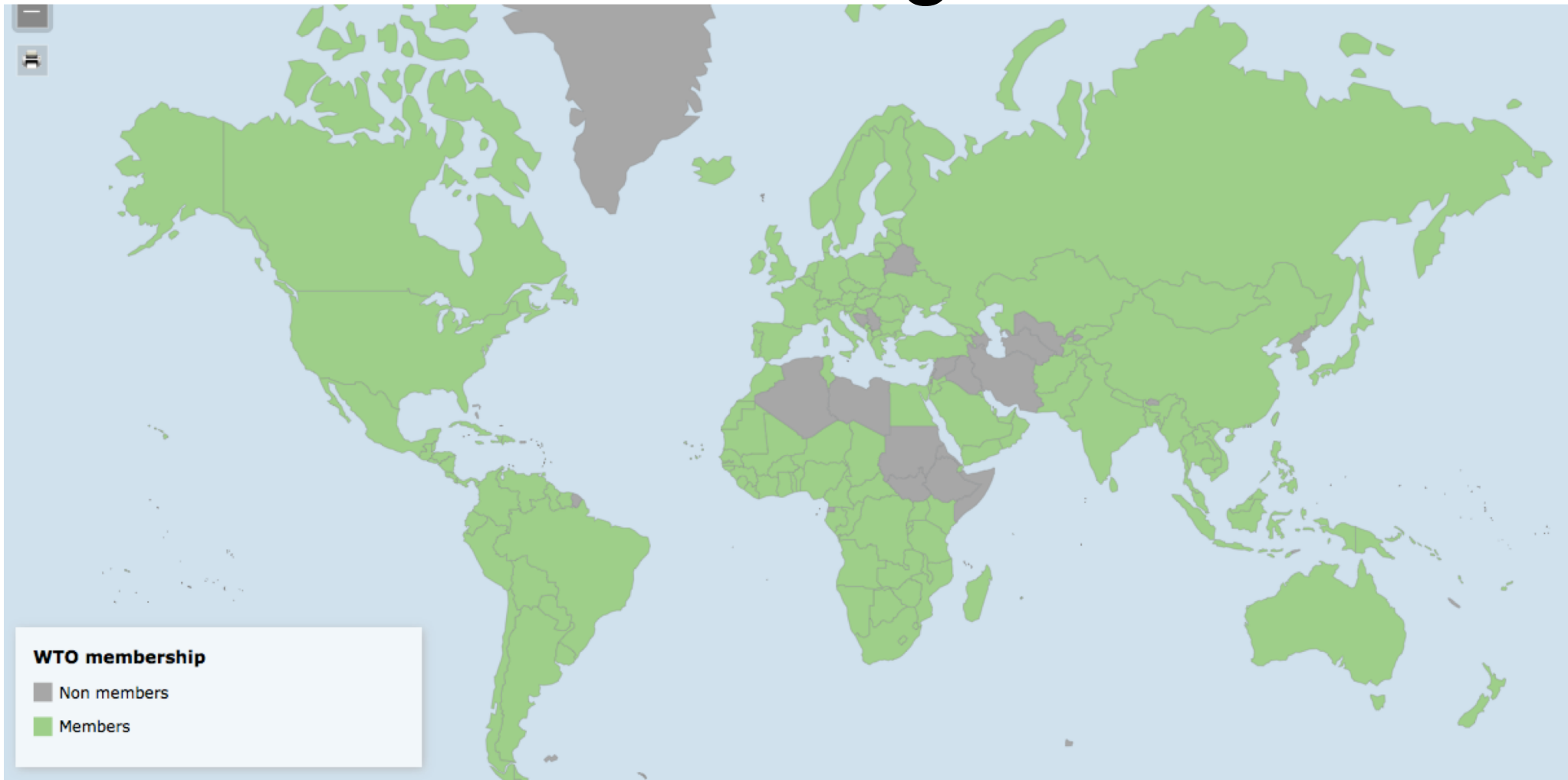
World Trade Organization

- WTO (and before it, the GATT)
 - Rounds of multilateral tariff reductions
 - Discipline on nontariff barriers
 - Expanded coverage to include
 - Services
 - Intellectual Property
 - Members
 - GATT 1947: 23
 - WTO now: 164



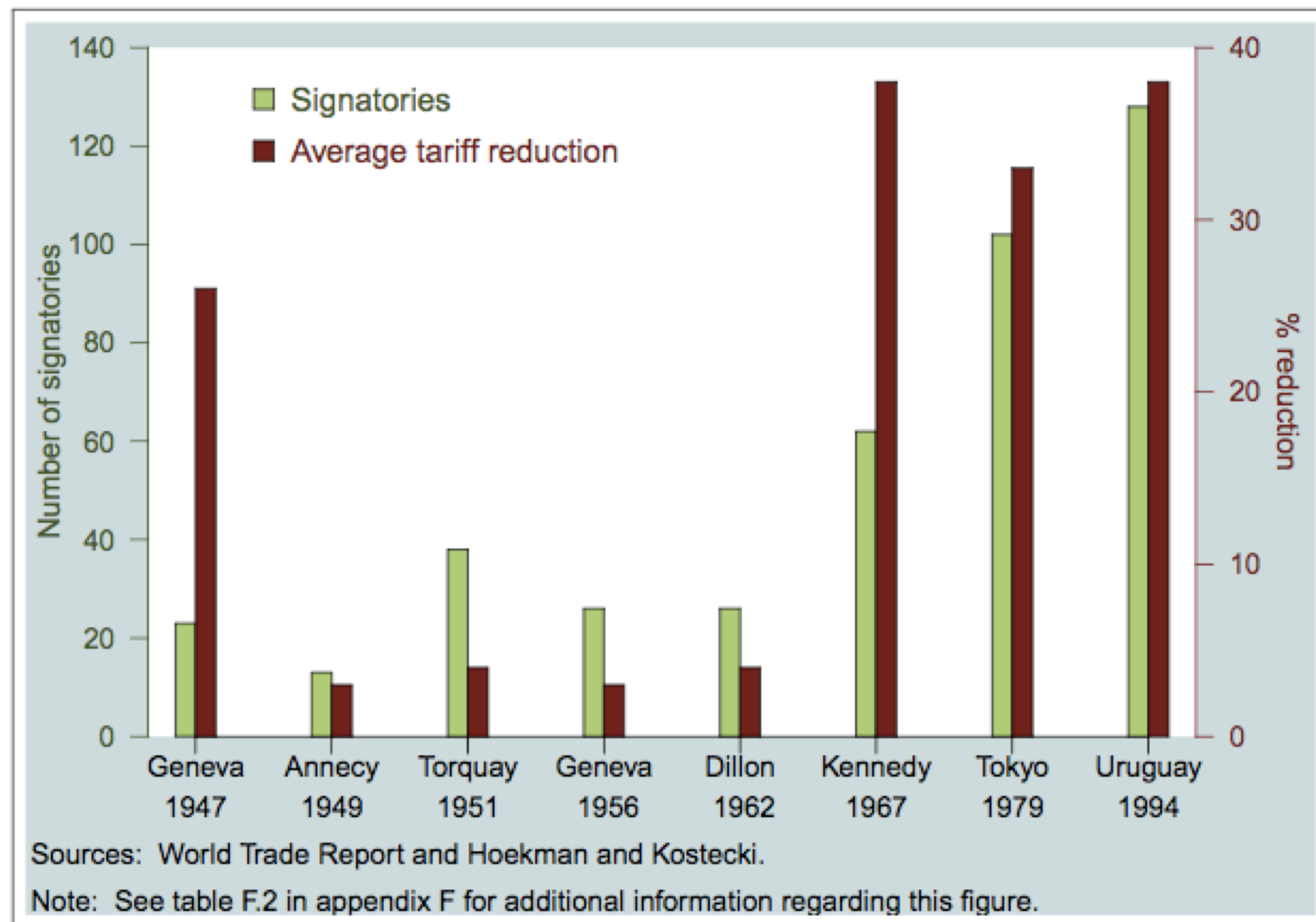
WORLD TRADE
ORGANIZATION

World Trade Organization



Interactive: https://www.wto.org/english/res_e/statis_e/statis_maps_e.htm

FIGURE 3.3 GATT round summary: number of signatories (left axis) and weighted average tariff reductions (right axis)



World Trade Organization

- International Rule of Law
 - GATT/WTO agreed rules for uses of trade policies
 - Must not raise tariffs above levels that countries commit to
 - Must not use certain other trade barriers
 - Enforced through permitted retaliation

World Trade Organization

- Rules do permit “trade remedies,” but constrain their use
 - Safeguards tariffs
 - Against imports causing injury
 - Anti-dumping duties
 - Against imports “unfairly priced”
 - Countervailing duties
 - Against subsidized imports
 - (More on these below)

World Trade Organization

- Donald Trump
 - Has been critical of WTO

Trump Threatens To Pull The U.S. Out Of The World Trade Organization

HUFFPOST Jul 24, 2016

- Wants to ignore WTO

**Trump suggests ignoring
World Trade Organization in
major policy shift**



Mar 1, 2017

Clicker Question

What does MFN stand for?

- a) Multilateral Funding Network
- ✓ b) Most Favored Nation
- c) Maximum Financial Need
- d) Minimum Fiduciary Nexus

Clicker Question

Which is not one of the main components of the WTO?

- ✓ a) Requirement that import tariffs be reduced
- b) Negotiating forum
- c) Rules
- d) System for settling disputes

Clicker Question

What did the Uruguay Round, which created the WTO, add that was particularly beneficial for the United States?

- a) Reduced tariffs on agricultural products
- b) Enforcement of labor standards
- ✓ c) Expanded coverage for trade in services
- d) Permission to block imports from China
- e) The Generalized System of Preferences

Discussion Question

- What are your views, and what have you heard, pro and con, about the WTO?

Class 1 Outline

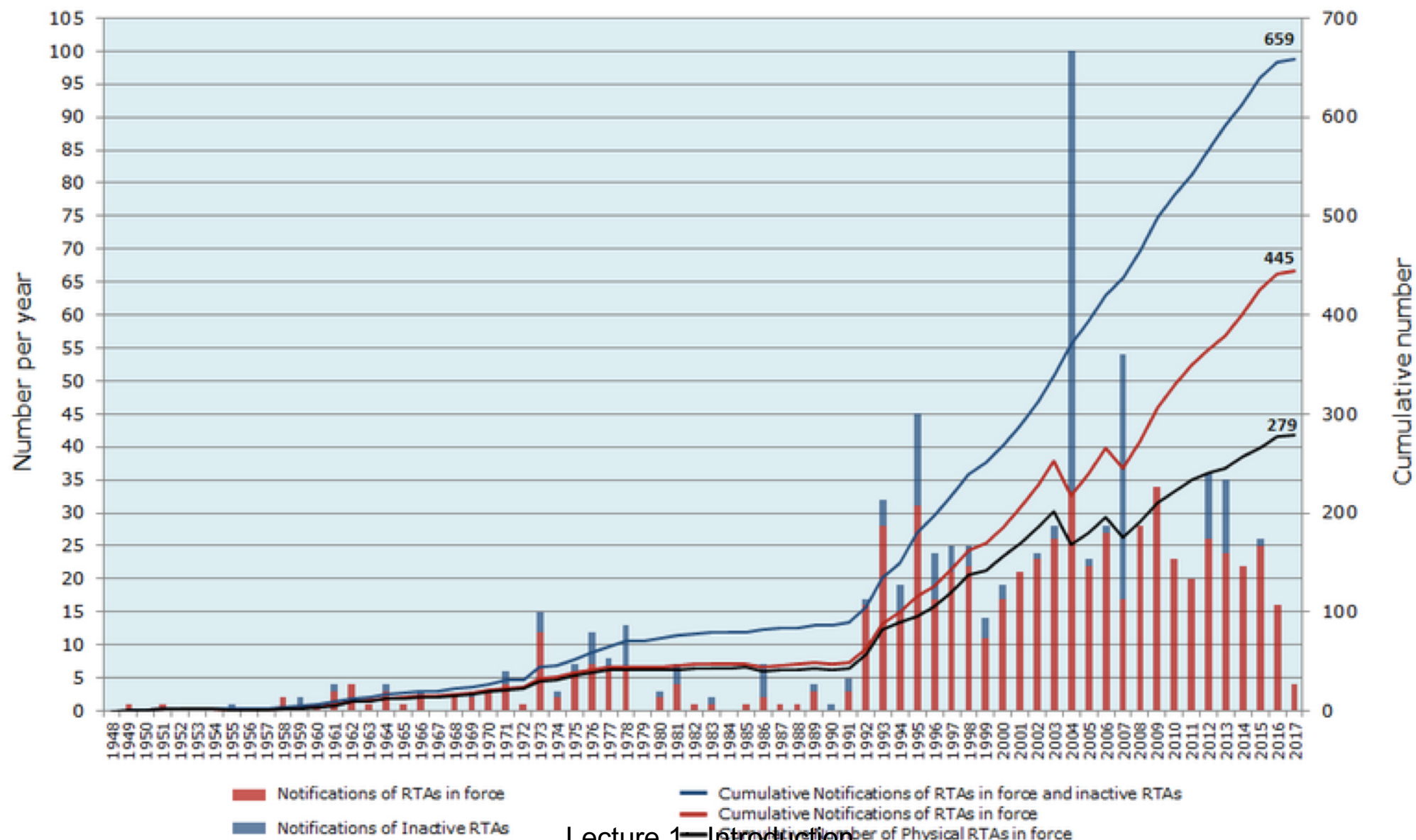
Overview of Trade and Trade Policy

- Growth of world and US trade
- The World Trade Organization (WTO)
- **Regional trade agreements**
- US trade policies and institutions

Regional trade agreements

- Pairs or groups of countries that
 - Eliminate most tariffs on imports from members
 - Tariffs on outsiders?
 - Leave unchanged and different
 - FTA = Free Trade Area
 - Example: NAFTA
 - Adopt common external tariffs
 - CU = Customs Union
 - Example: European Union

Evolution of Regional Trade Agreements in the world, 1948-2017



US FTAs

Date	Agreement	Date	Agreement
1985	US-Israel	2006	CAFTA-DR (US-Dominican Rep-Central America)
1989	US-Canada	2006	US-Bahrain
1994	NAFTA (US-Canada-Mexico)	2009	US-Peru
2001	US-Jordan	2009	US-Oman
2004	US-Singapore	2012	US-Colombia
2005	US-Chile	2012	US-Panama
2005	US-Australia	2012	US-South Korea
2006	US-Morocco		

US FTAs

- Donald Trump
 - Pulled US out of TPP = Trans-Pacific Partnership
 - FTA among US, Canada, Mexico, Japan, and 8 others (not including China)
 - Threatened to pull out of NAFTA
 - Has just renegotiated it
 - US-Korea FTA
 - Amended it, but in a way that reduces trade

Discussion Question

- What have you heard about NAFTA and other US FTAs?
- We'll be studying NAFTA during our last week of this module.

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Overview of Trade and Trade Policy

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- Regional trade agreements
- **US trade policies and institutions**

US Trade Policy

- Who Is Responsible?
 - Department of International Trade?
 - No, we don't have one
 - US Constitution gives power to set import tariffs to Congress
 - Congress has sometimes delegated that to the President
 - See “Fast Track” below

US Trade Institutions

- Responsibility for trade issues is spread over many entities
 - Congress
 - USTR = US Trade Representative
 - Commerce Department
 - US International Trade Commission
 - Export-Import Bank
 - and several others

US Trade Institutions

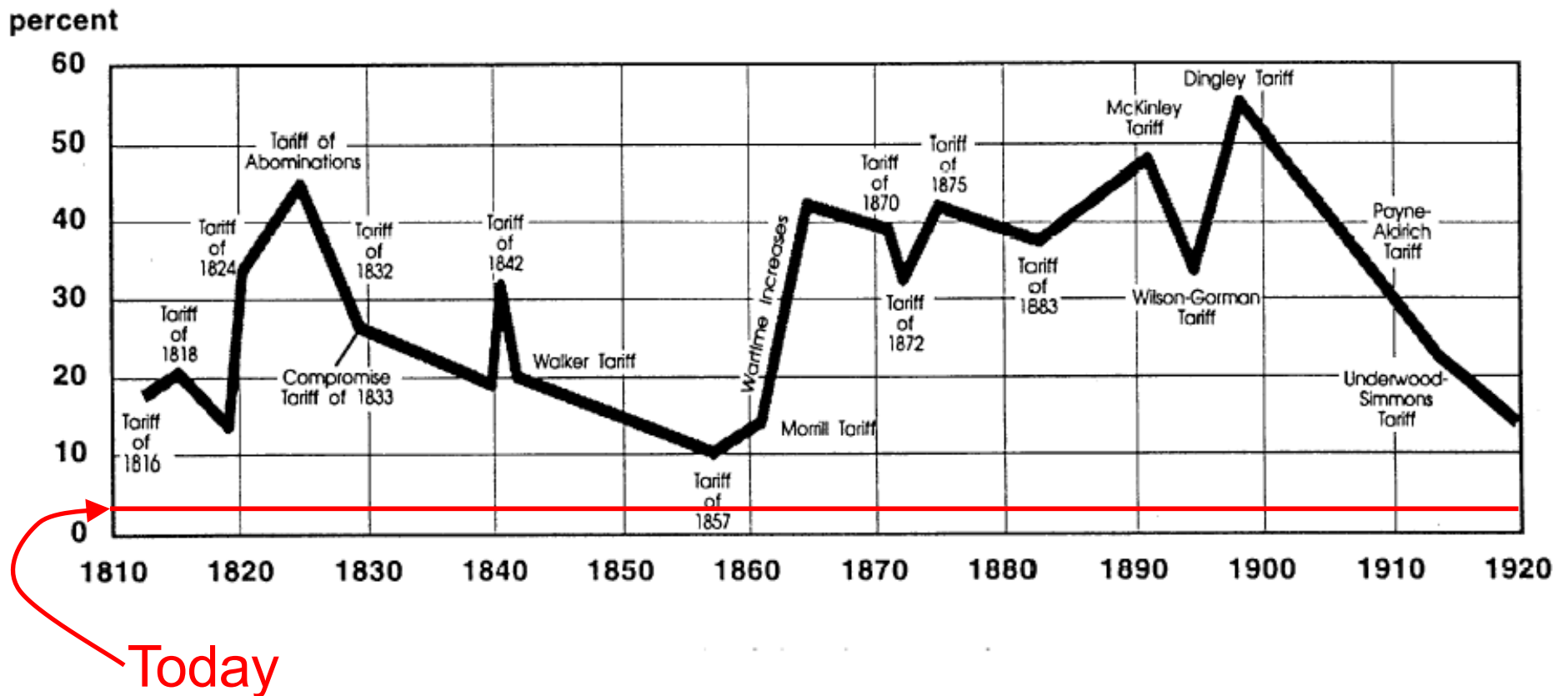
- Trump's USTR is Robert Lighthizer
- Cabinet-level official of US government
- Role
 - Handles negotiations on trade issues
 - Drafts trade legislation for Congress



US Trade Institutions

- Congress
 - Sets tariffs and other trade policies (thus approves trade agreements)
 - Two committees are responsible
 - House: Ways and Means
 - Senate: Finance
 - Why these?
 - Because trade policy was originally about collecting revenue

US tariff history: 1810-1920



US Trade Remedies

- Escape Clause = Section 201 (Called “Safeguards” in WTO)
 - Temporary protection from injurious imports
 - Does NOT allege that the imports are “unfair”
 - Eligibility is decided by USITC alone
 - Injury (must be serious)
 - Causation (must be due to imports)
 - Tariff must be non-discriminatory
 - Implemented by President, who may say NO.

US Trade Remedies

- Unfair Trade Laws
 - Permit protection (not temporary) from “unfair” imports
 - Must also be injurious, but less than escape clause
 - “Unfair” if
 - “Dumped”, i.e., priced too low by firm
 - Subsidized by foreign government
 - Results:
 - Anti-dumping duties (AD)
 - Countervailing duties (CVD)
 - President cannot say no

US Trade Remedies

- Section 301
 - Permits tariffs against countries that use “unfair trade practices”
 - Vague. & illegal in GATT/WTO unless done through the WTO dispute settlement process
 - Usage:
 - Used in 1980’s against Japan
 - Had not been used since WTO began in 1995
 - Now being used by Trump against China for intellectual property theft

Other US Trade-Related Policies

- Trade Adjustment Assistance
 - Provides help to workers and firms displaced by trade (since 1962)
 - Not very large or effective
- “Fast Track” (=Trade Promotion Authority)
 - Authorizes President to negotiate trade
 - Congress commits to vote yes or no, but not change
 - Will be used to vote on new NAFTA

Other US Trade-Related Policies

- GSP = Generalized System of Preferences
 - Lower tariffs for imports from least developed countries
 - Permitted by GATT/WTO, and used by most developed countries

US Trade Policies

- What motivates US trade policies? (See Baldwin)
 - Political parties, but they changed:

	Democrats	Republicans
1930s	Lower tariffs	Protection
Today	Protection	Lower tariffs

- Presidents of both parties (until Trump) favored lower tariffs
 - For foreign policy reasons (Cold War)

Clicker Question

Which of the following is not a part of the US government that deals with trade?

- a) Congress
- b) United States Trade Representative
- c) Commerce Department
- d) International Trade Commission
- ✓ e) Department of International Trade

Clicker Question

How much of an industry's domestic production must be produced by a group of US firms in order for it to qualify for requesting an anti-dumping duty?

- a) 10%
- b) 35%
- ✓ c) 50%
- d) 75%
- e) 100%

See reading by Verrill

Clicker Question

Which US trade law can a US firm use against a foreign firm that is engaged in anti-competitive conduct?

- a) 201
- ✓ b) 301 Also in reading by Verrill
- c) The anti-dumping statute
- d) The countervailing duty statute

Clicker Question

Of past six US Presidents Reagan, Bush I, Clinton, Bush II, Obama, and Trump, how many have tended to favor trade liberalization?

- a) 1
 - b) 2
 - c) 3
 - d) 4
 - ✓ e) 5
- See reading by Baldwin. Trump is the first in years to favor protection.

Discussion Question

- Do you view the United States as mainly a free trader, mainly protectionist, or somewhere in between?