

Econ 340

Lecture 9

World Trade Arrangements and the WTO

News: Sep 30 – Oct 6

- WTO approves US tariffs on EU -- WSJ: [10/2](#) | [Canvas](#) | NYT: [10/2](#) | [Canvas](#) | FT: [10/2](#) | [Canvas](#)
 - In the latest step in the US-EU Boeing-Airbus dispute at the WTO, the WTO has approved US tariffs on \$7.5 billion of EU exports, the largest retaliation ever approved by the WTO.
 - The US will levy tariffs of 25% on a range of goods ("including cheese, olives, business suits and sweaters") and 10% on aircraft from the EU. It plans to levy the tariffs by October 18. These may rise, as the WTO has approved tariffs of as high as 100%.
 - This is the result of WTO finding in a 15-year-old case that EU subsidized Airbus in competition with Boeing. In another case, still to be completed, the WTO also found that the US subsidized Boeing, so tariffs in the other direction are likely to be approved as well. Though the case long preceded Trump, he takes credit: "They think I don't like the WTO and they want to make sure I'm happy."
- UK's Johnson offered Brexit plan to EU, and EU was skeptical -- WSJ: [10/3](#) | [Canvas](#) | NYT: [10/3](#) | [Canvas](#) | FT: [10/2](#) | [Canvas](#) | WP: [10/3](#) | [Canvas](#)
 - Boris Johnson, UK Prime Minister, managed to construct a plan for Brexit that UK parliament would likely accept, but the EU appears unreceptive.
 - The plan would try to minimize customs checks at the Ireland-Northern Ireland border, by using technology in some way, while having Northern Ireland leave the EU customs union. It would also keep Northern Ireland obeying many EU regulations and standards.
 - The UK is currently scheduled to leave the EU on October 31, though the UK parliament has passed a law requiring that it ask for an extension if no deal is reached.
- India blocks all exports of onions -- NYT: [10/1](#) | [Canvas](#) | BBC: [10/5](#)
 - Prompted by an onion shortage due to drought, then monsoon rains, prices nearly tripled in recent months. Onions are central to cuisines in both India and its neighbors, many of whom rely on India's exports. They could buy from China, but they view China's onions as inferior.
 - This week, the administration of Prime Minister Modi not only banned all onion exports, but also cracked down on onion hoarding.
 - The policy is starting to bring down the price of onions in India, but it is upsetting India's farmers and prompting complaints from neighboring countries, where onion prices are rising even more.

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European consumer products to be hit by 25% US tariffs

Origin	Product
UK	Single-malt (or straight) Irish and Scotch Whiskies
UK	Wool and cashmere sweaters, pullovers, sweatshirts, waistcoats
UK	Fine wool suits
UK	Women's nightwear
UK	Bed linen, cotton blankets
Germany	Scissors, knives, metalwork tools, coffee
Germany, Spain, UK	Pork products
France, Germany, Spain, UK	Olive oil, green olives
Germany, Spain, UK	Fresh cheese, Edam and Gouda
EU broadly	Swiss cheese, Gruyère, Pecorino, Romano, Reggiano, Parmesan, Provolone, Stilton
EU broadly	Yoghurt, butter
France, Germany, Spain, UK	Wine other than Tokay (not carbonated), under 14% alcohol, under 2 litres
Germany, Ireland, Italy, Spain, UK	Liqueurs
EU broadly	Preserved cherries, fruit, vegetable and fruit juices
Germany, UK	Sweet biscuits, waffles, wafers

Source: [USTR](#)

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Screenshot




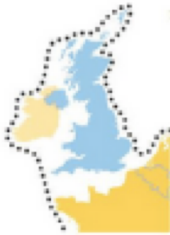

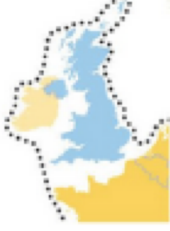




Airbus called on Washington and Brussels to avoid tariffs that would 'severely impact' the aircraft industry. PHOTO: FRANCK DUBRAY/MAXPPP/ZUMA PRESS

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Last-Ditch Offer

How Boris Johnson's Brexit plan differs from Theresa May's.

Johnson's proposal	May's deal
<i>TRANSITION PERIOD</i>	
<p>Existing U.K.-EU relations continue through transition*</p> 	 <p>Same for both</p>
<p>CUSTOMS U.K. out of EU customs union; customs checks required on intra-island trade.</p> 	 <p>U.K. in EU customs union pending pacts to ensure unobstructed border between N. Ireland and Ireland</p>
<i>POST-TRANSITION PERIOD</i>	
<p>GOODS AND FOOD REGULATION N. Ireland follows EU regulation; regulatory checks between Great Britain and N. Ireland.</p> 	 <p>Same for both</p>
<p>VALUE-ADDED TAX N. Ireland out of EU VAT regime.</p> 	 <p>N. Ireland inside EU VAT regime.</p>
<p>IRISH ARRANGEMENTS N. Ireland legislature decides if it wants to extend every four years</p>	<p>Indefinite time period</p>

*Latest end date would be end of 2022

Source: U.K. government

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The onion is India's most "political" vegetable

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 - 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

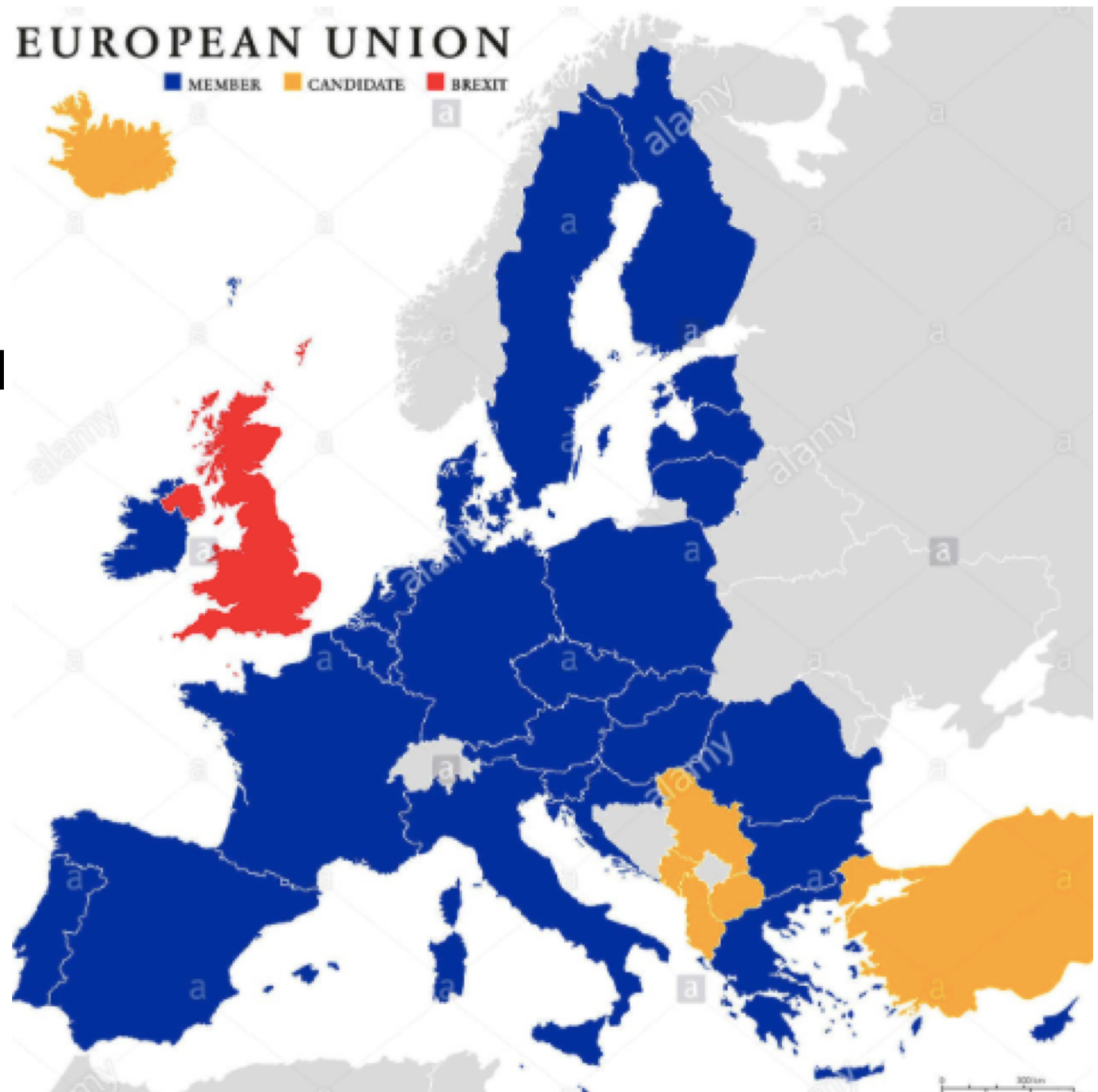
International Organizations

- 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

Clicker Question

Which international organization voices the interests of developing countries?

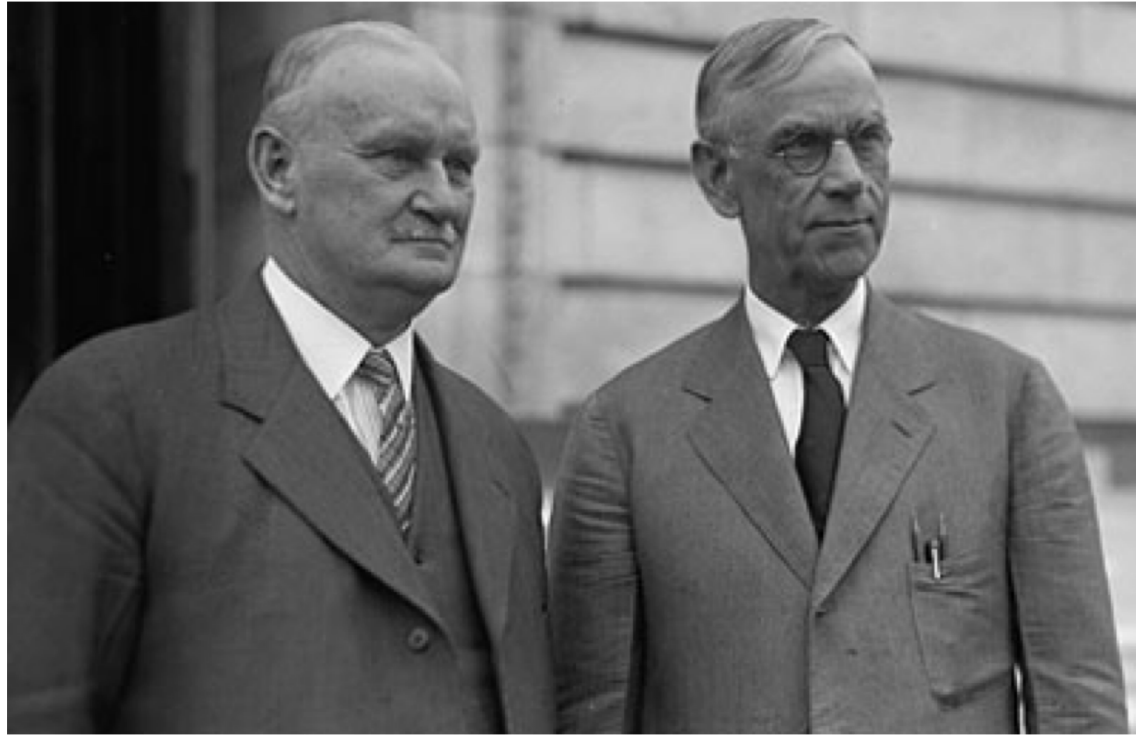
- ✓ a) UNCTAD
- b) OECD
- c) WIPO
- d) ILO
- e) EU

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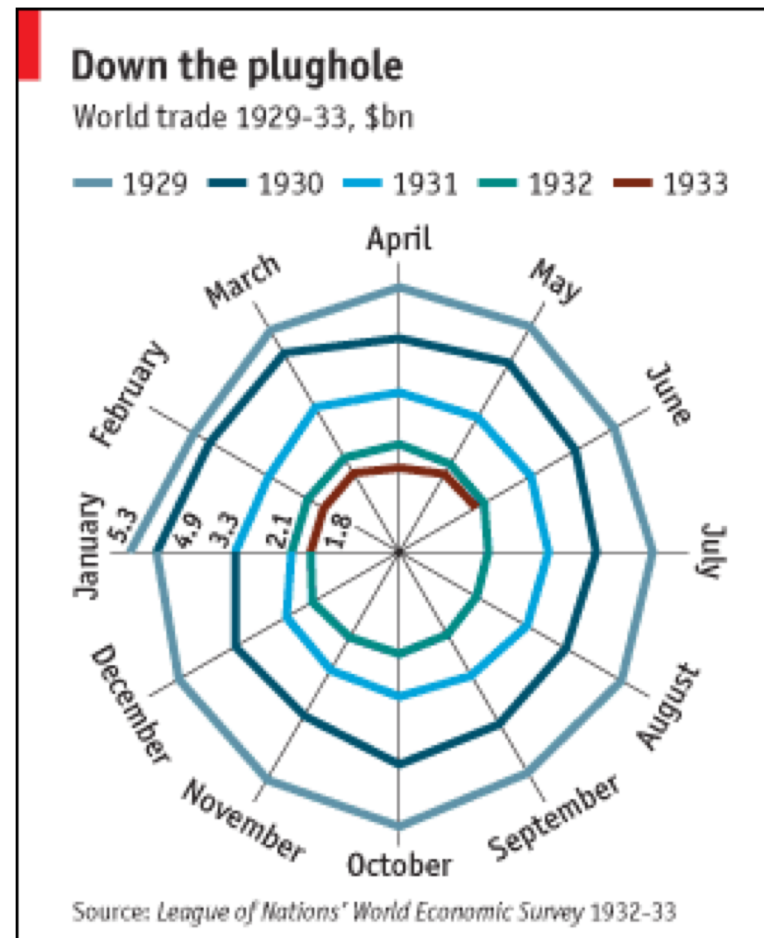
World Trade Organization: History

- 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



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

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”

Clicker Question

What country prevented the formation of the International Trade Organization?

- a) India
- b) Russia
- c) The U.K.
- ✓ d) The U.S.
- e) Japan

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World Trade Organization: Rounds

Rounds of GATT Multilateral Trade Negotiations			
No.	Years	Name	Accomplishments
1-5	1947-61		Reduced tariffs

World Trade Organization: Rounds

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World Trade Organization: Rounds

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World Trade Organization: Rounds

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8	1986-94	Uruguay	Tariffs, NTBs, Services, Intellectual Property, Textiles, Ag., Dispute Settlement, Created WTO
9	2001-15	Doha	FAILED: Doha Development Agenda

World Trade Organization: Rounds

- 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: $Z = AX/(A+X)$
 - » 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

World Trade Organization: Rounds

- How negotiations took place
 - 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, 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

Outline: World Trade Arrangements and the WTO

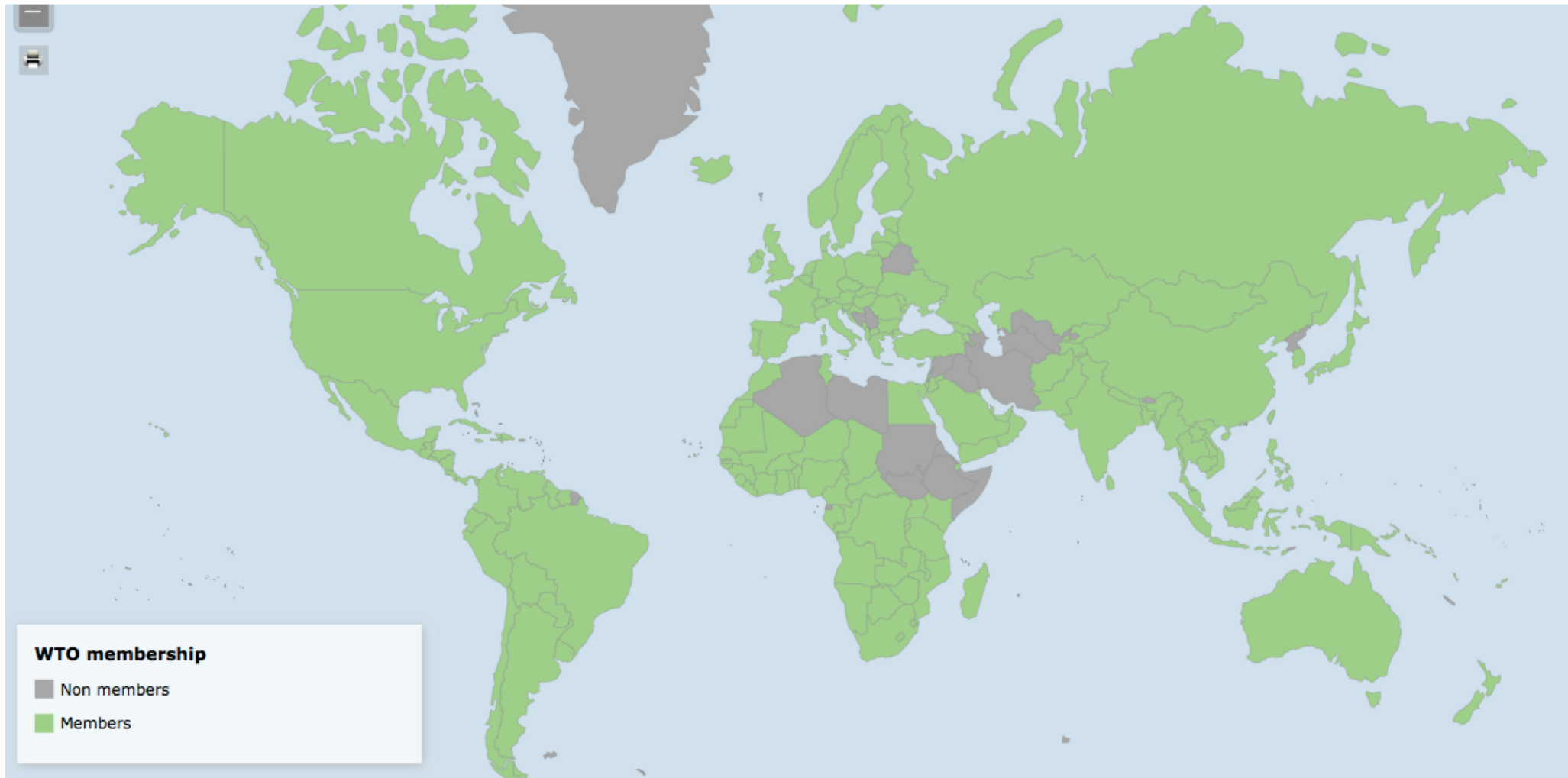
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World Trade Organization: Today

- 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)



The entrance to the Centre William Rappard



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

World Trade Organization: Today

- 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, $\frac{2}{3}$ or $\frac{3}{4}$, 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

Clicker Question

Who is **not** a member of the WTO

- a) Russia
- b) China
- ✓ c) Iraq
- d) All of the above
- e) None of the above (i.e., all are members)

Clicker Question

When a vote is taken at a WTO ministerial meeting, what percentage of those present must vote yes for the vote to pass?

- a) 33.3%
- b) 50%
- c) 60%
- d) 85%
- ✓ e) 100%

Outline: World Trade Arrangements and the WTO

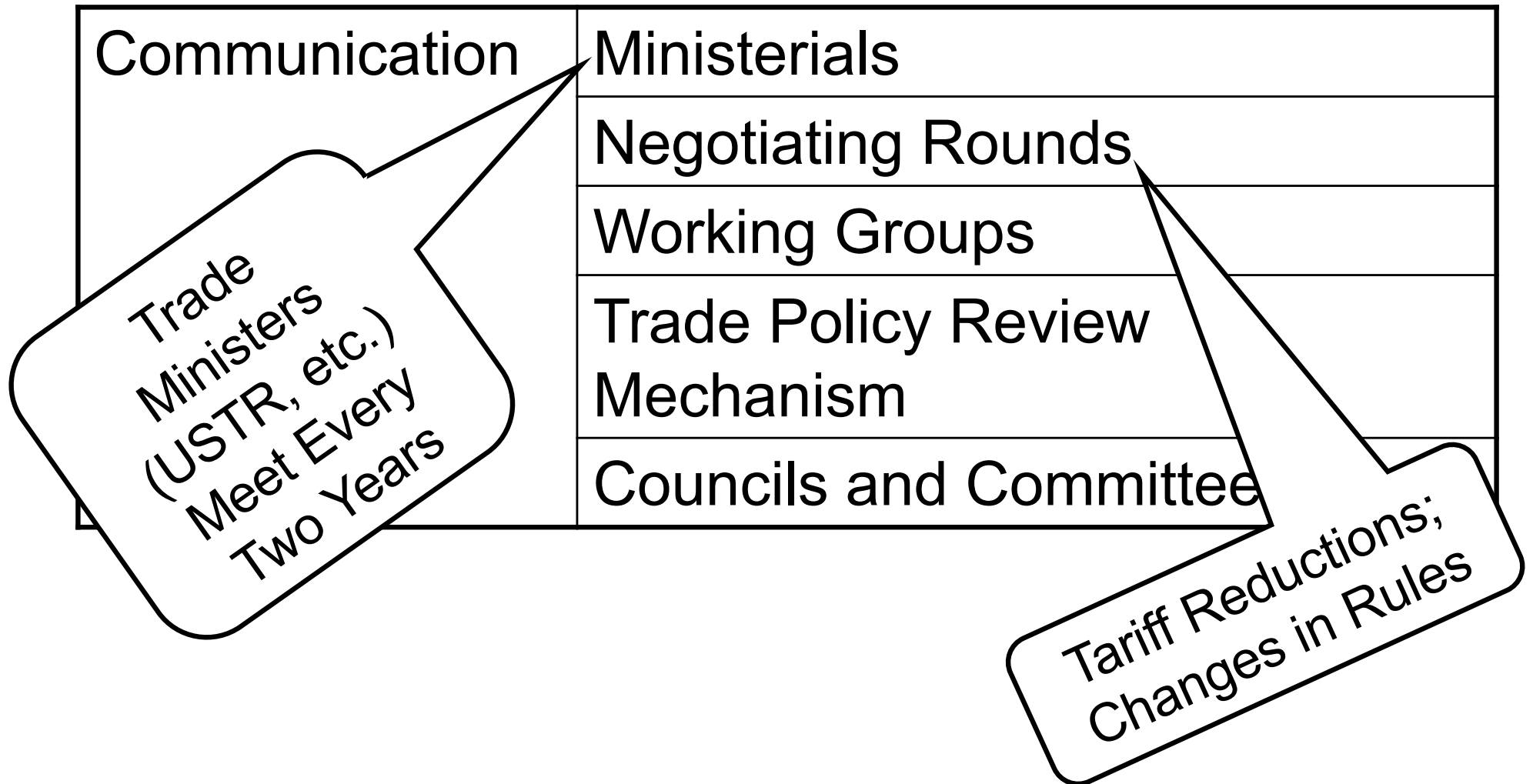
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WTO Functions

- See table in Deardorff

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	
	Panel Recommendation	
	Appellate Body	
	Remedy	Implementation
		Compensation
		Retaliation

Standing Committee that reviews most cases

3-person Panel Decides Case

The Ultimate Remedy: Permit Tariffs

Clicker Question

How often are the trade ministers of WTO members supposed to meet?

- a) Every 6 months
- b) Every year
- ✓ c) Every two years
- d) Every five years
- e) It varies, depending on circumstances and needs

Clicker Question

What is a tariff binding?

- a) A tax on imports of adhesives
- ✓ b) A commitment not to raise a tariff above some maximum
- c) A commitment not to lower a tariff below some minimum
- d) A promise by two countries to reduce tariffs on each others' exports
- e) The WTO rule that countries must not charge higher tariffs on some members than on others

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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









Lecture 9: WTO



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
 - 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

Clicker Question

How many rounds of multilateral tariff negotiation have been successfully concluded by the WTO?

- ✓ a) None
 - b) One
 - c) Five
 - d) Eight
 - e) Nine
- Eight rounds were concluded under the GATT, but the only round since the creation of the WTO, the Doha Round, failed.

Clicker Question

What is a plurilateral agreement?

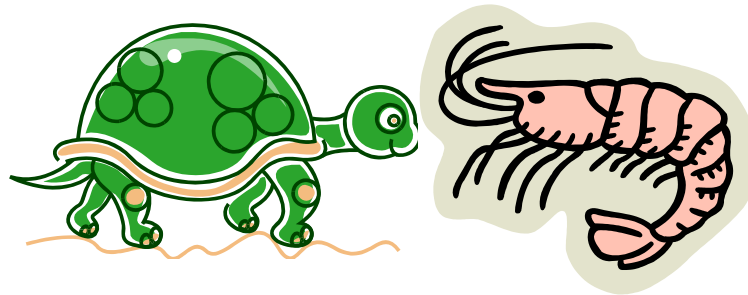
- a) An agreement among countries that are not members of the WTO
- b) A Free Trade Agreement, such as NAFTA
- c) An decision by all WTO members to multiply their tariffs
- ✓ d) An agreement that WTO members may sign or not, as they please
- e) An agreement among a subset of WTO members that is not open to other members

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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 worried that this would undermine the body's independence
 - It made US look like a bully to others

- Since then, US under Trump has blocked further appointments (see Schlesinger)

- The Appellate Body may soon (Dec 2019) lack a quorum to make decisions.

WTO Current Issues

- Other WTO Issues
 - China's "market economy status" (see Schlesinger)
 - Because China is currently classed as a non-market economy, its prices need not be used in deciding anti-dumping cases
 - This leaves others free to base dumping decisions on prices in other countries, hurting China
 - China is arguing for market economy status, and the issue is likely to be addressed soon by the Appellate Body

Clicker Question

What is the Appellate Body of the WTO?

- a) It is the name of the building in Geneva, Switzerland, where the WTO is located
- ✓ b) The committee that reviews the decisions of most dispute settlement cases
- c) The agency that oversees the naming of products that are traded internationally
- d) The panel that makes the initial decision about whether a country has violated WTO rules
- e) The document spelling out the rules of the WTO

Clicker Question

Why does China want to be treated as a market economy?

- a) This would make it exempt from other countries' tariffs
- b) It's a matter of national pride, as this was an objective of Chairman Mao
- c) Market-economy status would allow it to subsidize exports
- ✓ d) Market-economy status would lead to smaller anti-dumping duties against it
- e) International banks refuse to lend to firms in a non-market economy

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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

Clicker Question

How does the US do in WTO disputes as complainant and as respondent?

- a) It loses most as both
- b) It loses most as complainant but wins most as respondent
- ✓ c) It loses most as respondent but wins most as complainant
- d) It wins most as both

Next Time

- Migration
 - Causes
 - Effects
 - Policies