

PubPol/Econ 541

Classes 7, 8

Policies and Institutions: International

by

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Announcement

- Quizzes
 - Clarify my expectations:
 - Feel free to look up anything you like from course or other sources.
 - But write your answers yourself and do not work with other students.
 - Should I extend time from 30 min to, say, 45?
 - Note the real deadline is Saturday midnight

Announcement

- Quizzes
 - Results:

	Q1	Q2	Q3
Mean	8.74	7.10	6.68
Median	9	7	6.5
Max	10	10	10
Min	5.5	2	3
S.D.	1.20	1.75	2.04

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 (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.

Announcement

- For those attending from China:
 - UM has a new service, MLane, to make access easier.
 - More information is at:
 - <https://its.umich.edu/enterprise/wifi-networks/mlane>

Outline

- The Problem
- History
- GATT
- WTO
 - Early Issues
 - Current Issues (Trump)
- Other Institutions

The Problem

- Countries think they can benefit themselves at the expense of others by using tariffs
- But all lose if all do
- It's a Prisoners' Dilemma

The Problem of Trade Warfare

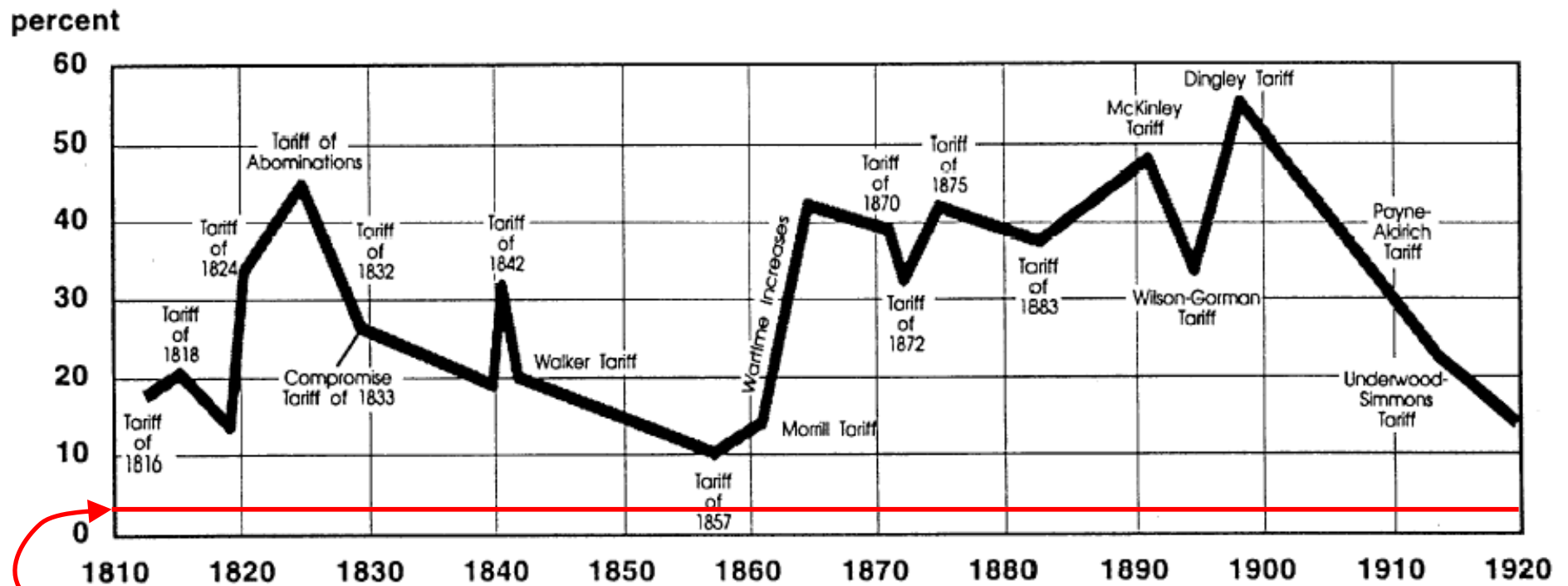
		Japan	
		Free Trade	Protection
US	Free Trade	10	20
	Protection	-10	-5

A 2x2 payoff matrix for a trade war between the US and Japan. The rows represent US strategies (Free Trade, Protection) and the columns represent Japan strategies (Free Trade, Protection). The payoffs are: (US Free Trade, Japan Free Trade) = 10; (US Free Trade, Japan Protection) = 20; (US Protection, Japan Free Trade) = -10; (US Protection, Japan Protection) = -5.

The Outcome

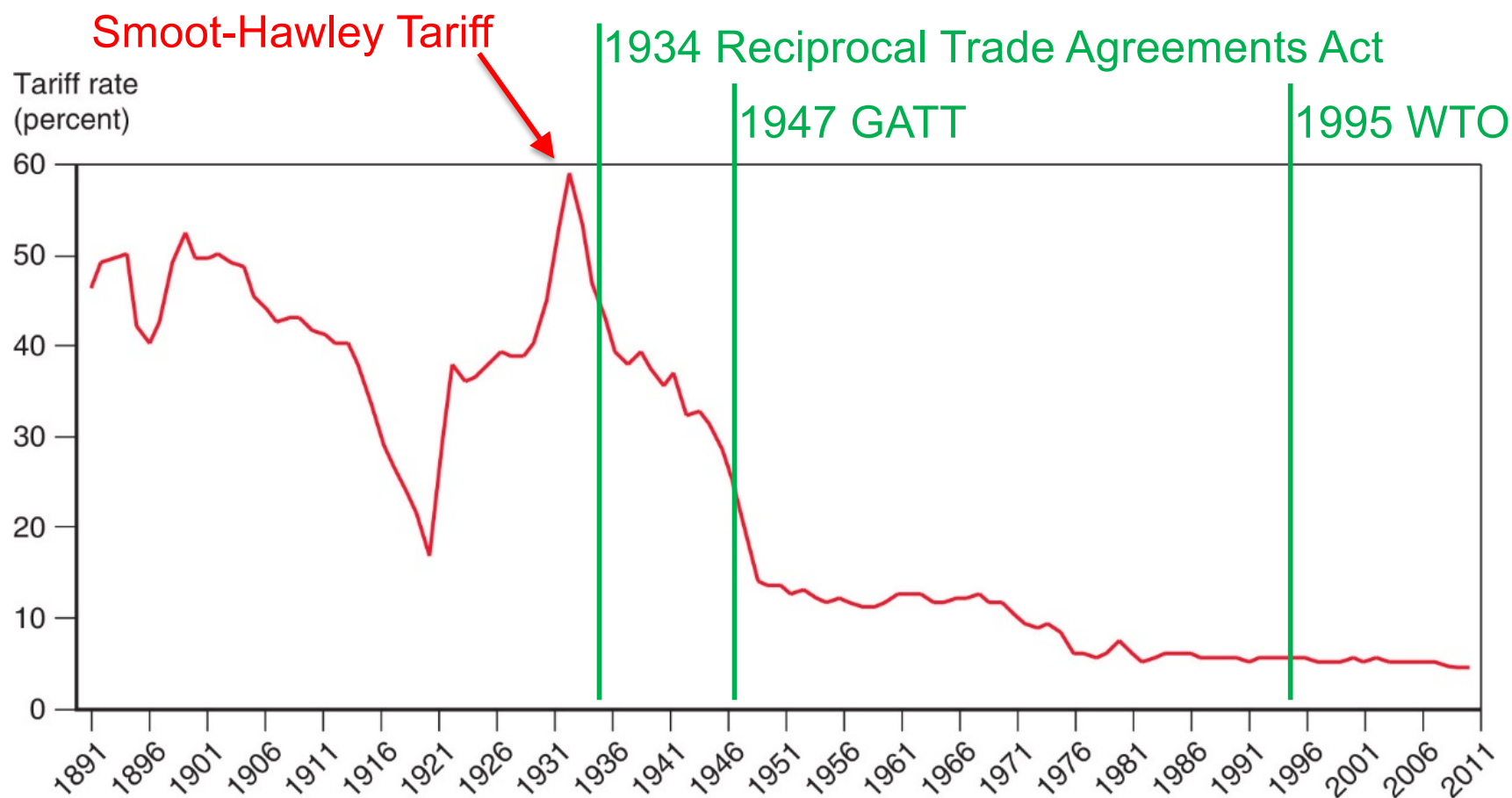
- Countries use tariffs, and all are worse off
- The solution: Cooperation
 - Bilateral
 - Pairs of countries agree to reduce tariffs on each other
 - They worry partners will do better deals with others later
 - So they promise “Most Favored Nation”
 - Promise partners the best they do later for others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

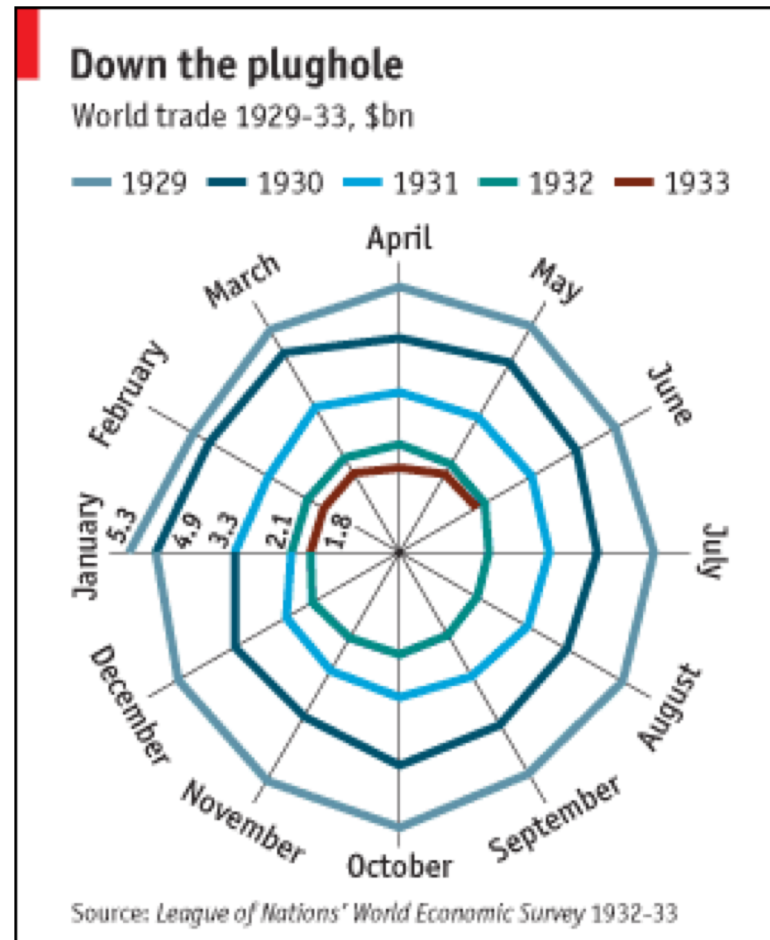
- Before 1934
 - Massive use of tariffs
 - Especially by US
 - Often for government revenue
 - 1930: Smoot-Hawley Tariff
 - Prompted retaliation by others
 - Worsened Great Depression



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.
 - ITO failed (in US)
 - Adopted via Protocol of Provisional Application

Pause for Discussion

Questions

- 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
 - Hosts “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 are extended to all other members (MFN)
 - But large countries dominated this process
 - In more recent rounds, negotiations start with a formula for tariff cuts, then negotiate exceptions

GATT Negotiations

- 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

Pause for Discussion

Questions

- 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 2020: 164
 - Latest: Afghanistan in 2016
 - Led by Director General
 - Position currently open
 - Little power

Membership status :

■ WTO Member

■ Observer negotiating accession

WTO

Disclaimer





The entrance to the Centre William Rappard
International

WTO

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

Pause for Discussion

Discussion Question

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

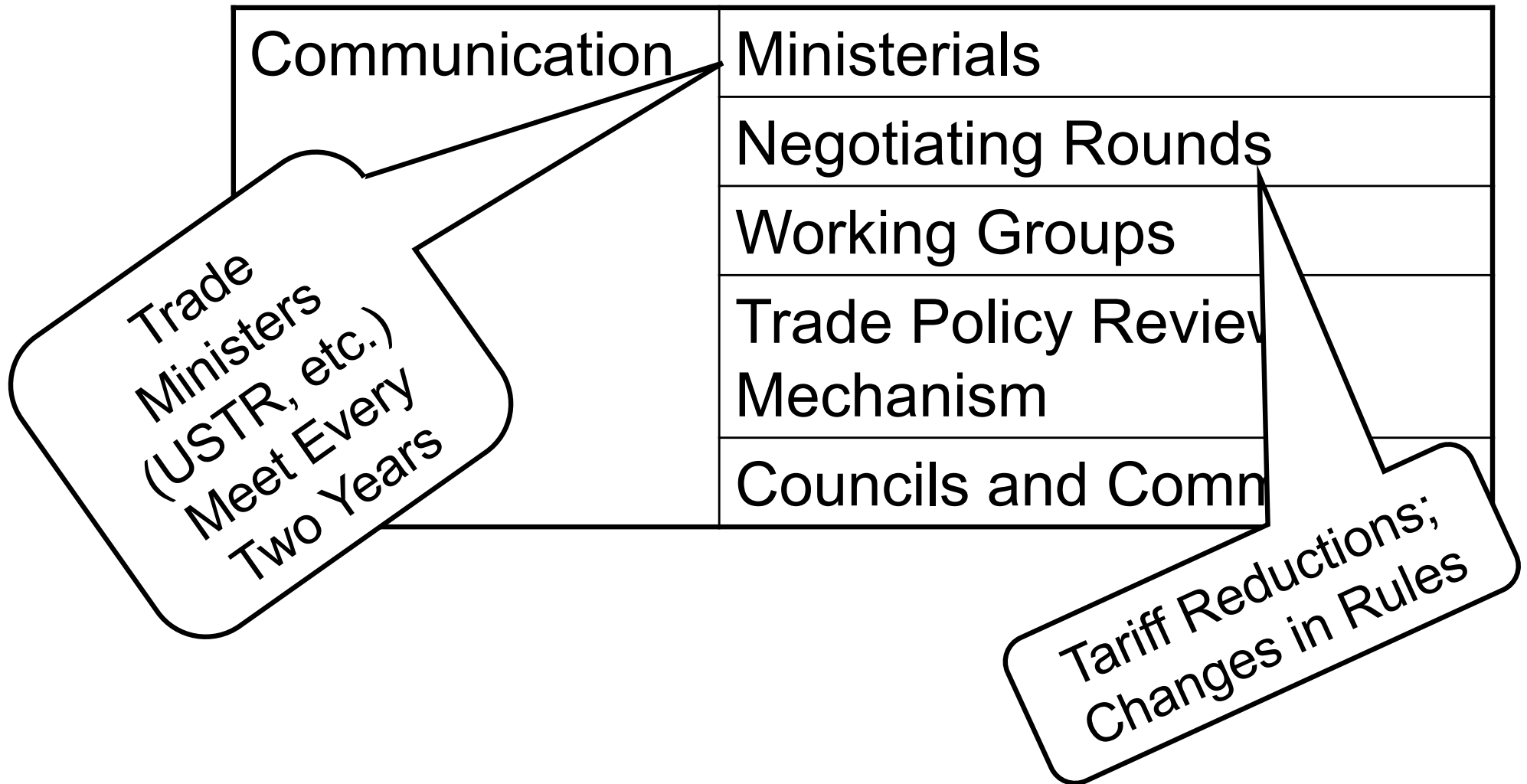
WTO

- 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

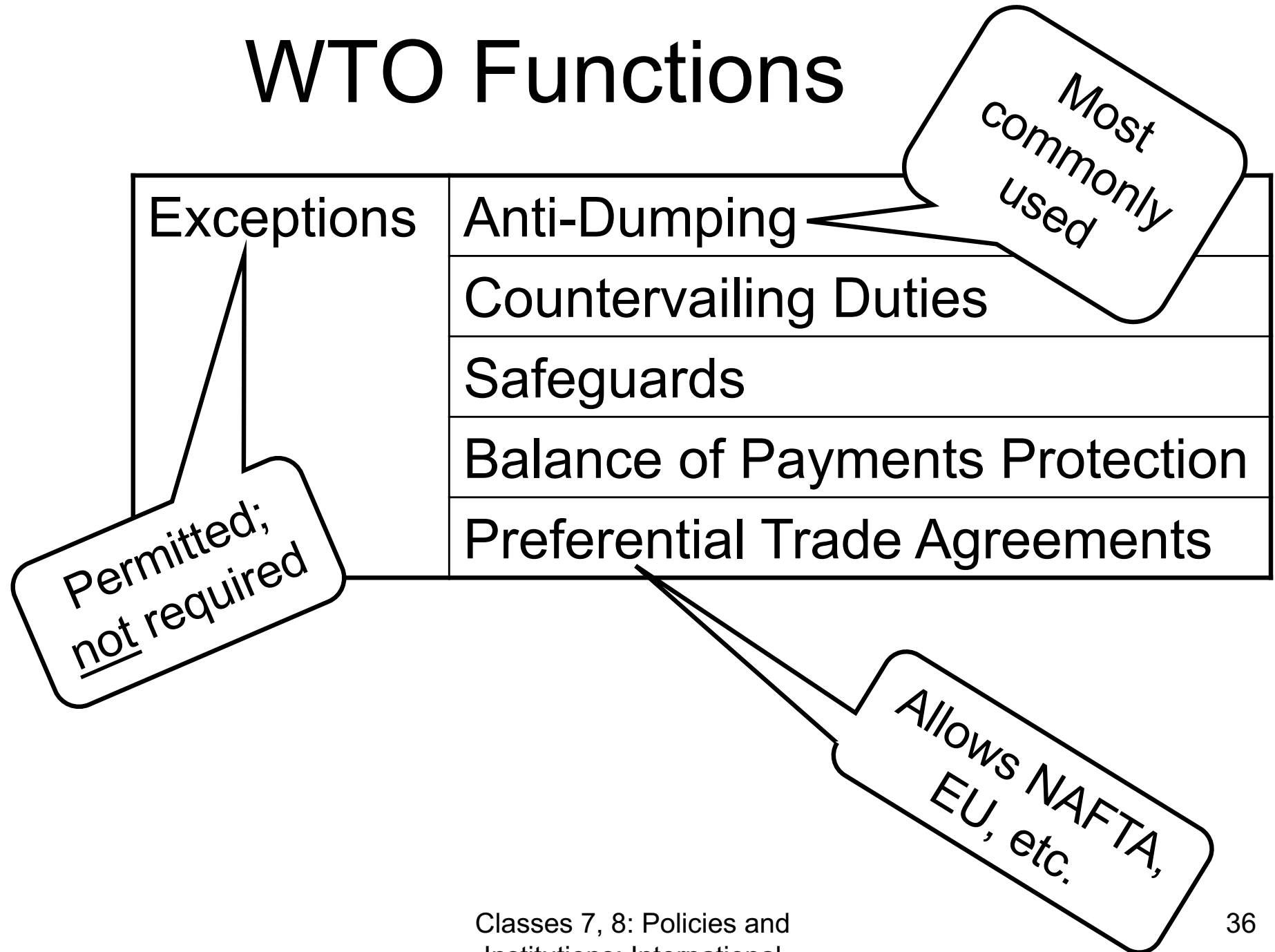
Constraints	Tariff Bindings
	Customs Valuation
	Product Regulations
	Quantitative Restrictions
	Subsidies
	Foreign Direct Investment (TRIMS)
	Services (GATS)
	Intellectual Property (TRIPs)

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

- 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?

Questions on Lighthizer

- What are the flaws that he cites in the current WTO system?
- What changes does he want?
- What is the alternative and could the US accept that?

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, admission Round had ended in failure

WTO Early Issues

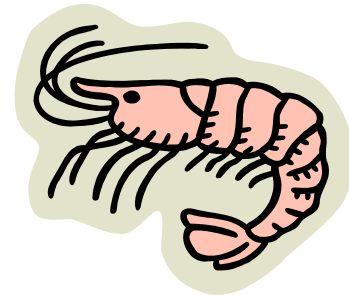
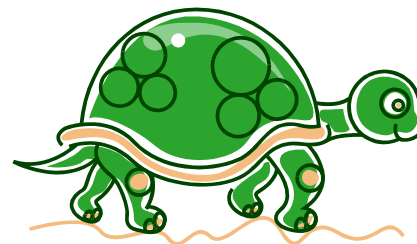
- December 2013: Bali Ministerial salvaged a limited agreement, mainly on Trade Facilitation
- December 2015: Nairobi Ministerial agreed on several commitments, including to
 - Abolish export subsidies on farm exports.
- December 2017: Buenos Aries Ministerial met but accomplished essentially nothing

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 Disputes

- There have been 596 disputes brought to the WTO since its creation in 1995 (as of 9/20/20)
- 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 (see our earlier readings)
- COOL dispute (Country of Origin Labeling)
 - US requires it on meat
 - Canada and Mexico objected
 - US lost
- China's "Market-economy status"
 - 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%

Trump and the WTO

- National-Security Tariffs (on steel, aluminum)
- 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[.]”

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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 are forming an alternative mechanism
 - See Amerjee

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)
 - “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.”

Pause for Discussion

Questions on Amerjee

- What does MPIA stand for, and why was the MPIA needed?
- What countries will be bound by the MPIA? (Who will not be bound?)
- Who will decide cases?
- Will this work any better than the Appellate Body? Why or why not?

Questions on *Economist*, “How to Rescue the WTO”

- What have been the recent US actions that either undermine the WTO or make it appears irrelevant?
- How has China caused problems for the world trading system?
- Must reform be agreed by all WTO members?
- Why would China agree to reform?

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)
 - Many others ...