

Introduction to the World Trade Organization

Alan V. Deardorff
University of Michigan

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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			
No.	Years	Name	Accomplishments
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9	2001-?	Doha	(Doha Development Agenda) FAILED

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

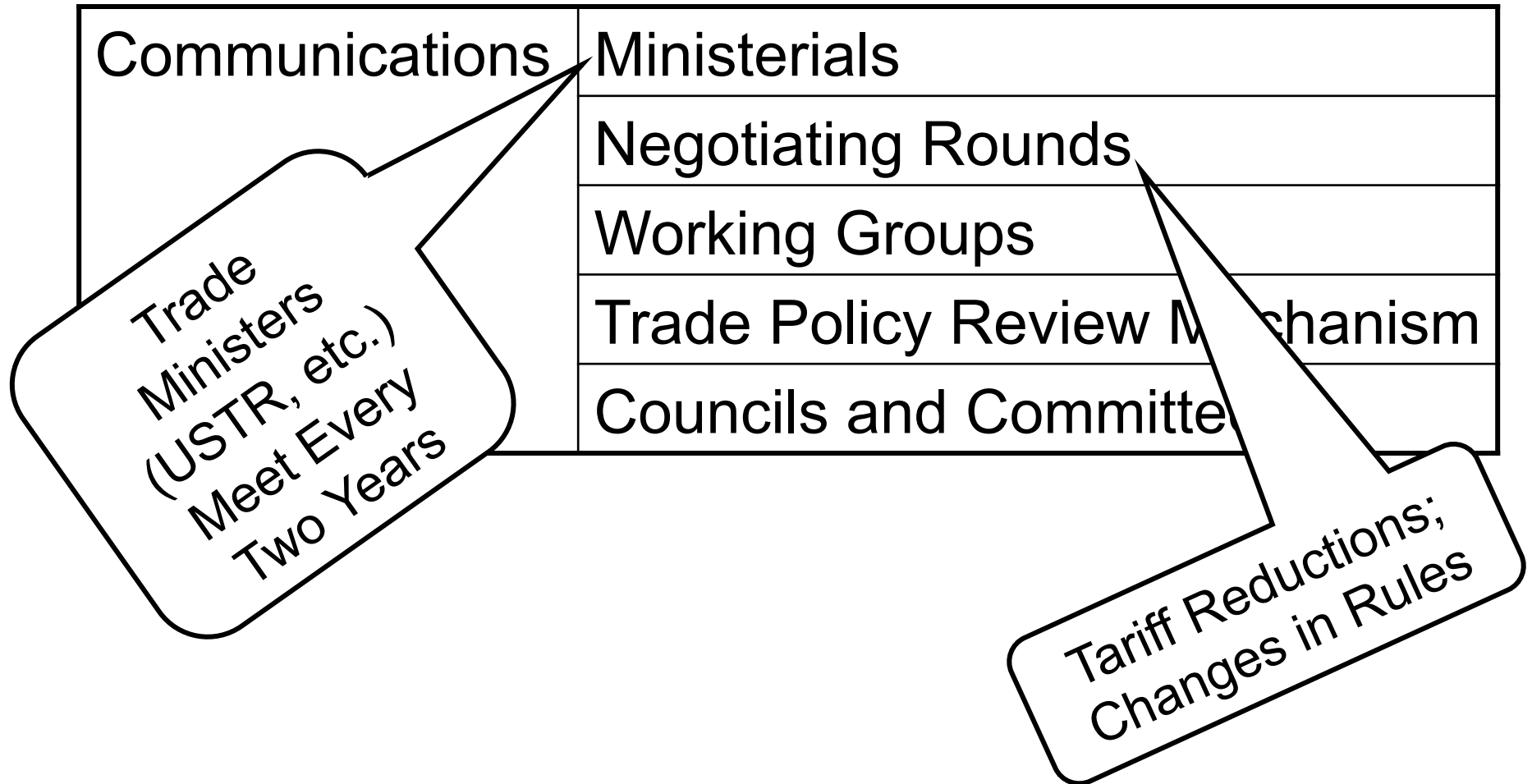
- WTO Decision Making
 - Decisions by consensus: all 162 countries must agree, at ministerial meetings
 - In contrast to IMF and World Bank
 - In practice, large and rich countries dominate this process
 - They first agree among themselves
(This done in “Green Room”)
 - Then seek consensus based on that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

WTO Functions

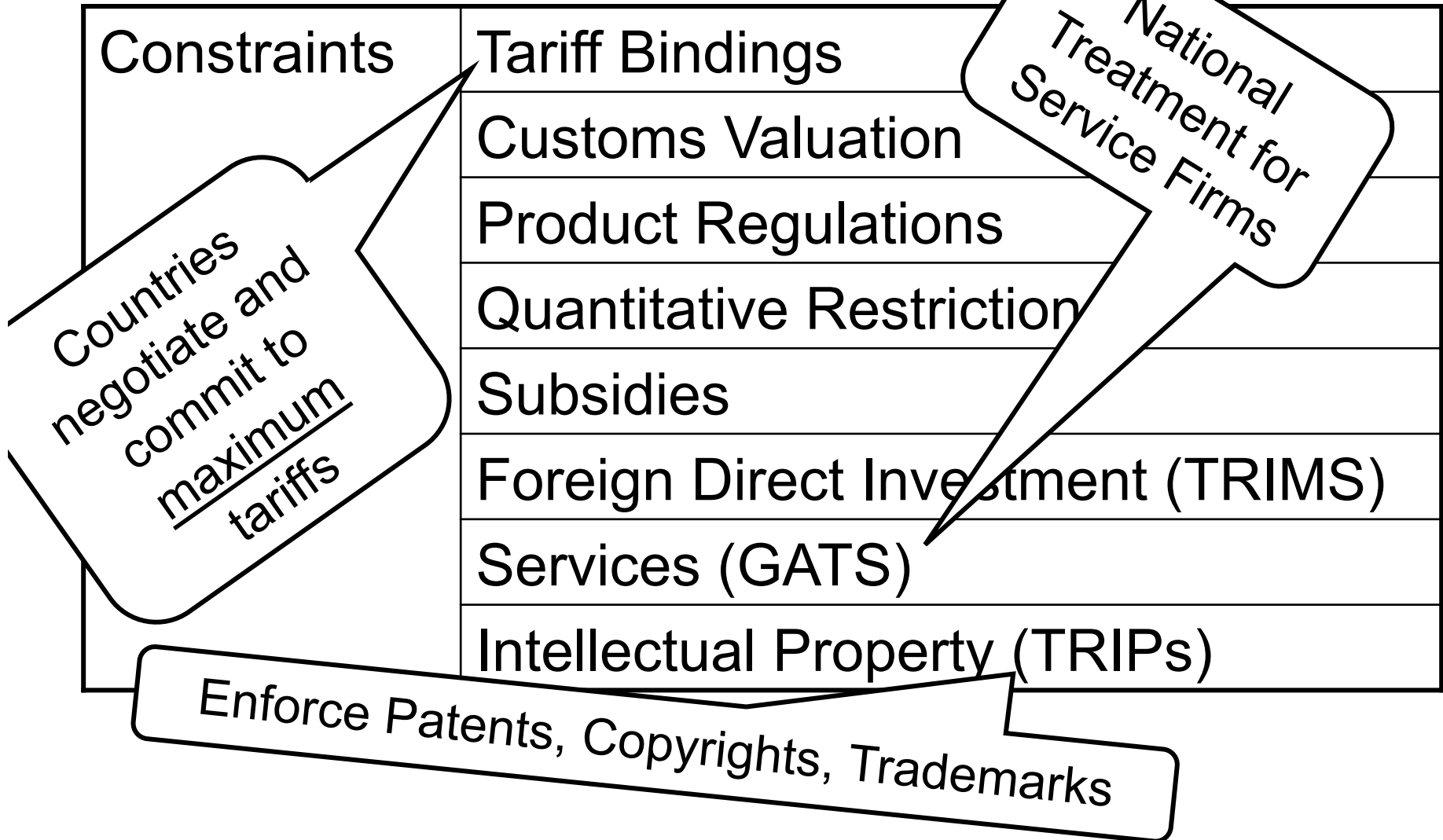
Functional Outline of the World Trade Organization
Communication
Constraints
Exceptions
Dispute Settlement

Source: Deardorff, "An Economist's Overview of the World Trade Organization," *The Emerging WTO System and Perspectives from East Asia*, 1997

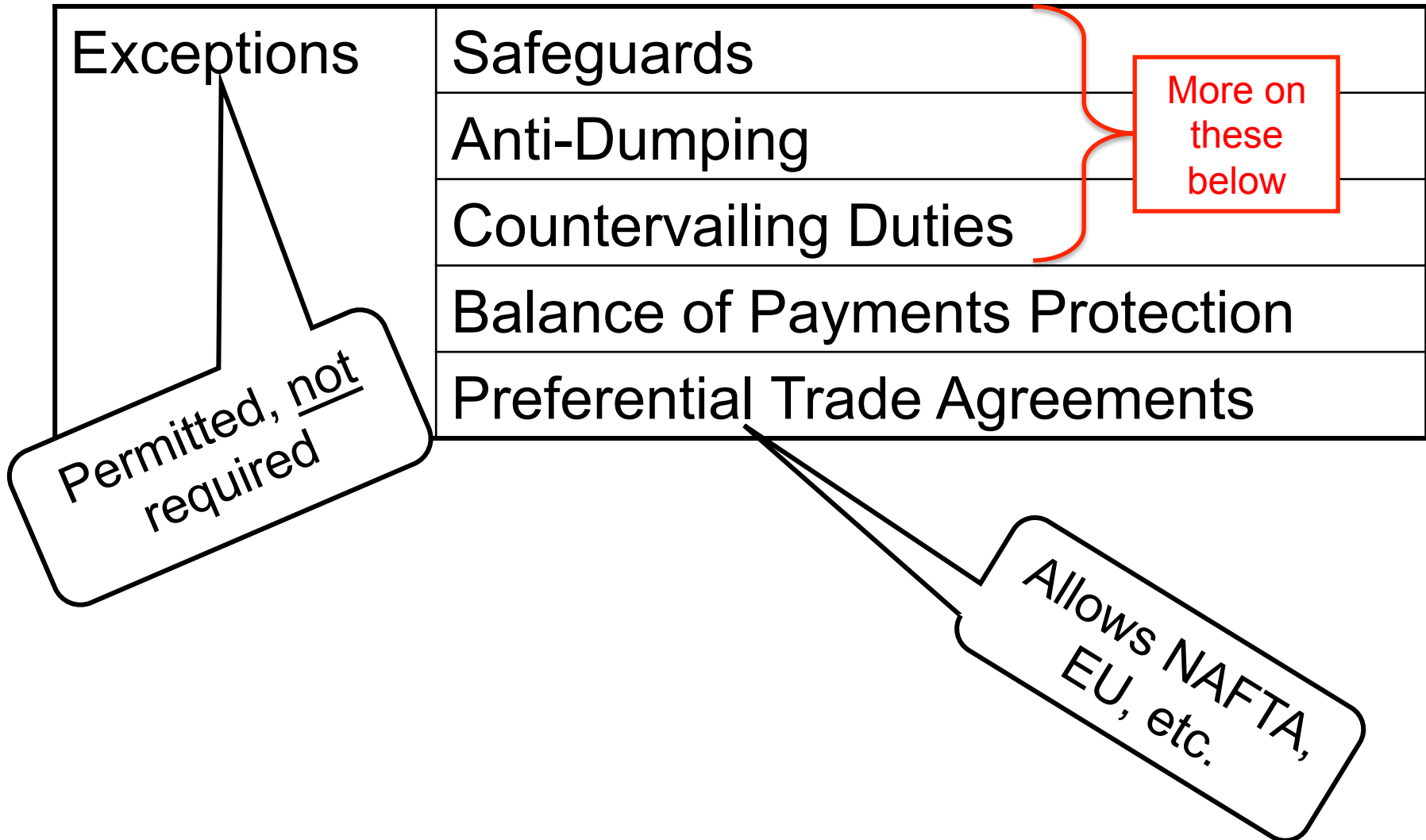
WTO Functions



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WTO Functions



WTO Functions

Dispute Settlement	Consultation	
	Panel Recommendation	
	Appellate Body	
	Remedy	Implementation
		Compensation
		Retaliation

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-discriminatory (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