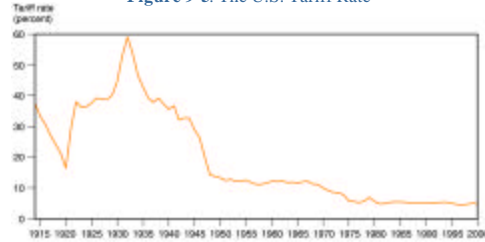


International Negotiations and Trade Policy

- International integration has increased from the mid-1930s until about 1980 because the United States and other advanced countries gradually removed tariffs and nontariff barriers to trade.

International Negotiations and Trade Policy

Figure 9-5: 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.

International Negotiations and Trade Policy

- How was the removal of tariffs politically possible?
 - The postwar liberalization of trade was achieved through **international negotiation**.
 - Governments agreed to engage in mutual tariff reduction.
- The Advantages of Negotiation**
 - It is easier to lower tariffs as part of a mutual agreement than to do so as a unilateral policy because:
 - It helps mobilize exporters to support freer trade.
 - It can help governments avoid getting caught in destructive trade wars.

Why do trade negotiations happen multilaterally and not unilaterally?

- After WWII wanted to create an hospitable trading environment because thought that protection was partly responsible for Great Depression and rise of fascism.
- prisoner's dilemma arguments

International Negotiations and Trade Policy

Table 9-3: The Problem of Trade Warfare

		Japan	
		Free trade	Protection
U.S.	Free trade	10	20
	Protection	10	-5

International Negotiations and Trade Policy

- In Table 9-3, each country has a dominant strategy: Protection.
- Even though each country acting individually would be better off with protection, they would both be better off if both chose free trade.
 - In game theory, this situation is known as a **Prisoner's dilemma**.
 - Japan and the U.S. can establish a binding agreement to maintain free trade.

International Negotiations and Trade Policy

- **International Trade Agreements: A Brief History**
 - Internationally coordinated tariff reduction as a trade policy dates back to the 1930s (the Smoot-Hawley Act).
 - The multilateral tariff reductions since World War II have taken place under the **General Agreement on Tariffs and Trade (GATT)**, established in 1947 and located in Geneva.
 - It is now called the **World Trade Organization (WTO)**.
 - The GATT-WTO system is a legal organization that embodies a set of rules of conduct for international trade policy.

International Negotiations and Trade Policy

- The GATT-WTO system prohibits the imposition of:
 - *Export Subsidies* (except for agricultural products)
 - *Import quotas* (except when imports threaten “market disruption”)
 - *Tariffs* (any new tariff or increase in a tariff must be offset by reductions in other tariffs to compensate the affected exporting countries)
- **Trade round**
 - A large group of countries get together to negotiate a set of tariff reductions and other measures to liberalize trade.

Trade negotiations

- The main provisions of GATT:
 - MFN provision- must extend best tariff to all members
 - should not use export subsidies except for agricultural products
 - cannot unilaterally impose import quotas
 - any new tariff must be offset by reductions in other tariffs to leave affected exporting countries just as well off.
 - principle of consensus

First five rounds: parallel bilateral negotiations

- Kennedy round (1967): across the board 50% tariff cut for all participants, but negotiated over which industries cut applied to
- Tokyo round (1979): lowered average tariffs of industrial countries for LDC exports from 40% to 6% but high tariffs remained especially on goods important to LDCs like textiles
 - Uruguay round (1994): Another round of tariff cuts and large expansion in scope of coverage including formation of WTO
 - Telcom and IT talks (1996): agreements to lower tariffs to 0%

International Negotiations and Trade Policy

- **Preferential Trading Agreements**
 - Nations establish **preferential trading agreements** under which they lower tariffs with respect to each other but not the rest of the world.
 - The GATT-WTO, through the principle of non-discrimination called the “most favored nation” (MFN) principle, prohibits such agreements.
 - The formation of preferential trading agreements is allowed if they lead to free trade between the agreeing countries.

International Negotiations and Trade Policy

- Free trade can be established among several WTO members as follows:
 - A **free trade area** allows free-trade among members, but each member can have its own trade policy towards non-member countries.
 - **Example**: The North American Free Trade Agreement (NAFTA) creates a free trade area.
 - A **customs union** allows free trade among members and requires a common external trade policy towards non-member countries.
 - **Example**: The European Union (EU) is a full customs union.
 - A **common market** is a customs union with free factor movements (especially labor) among members.

International Negotiations and Trade Policy

- Are preferential trading agreements good?
 - It depends on whether it leads to trade creation or trade diversion.
 - **Trade creation**
 - Occurs when the formation of a preferential trading agreement leads to replacement of high-cost domestic production by low-cost imports from other members.
 - **Trade diversion**
 - Occurs when the formation of a preferential trading agreement leads to the replacement of low-cost imports from non members with higher-cost imports from member nations.

The main provisions of Uruguay Round

- (April 15, 1994 385 lbs., 22,000 pages!)
- objective of 1/3 tariff cut was exceeded on industrial products- trade weighted rates reduced 38% (the average rate of tariff on industrial goods, 4-5%)
- but cuts on textiles and shoe leather only 20%- and tariff higher to begin with
- tariff escalation produces a trade bias against processed goods due to higher duties as go up processing chain-- de-escalation was an important goal of WTO (escalation decreased for most, but increased for cocoa and jute)

Non-tariff barriers

- phaseout of MFA, VER and other NTBs (during 1980's VERS on 400 product lines; in 1996 only one remaining, VER on Japanese auto exports to EU, due to expire 1999) total benefit from eliminating MFA- \$23b, over \$1b to China, Korea, Taiwan and Brazil. But some countries will lose as their inefficient industries no longer get quota rent.

Agriculture

- conversion of NTBs to tariffs
- reduction of budgetary subsidies by 36% of value;
- Aggregate Measure of Support reduced by 20%
- effect- prices of major grains should rise-
- good for exporters bad for importers

New anti-dumping code

- improved provisions for calculating dumping margins, injury, definition of domestic industry, investigation procedures, standards of evidence, transparency
- no case if margin of dumping less than 2%, or volume of importer less than 3%
- duties have 5 year limit
- dispute settlement limiting to examining procedure, not outcome

Subsidies

- some prohibited outright
- some actionable
- some legit.- research, environment, depressed areas
- agriculture not mentioned

Trade-related intellectual property (TRIPS)

- copyright
- trademarks
- geographical indications
- industrial design
- patents
- layout of integrated circuits
- protection of undisclosed information?

Miscellaneous

- agreement on pre-shipment inspection
- agreement on rules of national origin
- customs' valuation
- sanitary codes

International Negotiations and Trade Policy

- **The Uruguay Round**
 - Its most important results are:
 - Trade liberalization
 - Administrative reforms
- **Trade Liberalization**
 - The average tariff imposed by advanced countries decreased by almost 40%.
 - More important is the move to liberalize trade in two important sectors: agricultural and clothing.
- **From the GATT to the WTO**
 - Much of the publicity surrounding the Uruguay Round focused on its creation of the WTO.

International Negotiations and Trade Policy

- How different is the WTO from the GATT?
 - The GATT was a provisional agreement, while the WTO is a full-fledged international organization.
 - The GATT applied only to trade in goods, while the WTO included rules on trade in services (the General Agreement on Trade in Services (GATS)) and on international application of international property rights.
 - The WTO has a new “dispute settlement” procedure which is designed to reach judgments in a much shorter time.

WTO dispute resolution and settlement methods

- previous dispute resolution was based on consensus, now WTO embraces principle of automaticity- “legal events take place unless members halt them by consensus”, the principle is also phrased as “reverse consensus”

Early dispute panels

- gasoline panel
- U.S. environmental regulations biased against Brazil and Venezuela refiners
- scallops panel
- French backed down and let other producers put “Coquille St. Jacques” label on scallops provided also put country of origin
- Japanese alcohol taxes panel
- taxes were found discriminatory against U.S. and Canadian whisky
- Costa Rica underwear panel
- textiles used to be outside GATT, now WTO declared U.S. reduction in quota arbitrary
- bananas panel
- EU changes in import restrictions unjustified

WTO Entry at a time when China has:

- Moved away from trading through centrally controlled foreign trade corporations
- Created trade policy instruments (tariffs/quotas/licenses etc) and removed non tariff barriers
- Unified the exchange rate in 1994
- Removed many price controls

Table 1. Changes in average tariff rates in China (%)

	All products		Primary products		Manufactures	
	Simple	Weighted	Simple	Weighted	Simple	Weighted
1992	42.9*	40.6	36.2	22.3	44.9	46.5
1993	39.9	38.4	33.3	20.9	41.8	44.0
1994	36.3	35.5	32.1	19.6	37.6	40.6
1996	23.6	22.6	25.4	20.0	23.1	23.2
1997	17.6	18.2	17.9	20.0	17.5	17.8
1998	17.5	18.7	17.9	20.0	17.4	18.5

*Source: World Bank (1999, p340)

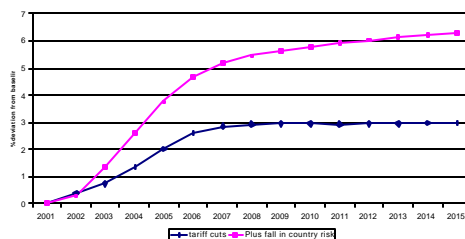
Scenarios

- Generate a baseline of the world economy from 2000 to 2060 assuming:
 - Country specific population growth
 - Sector/country specific productivity growth
 - Tax rates
 - Fiscal rules/monetary rules
 - Tariffs at current levels.

Scenarios

- Introduce a phased reduction of tariffs in China commencing in 2002 and completed by 2005
- Suppose the country risk premium falls as a result of the reforms
- Might also consider the effects on additional productivity growth (not done here)

Fig 1: Effect on Chinese GDP of WTO Trade Reform



WTO (1995- 2000)

- Uruguay Round Agreements came into effect January 1995.
- 1995-1999: Sectoral agreements negotiated (telecomm., computers, financial services, textiles and clothing).
- 1999: The Battle in Seattle and a North-South divide prevented the launch of Millennium Round.
- 2000: New services negotiations began.

• Source: cursos.itam.mx/bcondon/MBAIB/MBAIB3.ppt

WTO Doha Round (2002-2005)

- Meeting of WTO ministers in Doha, Qatar, November 2001.
- Agreed to launch new round of negotiations.
- Partial agreement on AIDS drugs.

• Source: cursos.itam.mx/bcondon/MBAIB/MBAIB3.ppt

Doha Round Agenda

- Agricultural subsidies
- Conflicts between trade liberalization and environmental protection
- Competition policy
- Foreign investment protection
- Trade remedy laws (subsidies and dumping)

• Source: cursos.itam.mx/bcondon/MBAIB/MBAIB3.ppt

DOHA AGENDA

- 14 agreed or prospective negotiations
- overseen by Trade Negotiations Committee, first meeting 28 January
- 5th Ministerial, end 2003, a critical point
- all against deadline of 1 January 2005

• Source: www.witsa.org/presentations/yeend.ppt

STRUCTURE OF NEGOTIATIONS



Source: www.witsa.org/presentations/yeend.ppt

STRUCTURE OF NEGOTIATIONS

- other issues to be addressed in existing committees and/or working groups
- “so-called” Singapore issues
 - Investment, Competition, Government Procurement, Trade Facilitation
- other elements in work program
 - e.g. electronic commerce, technical cooperation and capacity building, trade and transfer of technology

Source: www.witsa.org/presentations/yeend.ppt