

The World Economy: Trade Theory

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GATT

- ▶ General Agreement on Tariffs and Trade (GATT) was established 1948 after the Great Depression and WWII.
- ▶ Its objective was to liberalize trade by removing tariffs and NTBs
- ▶ GATT was never seen powerful enough to push for international free trade

Three major strands of GATT

- ▶ Most favored nation (MFN): trading privilege for all member states.
- ▶ Members agreed to work towards the reduction of tariffs and abolition of quotas.
- ▶ Outward looking trading blocks or common market.

WTO

- ▶ Greater policing power than GATT
- ▶ Multilateral trade organization Covers goods, services, and intellectual property (IP) rights
- ▶ Encourages to lower trade restriction
- ▶ Settles trade disputes with a common trade disputes procedure
- ▶ Topmost decision-making body: Ministerial Conference, every 2 years.
- ▶ Now 162 members.

Problems in the latest meeting

- ▶ Rich countries subsidize agriculture
 - ▶ The U.S. kept “counter cyclical” payment to farmers
 - ▶ Japan tried to exclude rice
 - ▶ France, Japan, and Switzerland were defending their subsidies to food exports
- ▶ Poor countries were exempt from lowering tariffs

Recent Efforts

- ▶ The banana dispute: EU was ruled discrimination against the U.S. with its banana import rules.
- ▶ The beef dispute: rules EU must end its ban on American hormone treated beef.
- ▶ Disputes between Airbus and Boeing over subsidies
- ▶ Anti-dumping is allowed restriction

Unresolved issues

- ▶ The increase in anti-dumping policies
 - ▶ definition of “dumping” is vague.
- ▶ The high level of protectionism in agriculture in the form of *subsidies*
 - ▶ Agriculture is typically a large portion of developing country's economy
 - ▶ They struggle to compete with rich countries export subsidies

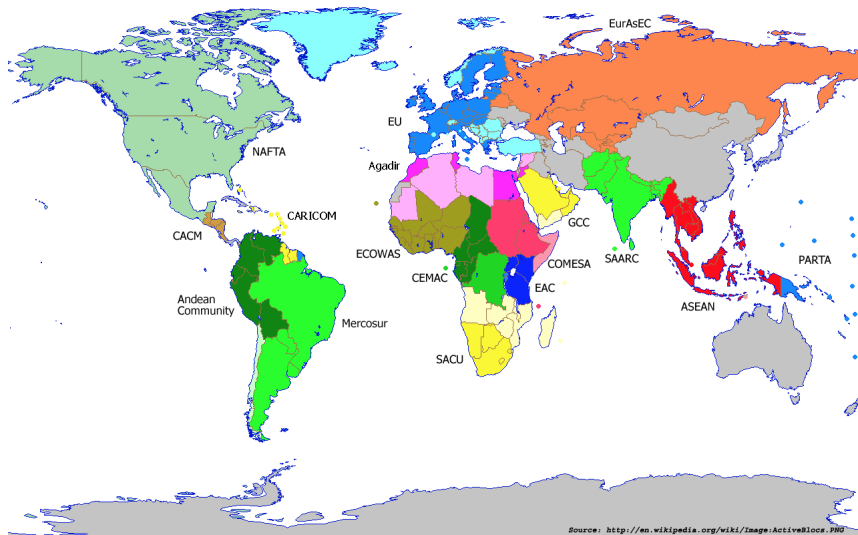
Unresolved issues

- ▶ The lack of adequate protection for patents, trademarks and copyrights.
 - ▶ low-income countries especially are reported to fail to comply with the rules
- ▶ Continued high trade barriers on non-agriculture merchandise and services.
 - ▶ concerns over an influx of price competitive goods from China and Vietnam
- ▶ Trade barriers on services are even higher than those on industrial products
 - ▶ credit card and telecommunication in China

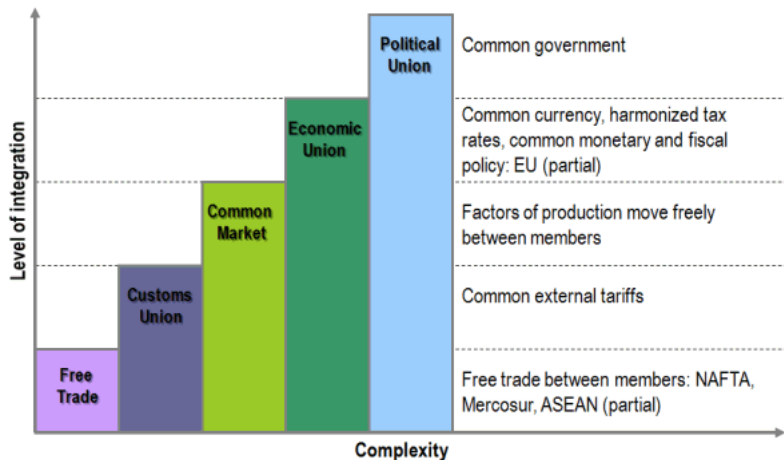
Trading bloc

- ▶ Countries in a geographical region join together to stimulate free trade among member states, and to enjoy other benefits of economic cooperation.

Trading bloc



Trading bloc



Forms of trading bloc

▶ Free Trade Areas

- ▶ group of countries have abolished trade barriers tariffs, quota, and other NTBs
- ▶ each member may maintain independent restrictions on imports from non-member
- ▶ NAFTA, APEC, ASEAN

▶ Customs Unions

- ▶ free trade among member
- ▶ states external tariffs on all non member states
- ▶ Mercosur of South America

Forms of trading bloc

- ▶ Common markets:
 - ▶ free trade among member states
 - ▶ a common external trade policy towards non-member
 - ▶ free movement of factors of production
- ▶ European Economic Community (EEC) Economic Unions:
 - ▶ full integration of economics in addition to common markets,
 - ▶ member states coordinate their economic policies in areas such as agriculture, transport, and taxation.
 - ▶ European Union (EU)



European union (EU) – goals

- ▶ Elimination of customs duties and quotas on imports and exports between member states.
- ▶ Establishment of a common customs tariff and commercial policy towards non member states.
- ▶ Abolition of obstacles to the free movement of persons, services, and capital among member states
- ▶ Establishment of common policies for agriculture and transport

European union (EU) – goals

- ▶ The prohibition of business practices which restrict or distort competition within the common market.
- ▶ The association of overseas countries and territories to increase trade and development.
- ▶ The creation of economic and monetary union.
- ▶ The development of a common foreign security and defense policy.

Role of EU

- ▶ Fundamental principle: free movement of goods, services, people, and capital.
- ▶ The EU Common Commercial Policy (CCP) establishes uniform principles covering trade among all member states.
- ▶ Formed a single territory without internal borders.
- ▶ The monetary union: single currency, euro, available for the common market (17 countries)