International Trade: Lecture 9
World Trade Institutions and Policies

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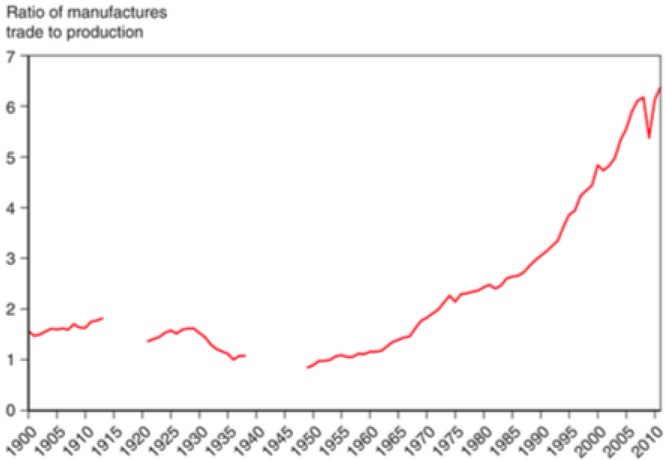
Outline

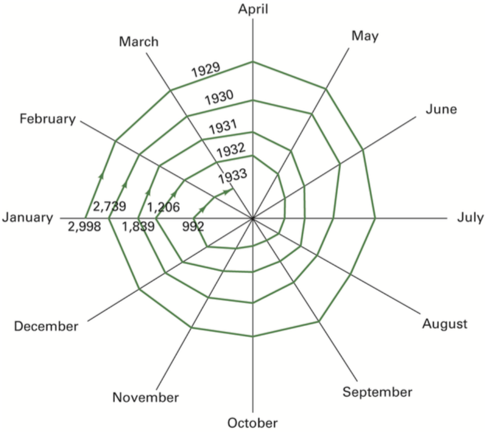
World trade in the past century

- There have been two great waves of globalization with the first wave relying on railroads, steamships, and the telegraph and the second wave on the jets and the Internet.
- Measured by a world manufactured goods export index, world trade grew rapidly in the decades leading up to WWI but then fell significantly.
- Globalization did not return to pre-WWI levels until early 1970s. Since then, world trade as a share of world production has risen to unprecedented heights.
- Two subsequent world wars, the Great Depression of the 1930s and widespread protectionism, did a great deal to depress world trade.

The fall and rise of world trade 1900-2010



1929-1933 world trade contracting spiral



Note: Total imports of 75 countries in millions of dollars

General Agreement on Tariffs and Trade (GATT)

- After World War II, the Allied countries met to discuss issues such as high trade barriers and unstable exchange rates.
- In 1947 the General Agreement on Tariffs and Trade (GATT) was established to reduce barriers to trade between nations.
- From 1948 to 1994, the GATT provided the rules for much of world trade and presided over periods that saw some of the highest growth rates in international commerce. It seemed well-established but throughout those 47 years, it was a provisional agreement and organization.

Key provisions of the GATT

Part I: Basic principle of nondiscrimination.
Part II: Elimination of nontariff barriers.
Part III: Procedural rules condoning free trade areas.
Part IV: Special needs of developing countries.

Some of the GATT's main provisions are as follows:

Article I	General most-favored-nation treatment
Article VI	Anti-dumping and countervailing duties
Article XI	General elimination of quantitative restrictions
Article XVI	Subsidies
Article XIX	Emergency action on imports of particular products
Article XXIV	Territorial applications—frontier traffic—customs unions and free-trade areas

ARTICLE I: General Most-Favored-Nation Treatment

- Under Article I, a member country may not engage in discriminatory practices such as extending privileges to its most favored nation (MFN) without offering these favors to all other contracting parties.
- Article I provides that a tariff on an imported product should applied equally to all GATT members.
- Binding tariff schedules: Article II legally binds members to their tariff concessions. It states that tariffs should not be increased above the rates in each country's tariff schedule.

ARTICLE VI: Anti-Dumping and Countervailing Duties

- Article VI allows an injured country to retaliate against an exporter illegally dumping the product in the importing market. Dumping is defined as the act of selling the product to the importing country at a price less than what the exporter offers to its domestic market or lower than to a third country or below the cost of production.
- Article VI states that both dumping and injury to domestic producers must be proved to merit an antidumping duty remedy, and specifies that antidumping duties should not exceed the dumping margin. It provides similar rules for the countervailing duty remedy to offset foreign government subsidies.

ARTICLE XI: Elimination of Quantitative Restrictions

- Article XI calls for the general elimination of quantitative restrictions to trade, subject to several qualifications.
- Most importantly, QRs can be used to safeguard the balance of payments (Article XII) and to provide temporary escape clause relief for domestic industries (Article XIX).
- Article XIII states that QRs, when employed, must be applied on a nondiscriminatory basis, with some exceptions listed in Article XIV.
- Article XV regulates the use of currency controls to evade QR restrictions, and coordinates GATT and IMF interests during balanced-of-payments emergencies.

ARTICLE XVI: Subsidies

- Article XVI discourages the use of subsidies in general, and calls for the elimination of export subsidies for non-primary products in particular.
- Export subsidies for primary products should not cause a country to achieve more than an equitable share of world export trade in that product.
- A member must notify contracting parties of its intention to assist its importing or exporting industries through a subsidy under Article XVI.

ARTICLE XIX-XXI: Escape Clause and Exceptions

- Under Article XIX, a country experiencing or in threat of serious injury from foreign competition may temporarily raise its import tariffs against the exporting country.
- Articles XX and XXI identify other essentially noneconomic justifications for trade restrictions such as for national security proection.
- Provided that tariffs on outside members remain unchanged, two or more WTO countries may form regional trade agreements, such as free-trade areas and customs unions, under Article XXIV of the GATT.

World Trade Organization

"The WTO's creation on 1 January 1995 marked the biggest reform of international trade since the end of the Second World War. Whereas the GATT mainly dealt with trade in goods, the WTO and its agreements also cover trade in services and intellectual property. The birth of the WTO also created new procedures for the settlement of disputes."

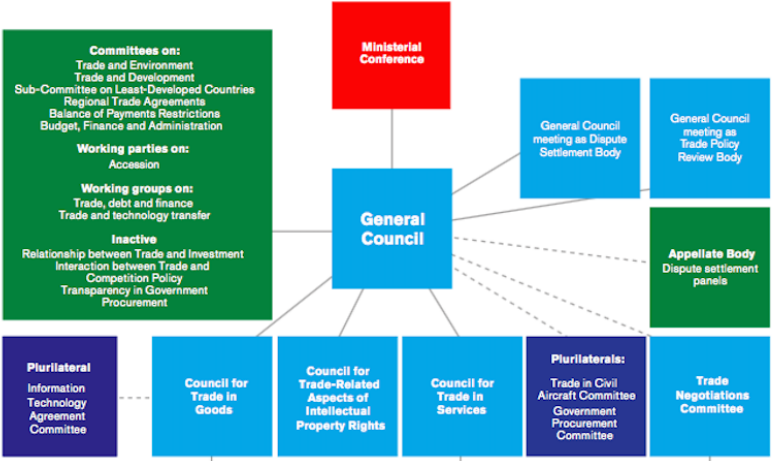
- ESTABLISHED: January 1, 1995, in Geneva, Switzerland
- CREATED BY: Uruguay Round negotiations (1986-94)
- MEMBERSHIP: 164 members representing 98% of world trade (as of 30 Sept 2018)
- BUDGET: 197 million Swiss francs for 2018
- SECRETARIAT STAFF: 630
- HEAD: Roberto Azevêdo (Director-General)

WTO functions

"In brief, the World Trade Organization (WTO) is the only international organization dealing with the global rules of trade. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible."

1. Administering WTO trade agreements
2. Forum for trade negotiations
3. Handling trade disputes
4. Monitoring trade policies
5. Technical assistance and training for developing economies
6. Cooperation with other international organizations

WTO administrative structure



WTO negotiations on trade restrictions

WTO negotiations address trade restrictions in at least 3 ways:

1. Reducing tariff rates through multilateral negotiations.
2. Binding tariff rates: a tariff is "bound" by having the imposing country agree not to raise it in the future.
3. Eliminating nontariff barriers: quotas and export subsidies are changed to tariffs because the costs of tariff protection are more apparent and easier to negotiate.
   - Subsidies for agricultural exports are an exception.
   - Exceptions are also allowed for "market disruptions" caused by a surge in imports.

WTO agreements

The World Trade Organization is based on a number of agreements:

1. General Agreement on Tariffs and Trade: covers trade in goods.
2. General Agreement on Tariffs and Services: covers trade in services (ex., insurance, consulting, legal services, banking).
3. Agreement on Trade-Related Aspects of Intellectual Property: covers international property rights (ex., patents and copyrights).
4. The dispute settlement procedure: a formal procedure where countries in a trade dispute can bring their case to a panel of WTO experts to rule upon.

GATT and WTO negotiations

- First round, Geneva, 1947, 23 countries, resulting in a 21.2% average tariffs cut.
- Second round, Annecy, 1949, 13 countries, resulting in a 1.9% average tariff cut.
- Third round, Torquay, 1950-51, 38 countries, 3% tariff cut.
- Fourth round, Geneva, 1955-56, 26 countries, 3.5% tariff cut.
- Dillon round, 1961-62, 26 countries, 2.4% tariffs cut.
- Kennedy round, 1964-67, 62 countries, tariffs and anti-dumping measures, 36% cut.
- Tokyo round, 1974-79, 102 countries, tariffs and non-tariff barriers, 29.6% cut.

Uruguay and Doha Rounds

- Uruguay round, 1986-93, 123 countries. The Round focused on contentious issues such as non-tariff barriers, intellectual property rights, trade in services, and agriculture. Its greatest achievement was the creation of a new international institution, the World Trade Organization.
- Doha round, 2001- , 153 countries. Focus of the talks was on the links between economic growth and trade liberalization. Talks collapsed in July 2008. The main point of contention is trade in agriculture with major industrialized nations such as the U.S., EU and Japan maintaining production subsidies and import barriers.

Preferential/regional trade agreements (RTA)

- Preferential trade agreements are trade agreements between countries in which they lower tariffs for each other but not for the rest of the world. Despite violating the MFN principle, RTA are permitted because the removal of trade barrier among expanding groups of countries is one way to achieve freer trade worldwide.
- A free trade area (FTA): an agreement that allows free trade among members, but each member can have its own trade policy towards non-member countries. NAFTA, Trans-Pacific Partnership (TPP).
- A customs union: an agreement that allows free trade among members and requires a common external trade policy towards non-member countries. EU, WAEMU, CACM, SACU.
- To prevent "trade policy arbitrage" within FTA, rules of origin specify what type of goods can be shipped duty-free.

Outline

Trade policy instruments and barriers

- Tariff: a tax imposed by a government on either exports or imports.
- Quota: a government-mandated limitation on either the quantity or value of trade in a product.
- Subsidy: a government payment to an industry based upon the amount it engages in international trade.
- Nontariff barriers: a wide range of government policies other tariffs designed to affect the volume or composition of a country's international trade.
    - Customs valuation practices
    - Health and safety standards
    - Government procurement policies
    - Intellectual property rights protection
    - Technical barriers (quality, environment, national security)

Trade policy: Nontariff barriers

- Local content requirement: a regulation that requires some specified fraction of a final good to be produced domestically. This fraction can be specified in physical units or stated in values terms by requiring that some minimum share of the price of a good represent domestic value added.
- Local content laws have been widely used by developing countries trying to shift their manufacturing base from assembly back into intermediate goods.
- Export credit loans: similar to export subsidy except that it takes the form of a subsidized loan to the buyer. The U.S., like most other countries, has a government institution, the Export-Import Bank, devoted to providing at least slightly subsidized loans to aid exports.

Tariff

- Ad valorem tariff: a trade tax equal to a given percentage of the selling price.
- Specific tariff: a trade tax equal to a fixed amount of money per unit imported.
- Compound tariff: a trade tax that has both a specific and an ad valorem component.
- Import/export tariff: taxes applied by the importing/exporting country when a good enters/leaves the country.
- Antidumping duty: a tariff imposed by an importing country against foreign exporters selling a product at a price below fair market value.
- Countervailing duty: a tariff imposed by an importing country designed to offset the export subsidy and resulting low prices charged by exporters.

The effective rate of protection

- Effective rates of protection often differ from tariff rates because tariffs affect sectors other than the protected sector, causing indirect effects on the prices and value added for the protected sector. It represents the change in value that firms in an industry add to the production process when trade policy changes, which depends on the change in prices the trade policy causes.
- For example, suppose that automobiles sell in world markets for \$8,000, and they are made from factors of production worth \$6,000. Suppose that a country puts a 25% tariff on imported autos so that home auto assembly firms can now charge up to \$10,000 instead of \$8,000.
- The effective rate of protection for home auto assembly firms is the change in value added: (\$4,000 - \$2,000)/\$2,000 = 100%. In this case, the effective rate of protection is greater than the tariff rate.

Quota

- Import quota: a restriction on the amount of a particular good that one country can purchase from another country.
- Export quota: a limit on the amount that domestic firms are allowed to export.
- Article XI of the GATT states that countries should not use quotas to restrict imports.
- Voluntary export restraint (VER): an agreement reached between importing and exporting countries whereby the exporters agree to limit the amount they export.
- Some countries used VERs during the 1980s and early 1990s to restrict imports of automobiles and steels. All these cases were exploiting a loophole in the GATT agreement whereby a quota enforced by the exporter was not a violation of the GATT.

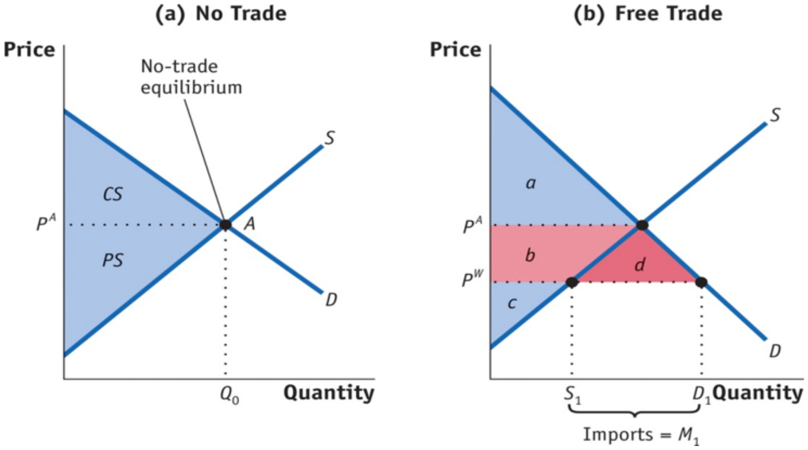
Subsidy

- Export/import subsidy: payment to firms for every unit exported or imported (either a fixed amount or a fraction of the sales price).
- Production/consumption subsidy: subsidy encourages suppliers/consumers to increase the output/consumption.
- Governments provide subsidies to encourage domestic firms to produce more in particular industry. Export subsidies can be used as strategic policy to bolster high-technology companies and industries.
- Agricultural subsidies played a key role in the Doha Round of WTO negotiations. At the HK meeting in 2005, countries set a goal to eliminate agricultural export subsidies by 2013, though it was not achieved. At a 2015 meeting in Nairobi, Kenya, countries agreed to eliminate export subsidies in the developing countries by 2018.

Trade policy welfare analysis

- A tariff or quota raises the price of a good in the importing country, so it hurts consumers and benefits producers there. In addition, the government gains tariff revenue or quota rent. How to measure these costs and benefits?
- Consumer surplus measures the amount that consumers gain from purchases by computing the difference in the price actually paid from the maximum price they would be willing to pay for each unit consumed.
- Producer surplus measures the amount that producers gain from sales by computing the difference in the price received from the minimum price at which they would be willing to sell.
- Government revenue measures the amount the home country government collect from or pay for implementing the policies.

Trade welfare model



Trade policy effects summary

- For each trade policy, the price rises in the Home country adopting the policy. Home producers supply more and gain. Home consumers demand less and lose.
- The world price falls when Home is a "large" country that affects world prices.
- Tariffs generate government revenue; export subsidies drain it; import quotas do not affect government revenue.
- All these trade policies create production and consumption distortions. While tariffs and import quotas are potentially beneficial only for large countries that can drive down world prices, export subsidies and voluntary export restraints definitely hurt the nation as a whole.

Trade policy effects comparison

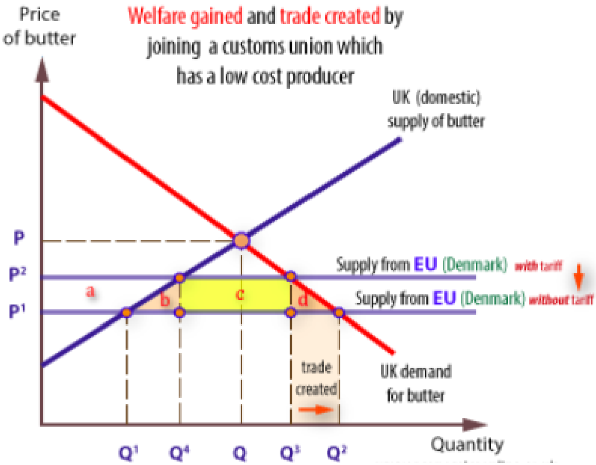
Policy Instrument	Import Tariff	Import Quota	Voluntary Export Restraint	Export Subsidy
Producer surplus	+	+	+	+
Consumer surplus	–	–	–	–
Government revenue	+	Rents	Rents outflow	–
Total welfare (small)	–	–	–	–
Total welfare (large)	?	?	–	–

Note: Total welfare differs by a country's market power in affecting world prices.

Trade welfare analysis: RTAs

- When a regional trade agreement is formed and trade increases between member countries, the increase in trade can be of two types.
- The first type of trade increase, trade creation, occurs when a member country imports from another member country a product that it formerly produced for itself.
- The second reason for trade to increase within a regional agreement is due to trade diversion, which occurs when a member country imports from another member country a product that it formerly imported from a country outside of the new trade region.

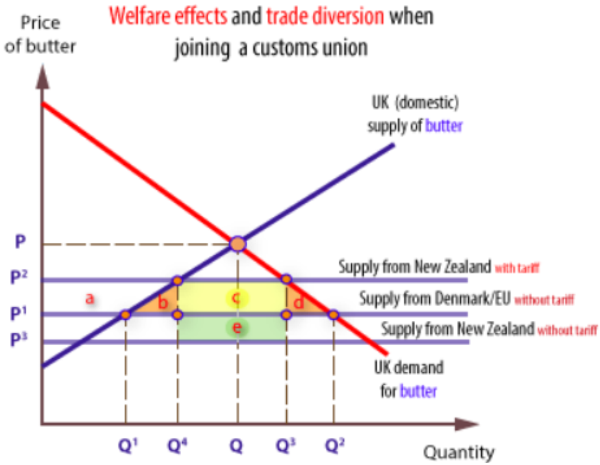
Trade creation welfare analysis (web)



Trade creation welfare analysis

- When customs unions are established the flow of trade between countries involved in the new union and those outside will be affected.
- Customs unions eliminate barriers to trade between members, which is assumed to provide a considerable incentive to increase trade between members and to reduce trade between members and non-members.
- After joining the EU, the welfare gained by the UK from importing cheaper EU butter is the gained consumer surplus (a+b+c+d), less the loss of producer surplus (-a); less the loss of government revenue (-c).
- The net welfare gained to the UK is the area b+d.

Trade diversion welfare analysis (web)



Trade diversion welfare analysis

- The creation of a customs union, with common external tariffs, will further alter the existing pattern of trade flows. The assumption is that before the union, members imposed differential tariffs on different countries to protect their own industries.
- Prior to the formation of a customs union, New Zealand has a comparative advantage in butter, and is the most efficient. Denmark is the second most efficient producer, and the UK is the least efficient.
- Before the UK joined the EU it had a common tariff on all butter imports, and bought from low cost New Zealand. After it joins the EU it can benefit from tariff free imports from Denmark and other EU producers at P_1. It gains consumer surplus (a+b+c+d), and UK dairy farmers lose producer surplus (-a); the loss of import tariff revenue is c+e. The net welfare to UK is (b+d)-e.

Trade standards: Environment

- Actions and even protests by environmentalists, consumers, unions, and firms all have had a significant impact on WTO and international rulings as labor and environmental issues are now being included within international agreements.
- The "green provision," or Article XX of the GATT, states that countries are allowed to adopt their own environmental laws as long as these laws are uniformly applied to all producers, both foreign and domestic, such that imports are not discriminated against.
- Without agreements to cut pollutants, the prisoner's dilemma outcome may result, in which all countries fail to regulate the amount of pollution they contribute to the environment.
- Preventing the near-extinction or extinction of exhaustible resources through export bans and restrictions, the limitations set by international agreements help to avoid the tragedy of the commons.

Environmental cases at the GATT and WTO

Tuna–Dolphin		
In 1991 Mexico appealed to the GATT against a U.S. ban on Mexican tuna imports.	The United States put a ban on imports of tuna from Mexico that was not caught with nets which were safe for dolphins (as required in the United States under the Marine Mammal Protection Act).	In 1992 the GATT ruled in favor of Mexico that the U.S. import ban violated GATT rules. But the strong consumer response led to labeling of imported tuna as "dolphin safe."
Shrimp–Turtle		
In 1996 India, Malaysia, Pakistan, and Thailand appealed to the WTO against a U.S. ban on shrimp imports.	The United States put a ban on imports of shrimp from India, Malaysia, Pakistan, and Thailand that were not caught with nets safe for sea turtles (as required in the United States under the Species Act).	In 1998 the WTO ruled in favor of India, Malaysia, Pakistan, and Thailand that the U.S. import ban violated WTO rules. But the United States could still require these exporting countries to use turtle-safe nets, provided that adequate notice and consultation were pursued.
Gasoline		
In 1994 Venezuela and Brazil appealed to the GATT against a U.S. ban on gasoline imports.	The United States put a ban on imports of gasoline from Venezuela and Brazil because the gas exceeded the maximum amount allowed of a smog-causing chemical (under the U.S. Clean Air Act).	In 1996 the WTO ruled in favor of Venezuela and Brazil that the U.S. import restriction violated equal treatment of domestic and foreign producers. The United States adjusted the rules to be consistent with the WTO and still pursued its own clean air goals.
Biotech Food		
In 2003 the United States appealed to the WTO that Europe was keeping out genetically modified food and crops.	Since 1998 no imports of genetically modified food or crops had been approved in the EU.	In 2006 the WTO ruled that the European actions violated the principle that import restrictions must be based on "scientific risk assessments." But labeling and consumer concerns in Europe have nonetheless limited such imports.

Trade standards: labor and health

- In addition to issues regarding tariffs and trade, regional agreements also deal with labor standards, which we will refer to as all matters directly impacting workers, such as occupational health, job safety, child labor, minimum wages, and so forth.
- Enforcement of labor standards also occurs outside of international agreements. Pressures from unions and grassroots organizations can make positive strides in improving the working conditions in foreign countries.
- Demand by consumers for products produced by companies respecting the rights of workers also leads to improvements in labor practices in factories abroad.
- However, economists, developing countries, and the United Nations (UN) note that labor standards may be a disguise for trade barriers and therefore may result in greater harm.

Outline

Trump's 2018 Trade Protection (w)

- President Donald Trump's 2018 tariff spree has resulted in 14.9% of US imports (303.7 billion) now being covered by some sort of special trade protection
- Under a vast array of rarely used US trade laws, the five sets of tariffs include AD/CVD, Section 201, Section 232, Section 301, and claims that tariffs were needed to protect national security.
- Some products are being hit by multiple tariffs and had been hit prior to 2018. China, Canada, the EU, South Korea, and Mexico are the biggest targets. These US special tariffs also disproportionately target imports of intermediate inputs.
- Significant retaliation against US exports has also arisen from Canada, the European Union, Mexico, Russia, and Turkey.

Percent of US imports covered by special tariffs, 2018

	AD/CVD	Chinese goods	Steel	Aluminum	Solar	Washing machines
AD/CVD	1.4%	1.1%	1.0%	<0.1%*	0.1%*	<0.1%
Chinese goods	1.1%	9.2%	-	-	<0.1%	-
Steel	1.0%	-	1.0%	-	-	-
Aluminum	<0.1%*	-	-	0.7%	-	-
Solar	0.1%*	<0.1%	-	-	0.2%	-
Washing machines	<0.1%	-	-	-	-	<0.1%
Total	3.7%	10.4%*	1.9%	0.7%	0.3%	0.1%

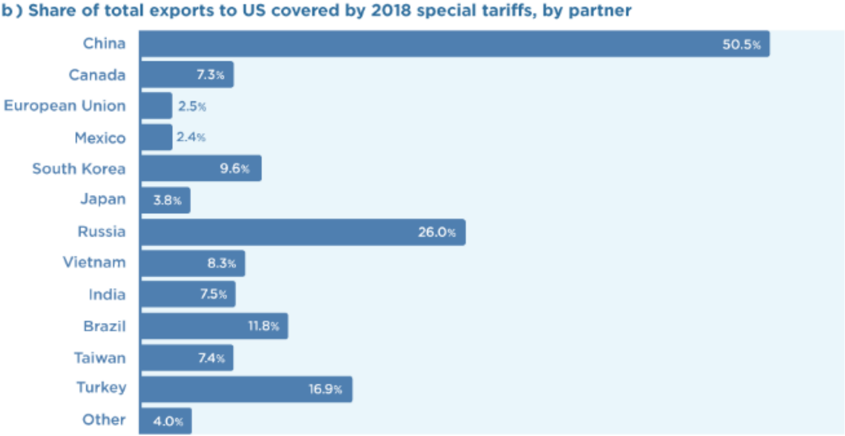
PIIE

*Some aluminum and solar products are covered by both AD/CVD and Section 301 (see figure above) but in this table we assign all of the overlap to AD/CVD only.

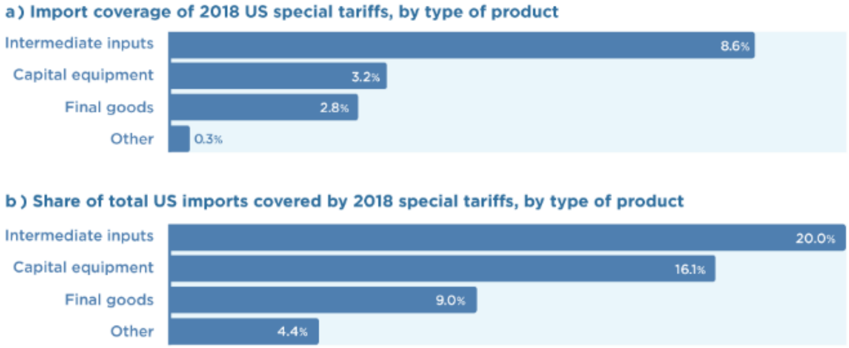
Note: Special tariffs refer to antidumping/countervailing duties (AD/CVD) and President Trump's five tariff actions of 2018 on: Chinese goods (Section 301), steel (Section 232), aluminum (Section 232), solar (Section 201), and washing machines (Section 201). AD/CVD includes duties in effect in 2018. Totals for each tariff group and all goods covered are based on unrounded data.

US special tariffs' import coverage by partner, 2018

US special tariffs' export coverage by partner, 2018



US special tariffs' coverage by product category, 2018



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Notes: Special tariffs in panel a) sum to estimated 14.9 percent of US imports in 2017 and include antidumping/countervailing duties (AD/CVD), Chinese goods (Section 301), steel (Section 232), aluminum (Section 232), solar (Section 201), and washing machines (Section 201). See

Section 201: the escape clause

- U.S. trade law provides a mechanism for domestic firms to seek protection from fairly traded foreign goods. This mechanism is known as the escape clause.
- Trade restrictions can be increased for an initial period of no more than 5 years and should be phased down over this interval.
- To obtain protection, a representative of an industry files a petition with the U.S. International Trade Commission (ITC) and states the purpose of seeking trade relief.
- The ITC has six months to complete its investigation and recommends to the president the amount and nature of the import relief necessary to remedy or prevent the injury.
- Since 1975, the ITC has considered 73 petitions and found injury in 41 cases, and the president imposed restrictions in only 17.

Section 301: unfair foreign practices

- If foreign governments engage in policies or practices that burden, restrict, or discriminate against U.S. commerce, the U.S. may impose import restrictions against them in the event that an agreement cannot be reached to end the offensive practices.
- Section 301 of the Trade Act of 1974 is a provision in U.S. trade law that requires the U.S. government to negotiate the elimination of foreign unfair trade practices and to retaliate against offending countries if negotiations fail.
- Section 301 gives the U.S. trade representative (USTR) the authority, subject to the approval of the president, and the means to respond to unfair trading practices by foreign nations.
- The legislation was primarily a congressional response to dissatisfaction with GATT's ineffectiveness in resolving trade disputes.

Section 301: cases and examples

Between 1975 and 2002, 121 Section 301 cases were undertaken by the U.S. government. Roughly half of these have been resolved. Between 2002 and 2010, no new Section 301 were initiated. Instead, complaints were taken directly to the WTO.

Petitioner	Product	Unfair practice
Heilman Brewing Co.	Beer	Canadian import restrictions
Amtech Co.	Electronics	Norwegian gov. procurement
Great Western Sugar Co.	Sugar	European Union subsidies
National Soybean Producers Assoc.	Soybeans	Brazilian subsidies
Association of American Vintners	Wine	S. Korean import restrictions

AD/CVD and other measures

- Antidumping duty (AD): a tariff applied against a foreign price discriminating monopoly.
- Countervailing duty (CVD): a tariff designed to raise the price of an imported product to its fair market value.
- Upstream subsidy: a subsidy that lowers the cost of an input for a manufacture.
- Section 307: restricts unfair methods of competition, such as patent or copyright infringement.
- Section 406: provides relief from market disruption by imports from non-market economies.
- Section 421 (China safeguard provision): industries may obtain temporary protection from the threat of Chinese imports.

U.S. tariffs on steel I

- The 2002 tariff on steel was imposed under Section 201 of the U.S. Trade Act, which has a "safeguard" provision similar to the "escape clause" in Article XIX of the GATT for importers facing "serious injury, or threat thereof" from foreign competition.
- As part of his reelection campaign in the steel-producing states of Pennsylvania, West Virginia, and Ohio, President George W. Bush promised to protect the steel industry. Upon his victory, Bush asked the U.S. International Trade Commission (ITC) to initiate a Section 201 investigation into the steel industry.
- In March 2002, Bush placed tariffs on steel, ranging from 8% to 30%, but exempted countries that had free-trade agreements with the United States (i.e., Canada, Mexico, Jordan, and Israel) as well as 100 small developing countries that exported lesser amounts of steel to the United States.

U.S. tariffs on steel II

- The tariffs were imposed for 3 years, declining with each subsequent year. The threat of tariff retaliation by exporting countries, which included 25 members of the European Union (EU) along with Japan, South Korea, China, Norway, Switzerland, New Zealand, and Brazil, that led President Bush to suspend the steel tariff on December 5, 2003.
- The potential tariff war ended the steel tariff 19 months after it was imposed, rather than the 3 years originally planned.
- Through the dispute settlement procedure, the exporting countries received permission from the WTO to impose tariffs against U.S. exports. The WTO ruled that because the United States failed to prove serious injury to its steel industry due to a sudden increase in import competition, it was ineligible for Article XIX protection.

U.S. tariffs on tires I

- The tariff on tires imported from China was announced on September 11, 2009. It was intended that the tariff would last 3 years and follow a declining schedule: 35% the first year, then 30%, and 25% the third year. The United Steelworkers that represented tire workers among other groups requested the tariff.
- The tire tariff applied only to imports from China; it is thus called a discriminatory tariff as it only applied to a specific country. A discriminatory tariff violates the "most-favored-nation" principle of the WTO and GATT, which specifically requires that all trading partners be treated equally.
- The tariff was discriminatory because the tariff was applied under Section 421 of U.S. trade law, which was added to U.S. trade law when China joined the WTO in 2001. The tariff on tires marked the first time Section 421 was ever used.

U.S. tariffs on tires II

- U.S. steel producers supported the 2003 tariff on steel, whereas no tire producers operating in the United States joined the petition against Chinese tires. This happened because of the 10 tire producers in the United States, 7 of them also produced tires in China, so the tariff would cause harm to their exports to the United States.
- Both the steel and tire tariffs resulted in retaliation, and in both instances, the offended country appealed to the WTO for dispute settlement. In the tire case, though, unlike what happened in the steel case, the WTO concluded that the United States was justified in applying a tariff.
- In spite of the tariff applying to only China and not multiple countries, as was the case for the steel tariff, the deadweight loss in the tire case was greater.

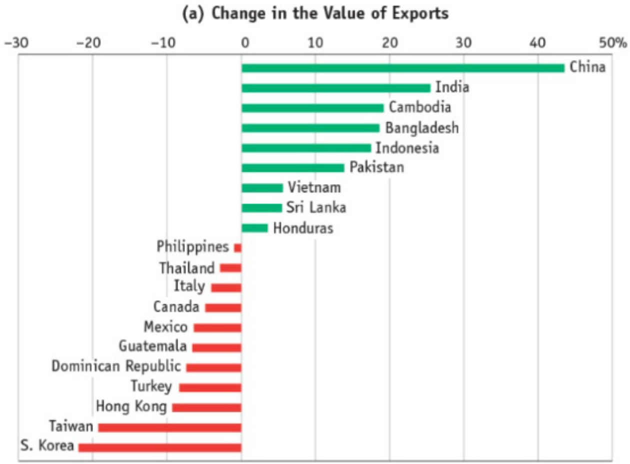
MFA Import quotas: background

- In an effort to protect their domestic industries, the arrangement allowed Canada, the United States, and Europe to restrict the amount of textiles and apparel products that they imported from garment-producing countries.
- The system of import quotas known as the Multi-Fiber Agreement (MFA) has been effective for more than three decades from its inception in 1974.
- The GATT multilateral negotiations in the Uruguay Round, ratified in 1994, agreed that all quantitative restrictions (ex., quotas) on trade in textiles and clothing as previously specified in the MFA were to be eliminated by 2005.
- However, the threat of import competition from China with the abolishment of the MFA has led to the establishment of new import quotas by the United States and Europe.

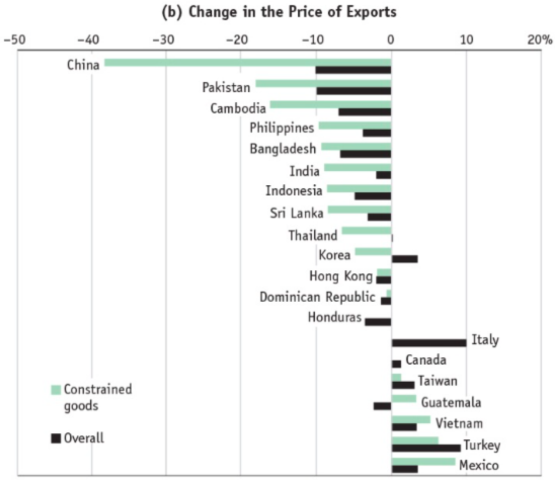
The removal of MFA import quotas

- Quotas on imports from China had to be temporarily reimposed due to surge in Chinese clothing exports when MFA expired.
- In 2005, China's textile and apparel exports to the United States increased by more than 40% relative to the previous year, whereas those from higher-cost exporters like South Korea, Hong Kong, and Taiwan declined by 10% to 20%.
- Furthermore, Chinese exports of tights and pantyhose to Europe increased by as much as 2000% during the first 2 months of 2005, as compared with the year before.
- The removal of the MFA led to a reduction in the price and quality of targeted imports. Data show that prices of "constrained goods" indeed decreased for many countries exporting to the United States, with the largest drop from China by 38% between 2004 and 2005.

MFA removal and U.S. imports in 2005



MFA removal and U.S. imports prices in 2005



MFA removal but quotas again

- To restrict the growth of its exports and subdue growing concerns, China offered to self-impose a system of export taxes.
- However, the United States and Europe successfully negotiated a new system of quotas with China, which restricted the amount the developing country can sell in a variety of products.
- The system of quotas imposed by the United States ended on December 31, 2008. Due in large part to the worldwide recession, Chinese exports in this industry were much lower in 2009 than in earlier years. Due to this recession, China would not accept further quota limitations to the United States and Europe, which resulted in these quotas expiring.

Intellectual property rights protection

- Intellectual property is an invention, idea, product, or process that has been registered with the government and that awards the inventor (or author) exclusive rights to use the invention for a given time period. Governments grant copyrights, trademarks, and patents to protect intellectual property.
- Although most nations have regulations protecting IPRs, many problems have been associated with trade in products affected by IPRs. One problem is differing IPR regulations across nations. For example, the United States uses a first-to-invent rule when determining patent eligibility, whereas most other nations employ a first-to-file rule.
- Another problem is lack of enforcement of international IPR agreements. These problems stem largely from differing incentives to protect intellectual property, especially between nations that are innovating, technological exporters and those that are noninnovating, technological importers.

IPR violations in China

Affected Firm	Violation
Epson	Copying machines and ink cartridges are counterfeited.
Microsoft	Counterfeiting of Windows and Windows NT, with packaging virtually indistinguishable from the real product and sold in authorized outlets.
Yamaha	Five of every six JYM150-A motorcycles and ZY125 scooters bearing Yamaha's name are fake in China. Some state-owned factories manufacture copies four months following the introduction of a new model.
Gillette	Up to one-fourth of its Parker pens, Duracell batteries, and Gillette razors sold in China are pirated.
Bestfoods	Bogus versions of Knorr bouillon and Skippy Peanut Butter lead to tens of millions of dollars in forgone sales each year.

Source: U.S. Trade Representative, National Trade Estimate Report on Foreign Trade Barriers.

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