

# Georgia Institute of Technology

## School of Economics

*Spring 2005*

*ECON ~~4813~~ 4357*

### **LAW AND ECONOMICS OF THE GLOBAL TRADING SYSTEM**

*Tuesday and Thursday 3:00-4:15 P.M.*

**Instructor:** *Mikhail Klimenko*

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**Office Hours:** *Tuesday and Thursday 5-6 P.M., and by appointment*

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**Course Webpage:** *Important announcements, some readings materials, and assignments will be posted on the WebCT site set up for this course. All students must have access to the site and check it regularly.*

#### **Course Overview**

This course takes an interdisciplinary approach, examining the economics, law, and political economy of the global trading system and its rules and practices. It assumes familiarity with the basic concepts of microeconomics. The course begins with a review of the main economic theories behind the existence of tariffs, quotas, subsidies, non-tariff barriers to trade and strategic trade policies. The course then covers the origin and basic rules of the GATT and the World Trade Organization (WTO). It explores negotiation mechanisms and principles and the rules relating to market access, dispute settlement, fair trade, safeguards and trade-related intellectual property rights. The final section considers several 'newer' issues in international trade policy such as technical barriers to trade, the interaction between trade and environmental policy, trade and labor policies, trade-related investment issues, trade in services, trade and competition policy, as well as preferential trade arrangements, China's entry into the WTO and the Doha Development Agenda.

#### **Course Prerequisites**

Introductory Microeconomics and International Economics. Knowledge of basic calculus is necessary for understanding graphs and mathematical formulas used in this course.

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\* E-mail caveat: Due to the large number of electronic messages, it will often not be possible for me to respond to individual electronic queries. Therefore, I urge you to be selective in sending me electronic mail, WebCT messages, and etc. If you have questions, it would be best if you talk to me right before or after class or during the office hours.

### ***Textbook and course materials***

The required text for the course is *The Political Economy of the World Trading System* by Hoekman and Kostecki (H&K), 2<sup>nd</sup> edition (Oxford University Press, 2001). We will also use a few chapters from Krugman and Obstfeld (K&O), *International Economics: Theory and Policy*, 5<sup>th</sup> Edition (Addison-Wesley, 2000).

The chapters from K&O as well as other course-related materials can be downloaded from the class WebCT site. You are encouraged to keep abreast of current issues in international trade as found in The New York Times, The Wall Street Journal, The Economist, The Financial Times, Business Week and etc.

### ***Midterms***

The midterms will be administered in class on February 10<sup>th</sup>, 2005 and March 31<sup>st</sup>, 2005 and are comprehensive. Both exams are closed book with no notes or computer available. No makeup exams will be given for any reason. If you have a valid reason for being absent for Midterm I (supported by a medical certificate or a note from the Dean of Students) you will be allowed to assign a higher weight to Midterm II. This means that you will have to take Midterm II on the date the exam is given in class.

### ***The case studies***

At the beginning of the course, classes will be primarily lectures, as we review the economics of trade policy and examine the basic rules and principles of the global trading system. The second half of the course will be based on student-led seminar-style discussions of papers and case studies punctuated with occasional lectures. Students should be ready to discuss the cases and the papers in detail during the class.

Before the discussion I will prepare a few questions based on a case or a paper and you will have to write a report addressing those questions. I encourage you to study the assigned materials in groups and to submit joint reports. Each member of a group consisting of more than two students should also submit his/her evaluation of the other members' contributions toward the preparation of the report. The evaluations should be on a scale from 1 to 100 and should measure the relative efforts made by group members rather than the share of the total work done for the report. The evaluations by individual members should be submitted to me in sealed envelopes together with the group report on the case or the paper. I will average the contribution scores awarded to each member by his group and multiply these averages by the group's score for the case. These will be the scores for individual group members for the report. I will not grade reports submitted without evaluations from every group member.

The reports should be not more than 6 double-spaced pages in length, excluding title page, footnote page, reference page, and appendix with graphs and diagrams (if included). You should use 11 point Times New Roman font. The report will have margins measuring one inch on sides, top, and bottom. Any quote or statistic drawn from another source must be cited. All reports should be handed in the beginning of the classes at which the assigned cases and papers are discussed. Late assignments will not be accepted, and your grade will be zero for that assignment.

### ***Final Paper***

You are required to write a research paper for this course. You can pick any recent trade dispute that has been adjudicated under the WTO (other than those that will be discussed in class). Alternatively, you can pick an ongoing dispute which has been filed but not yet ruled upon by the WTO or settled otherwise. In the paper, you should discuss the history and context of the dispute. Identify the specific WTO agreement involved in the case as well as the specific provisions of the agreement which were violated. Describe the main economic issues at stake on both sides of the dispute. Present the arguments of the parties as to the main issues, and if the case has been ruled upon present the decisions of the Dispute Settlement Panel (and the Appellate Body if the case was appealed.) Discuss the actual or potential issues concerning implementation and present your own proposal for resolving these issues. Identify the various third-party interests involved.

The research will be undertaken by consulting WTO documents available on-line from their website, as well as national government publications and information disseminated by the media, private companies and in academic publications. The following sources may be a useful starting point for researching the disputes:

- WTO Documents On-line Website at <http://docsonline.wto.org/>

- Especially the "Dispute Settlement" section of the website:  
[http://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm)
- A good link for easy access to WTO / DSU material is [WorldTradeLaw.net](http://www.worldtradelaw.net).
- The "Dispute Settlement" and "Enforcement" sections on the website of the Office of the United States Trade Representative: [http://www.ustr.gov/Trade\\_Agreements/Monitoring\\_Enforcement/Section\\_Index.html](http://www.ustr.gov/Trade_Agreements/Monitoring_Enforcement/Section_Index.html)
- Dispute Settlement Commentary (DSC) service <http://www.worldtradelaw.net/>

We will also have a mandatory library intensive session with our course's research librarian, Cathy Carpenter ([cathy.carpenter@library.gatech.edu](mailto:cathy.carpenter@library.gatech.edu)) to discuss strategies involved with researching trade disputes. The session will be conducted on **January 25th** during our regular class time at the Homer Rice Center, located on the first floor of the Library and Information Center. The session will cover searching for primary legal sources using Lexis-Nexis Legal database, and how to search for secondary law information sources such as law reviews. Cathy will show you how to use the Lexis-Nexis Guided News search since you need to keep current on international trade issues.

The research paper should not exceed 7 double-spaced pages in length (not including title page, footnote page, reference page, and appendix with graphs and diagrams) and should have the same format as the case study reports. After discussing your topic with me, you should submit a one-page outline of the paper, which is due March 15th. The research paper is due at 4 P.M. on May 3.

You will be asked to make a presentation of the main ideas of your research paper in class. You are expected to use PowerPoint to make your presentations. You are also expected to send the file with your PowerPoint slides to me and other members of the class prior to your presentation. You don't have to submit your paper at the time of presentation. For professional courtesy to your classmates, attendance by all students will be mandatory during the paper presentations toward the end of the semester. If you are absent, you must provide documentation for the excuse – a medical certificate or a note from the Dean of Students. If your absence cannot be documented, your overall score for the course will be reduced by 5%.

### ***Grading***

Grades will be based upon the following items: class participation (10%), Midterm I (20%), Midterm II (20%), case study reports (25%), final research paper and its presentation (25%). For each assignment you will receive an absolute and a standardized score. The final grade will be calculated by taking the weighted average of your standardized scores for the assignments. The cutoff for an 'A' will be one-half standard deviation. The cutoff for a 'C' will be minus one-half standard deviation. 'B' will be between the cutoffs.

Attendance in class is required. Students are responsible for all class lectures, case studies, and required readings and are expected to have read the required materials before the beginning of each class.

If you are taking the class pass/fail, you need to attend the class regularly, take both Midterms, submit the research paper and the case reports, take part in the case discussions, and obtain a 'C' in the class to get a satisfactory grade.

**Class Schedule and Reading Assignments. (Subject to change as the course progresses.)**

Weeks	Dates	Reading assignments
1	January 11	<p>Introduction. Past and present of the World Trading System.</p> <p><b>Principal Readings:</b> H&amp;K Ch 1</p> <p><b>Supplementary Readings:</b> "Top 10" Pros and Cons about WTO</p> <ul style="list-style-type: none"> <li>10 Reasons to Oppose the World Trade Organization (by Global Exchange) <a href="http://www.globalexchange.org/economy/rulemakers/topTenReasons.html">http://www.globalexchange.org/economy/rulemakers/topTenReasons.html</a></li> <li>10 Common Misunderstandings about the WTO (by WTO) <a href="http://www.wto.org/english/thewto_e/whatis_e/10mis_e/10m00_e.htm">http://www.wto.org/english/thewto_e/whatis_e/10mis_e/10m00_e.htm</a></li> <li>10 Benefits of the WTO Trading System (by WTO) <a href="http://www.wto.org/english/thewto_e/whatis_e/10ben_e/10b00_e.htm">http://www.wto.org/english/thewto_e/whatis_e/10ben_e/10b00_e.htm</a></li> </ul>
	January 13	<p>Review: Instruments of Trade Policy</p> <p><b>Principal Readings:</b> K&amp;O Ch. 8, pp. 187-200.</p>
2	January 18	<p>Review: Welfare Economics of Trade Policy.</p> <p><b>Principal Readings:</b> K&amp;O Ch. 8, pp. 201-207.</p>
	January 20	<p>The theory of international trade policy cooperation. Game-theoretic approach to studying trade agreements. "Prisoner's Dilemma" (PD). Repeated prisoner's dilemma. Multilateral PD.</p> <p><b>Principal Readings:</b> K&amp;O Ch. 9, pp. 233-236.</p> <p><b>Supplementary Readings:</b> Maggi, Giovanni. 1999, "The Role of Multilateral Institutions in International Trade Cooperation," <i>American Economic Review</i> v89, n1, pp. 190-214.</p>
3	January 25	<p>A mandatory library intensive session with our course's research librarian, Cathy Carpenter (<a href="mailto:cathy.carpenter@library.gatech.edu">cathy.carpenter@library.gatech.edu</a>). The session will be held at the Homer Rice Center, located on the first floor of the Library and Information Center.</p>
	January 27	<p>The principles and basic functions of the GATT/WTO.</p> <p><b>Principal Readings:</b> H&amp;K Ch 2, 4</p>
4	February 1	<p>Dispute resolution and enforcement of GATT/WTO rules.</p> <p><b>Principal Readings:</b> H&amp;K Ch 3</p> <p><b>Supplementary Readings:</b></p> <ul style="list-style-type: none"> <li>Stoler, Andrew, "The WTO Dispute Settlement Process: Did We Get What Negotiators Wanted?" <a href="http://www.iibel.adelaide.edu.au/docs/DisputeSettlementProcess.pdf">http://www.iibel.adelaide.edu.au/docs/DisputeSettlementProcess.pdf</a></li> <li>DELICH, V., "Developing Countries and the WTO Dispute Settlement System" in Hoekman, Bernard, Mattoo Aadiya and Phillip English (eds.) (HME), <i>Development Trade and the WTO: A Handbook</i> (World Bank: Washington, D.C. 2002) pp. 71-81.</li> </ul>
	February 3	
5	February 8	Case study.
	February 10	Midterm

6	February 15	Selected Trade Policies Affecting Merchandise Trade <b>Principal Readings:</b> H&K Ch 5, 6. <b>Supplementary Readings:</b> Sam Laird, "Market Access Issues and the WTO: An Overview," in HME, pp. 97-105.
	February 17	Case study.
7	February 22	The Political Economy of Trade Policy. Strategic Trade Policy. <b>Principal Readings:</b> K&O Ch. 11; The Civil Aircraft Agreement. (H&K, p. 380).
	February 24	Case study.
8	March 1	Trade in Services. <b>Principal Readings:</b> H&K Ch. 7 Carlo Gamberale and Aaditya Mattoo, "Domestic Regulations and Liberalization of Trade in Services" in HME, pp. 290-303.
	March 3	WTO Agreement on Basic Telecommunication Services. <b>Principal Readings:</b> Cowhey and Klimenko, 2001 "The WTO Agreement and Telecommunications Policy Reform." Download from <a href="http://econ.worldbank.org/view.php?id=1723">http://econ.worldbank.org/view.php?id=1723</a>
9	March 8	Protection of Intellectual Property. <b>Principal Readings:</b> H&K Ch. 8. <b>Supplementary Readings:</b> <ul style="list-style-type: none"> <li>Keith E. Maskus. "Globalization and the Economics of Intellectual Property Rights: Dancing the Dual Distortion," in <i>Intellectual Property Rights in the Global Economy</i>. Institute for International Economics, 2000. <a href="http://iie.com/publications/chapters_preview/99/3iie2822.pdf">http://iie.com/publications/chapters_preview/99/3iie2822.pdf</a></li> <li>Sykes, A., 2002, "TRIPs, Pharmaceuticals, Developing Countries, and the Doha 'Solution'." Download from <a href="http://papers.ssrn.com/sol3/papers.cfm?abstract_id=300834">http://papers.ssrn.com/sol3/papers.cfm?abstract_id=300834</a></li> </ul>
	March 10	Case study.
10	March 15	Regional Integration. Article XXIV. Trade Creation and Trade Diversion. <b>Principal Readings:</b> <ul style="list-style-type: none"> <li>H&amp;K Ch. 10;</li> <li>Bhagwati J. and A. Panagariya, 1996, "Preferential Trade Areas and Multilateralism – Strangers, Friends, or Foes?." In Bhagwati J. and A. Panagariya, eds., <i>The Economics of Preferential Trade Agreements</i>. Washington, D.C.: The AEI Press, pp. 1-43.</li> </ul>
	March 17	
11	March 22	Spring Break
	March 24	

12	<b>March 29</b>	Preferential Trade Agreements. Regionalism and Multilateralism. <b>Principal Readings:</b> Bhagwati J. and A. Panagariya, , pp. 43-79.
	<b>March 31</b>	<b>Midterm</b>
13	<b>April 5</b>	GATT/WTO Safeguards and Exceptions. Antidumping Laws. Subsidies and Countervailing duties. Safeguard regimes and domestic adjustment policies. <b>Principal Readings:</b> H&K Ch 9 <b>Supplementary Readings:</b> <ul style="list-style-type: none"> <li>• Michael Finger: "Safeguards: Making Sense of GATT/WTO Provisions Allowing for Import Restrictions," in HME pp. 195-206.</li> <li>• Gary N. Horlick and Eleanor Shea, "Dealing with U.S. Trade Laws: Before, During, and After," in HME, pp. 206-212.</li> </ul>
	<b>April 7</b>	<b>Case study.</b>
14	<b>April 12</b>	Trade and Environmental Policies. <b>Principal Readings:</b> H&K Ch 13, p. 441-448. <b>Case study.</b>
	<b>April 14</b>	Trade and Labor. <b>Principal Readings:</b> H&K Ch 13, p. 448- 453. <b>Case study.</b>
15	<b>April 19</b>	Integrating developing countries and economies in transition into the world trading system. <b>Principal Readings:</b> H&K Ch 12. <b>Supplementary Readings:</b> K&O Ch. 10.
	<b>April 21</b>	Expansion of the WTO membership. <b>HBS Case study:</b> China and the WTO: Doing the Right Thing?
16	<b>April 26</b>	Research paper presentations
	<b>April 28</b>	Research paper presentations