

International Political Economy (SOCS-SHU 222)

THE WTO AND THE WORLD TRADE SYSTEM

Instructor: JING QIAN



Welcome new friends!

Logistics

Multiple-Choice Questions

- Multiple-choice questions on Brightspace: **due Friday, Feb 14 at 11:59pm**
 - Submit ANY format to Brightspace **ON TIME**.
 - This is where the assignment will be graded.
 - Late assignment will receive 0 point.
 - Submit a copy to Google Form.
 - This is for question collection.
 - If you all agree, I will circulate the submissions (w/o names) prior to exams.

News Report Analyses

- YOU ARE AWESOME! (Enrollment has nearly doubled)
- Two presentations for everyone will take too much of our class time.
- Solution: You Choose
 - Things stay the same, or
 - One presentation + One short memo (details in online syllabus)

News Report Analyses – Sign-up Process

- Decide the **format** (one assignment per half-semester)
 - Two presentations, or
 - One presentation + One short memo
- For each half-semester, decide:
 - **One “NO” class** (you won’t get assigned to for sure)
 - **Two preferred classes**
- For the two preferred classes, **decide weight**:
 - Total weight = 10
 - Allocate between the two classes
- **Assignment based on weights**
 - Random-draw in case of ties
 - Each class: two presentations + two short memos MAX
- Sign-up sheet opens until **Wednesday (Feb 12) at 8pm** (Shanghai Time)
- Assignment announced in class on Thursday (Feb 13)

(You can always switch with others later)

What will be on the exams?

What will be on the exams?

- ✓ Required readings (textbook & papers)
- ✓ Slides
- ✓ Important* points discussed during class
- ✓ Guest lectures & library workshop

What will NOT be on the exams?

- Things only show up in supplementary readings
- Points only very briefly mentioned during class



Let's continue


The WTO and the World Trade System

READING ASSIGNMENT:

Oatley Chapter 2

The New York Times

Trump Slaps Steep Tariffs on Foreign Washing Machines and Solar Products

 Share full article



 885



Workers installing solar panels in New Mexico. President Trump has approved solar tariffs for the next four years, a trade action aimed at Chinese imports. *Sergio Flores/Bloomberg*

By **Ana Swanson** and **Brad Plumer**

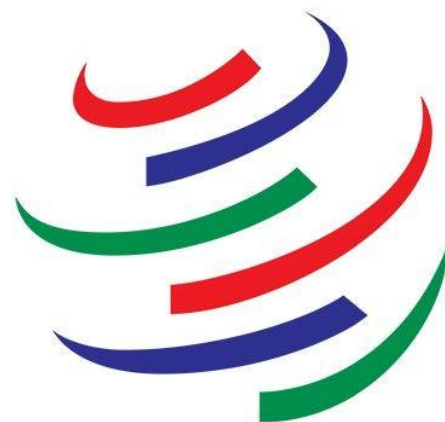
Jan. 22, 2018

Why is this even a news?

Anarchy & Sovereignty

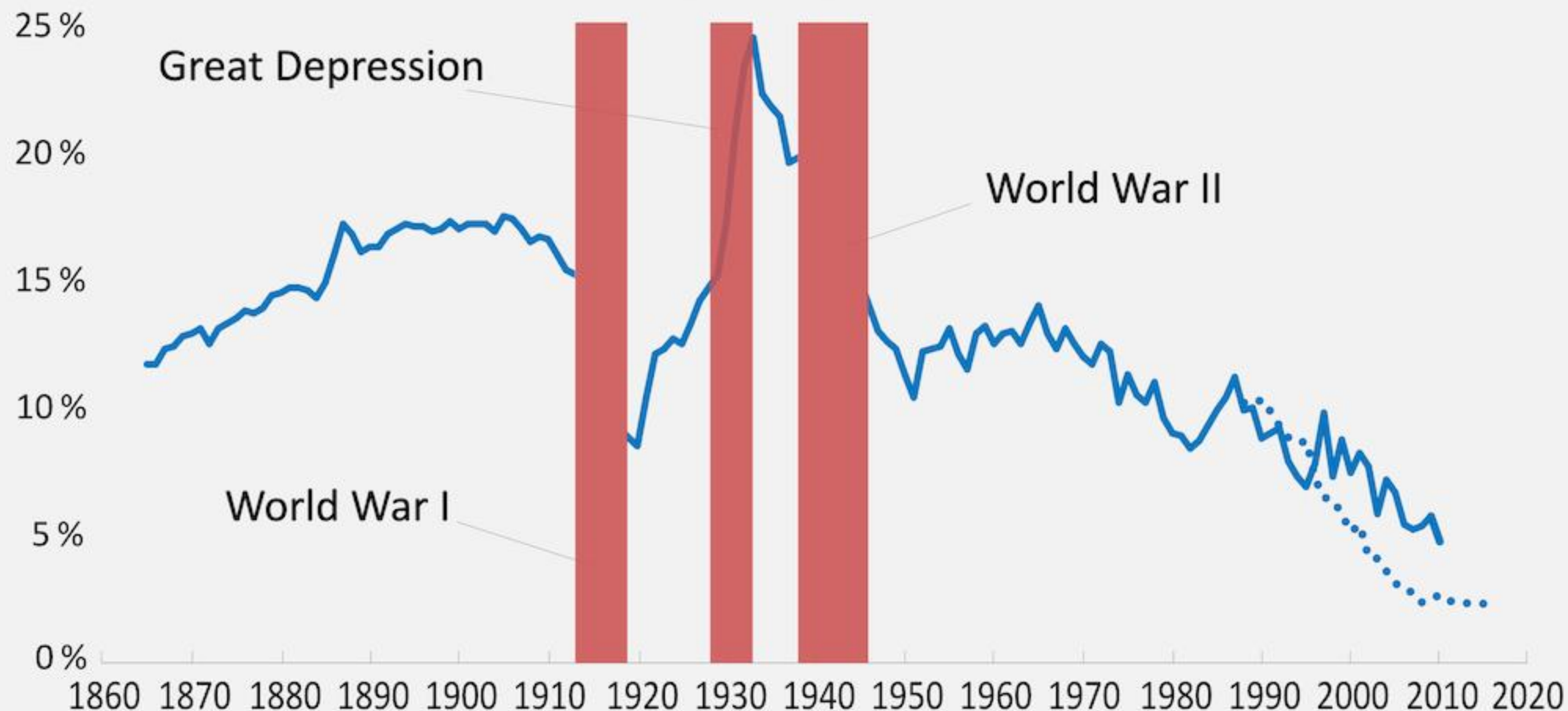
But there are still rules...

**Countries cannot arbitrarily determine tariffs,
Because...**



WORLD TRADE
ORGANIZATION

Average global tariffs 1865 - 2015



Sources: From 1865 to 2010 (solid line): Robert C. Feenstra and Alan M. Taylor (2014). Unweighted average of 35 countries. The average duty rates are calculated from the total revenue from import duties divided by the value of imports in the same year. From 1985 to 2015: William Nordhaus (2018). URL: <https://voxeu.org/article/trump-doctrine-international-trade-part-two>. Inquired on 09.11.2018. Average of 64 countries that accounted for 91% of world trade in 2010, weighted by the share of imports in 2010. With data from the World Bank.



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How to negotiate a world of free trade?

GATT/WTO

Initial idea: International Trade Organization (ITO)

- Discussed at the Bretton Woods Conference (1944)

But the ITO **Failed**

- Charter drafted in 1948
- United States Congress failed to approve it

Meantime, **GATT** had been initially formed with 15 countries in 1945

GATT/WTO

GATT: the **G**eneral **A**greement on **T**ariffs and **T**rade

- Signed in 1947
- Entered force in 1948
- 23 initial members

In **1995**, GATT became the World Trade Organization (**WTO**)

WTO

- 166 members as of 2024
 - http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm
- Staff of only 623
 - IMF: ~2000
 - World Bank: >10,000
- 2024 Budget: About CHF 200,000,000
 - http://www.wto.org/english/thewto_e/secret_e/budget_e.htm
 - World Bank operating budget ~ \$1 billion
 - Total IMF resources approaching 1 trillion...

What does the WTO do?

- Provides a forum for negotiations
- Administers trade agreements
- Provides a dispute settlement mechanism

3 components

1. A set of principles and rules
2. An intergovernmental bargaining process
3. A dispute settlement mechanism

(1) Principles & Rules

1. Market liberalism

- In the aggregate gains from trade outweigh losses
- Winners **could** compensate losers

2. Nondiscrimination

- ***Most Favored Nation (MFN)***: Treat all countries as well as its favorite trading partner
- ***National treatment***: prohibits the use of taxes, regulations, other domestic policies to advantage domestic over foreign firms

MFN exceptions

- Generalized System of Preferences (GSP) (from 1960s):
 - Developed countries can apply lower tariffs for developing countries than for their peers
- Regional trade arrangements (RTAs)
 - Free-trade areas (e.g., NAFTA) ok!
 - Customs unions (e.g., EU) ok!

(2) Intergovernmental Bargaining Process

- Bargain over what?
- Tariffs and nontariff barriers
 - Nontariff barriers? Health & safety regulations, standards (environmental), government purchasing practices, quotas, bans, rules of origin, packaging/labeling conditions, complex regulatory environment, licensing
- Antidumping
- Intellectual property rights
- Textiles, agriculture, services, government procurement, e-commerce...

9 Bargaining Rounds

1. 1947 Geneva
2. 1949 Annecy
3. 1951 Torquay
4. 1956 Geneva
5. 1960-61 Dillon Round
6. 1964-67 Kennedy Round
7. 1973–79 Tokyo Round
8. 1986-93 Uruguay Round
9. 2002-??? The Doha Round


Why are rounds getting longer?

(3) Dispute Settlement Mechanism

- “The dispute settlement mechanism ensures compliance by helping governments resolve disputes and by authorizing punishment in the event of noncompliance.” (Oatley textbook, p59)
- How do you tie your hands without a rope?
 - (commitment/enforcement questions)
 - COSTS OF ESCALATION
 - AND *LEGITIMIZING RETALIATION!*

The New York Times

Trump Slaps Steep Tariffs on Foreign Washing Machines and Solar Products

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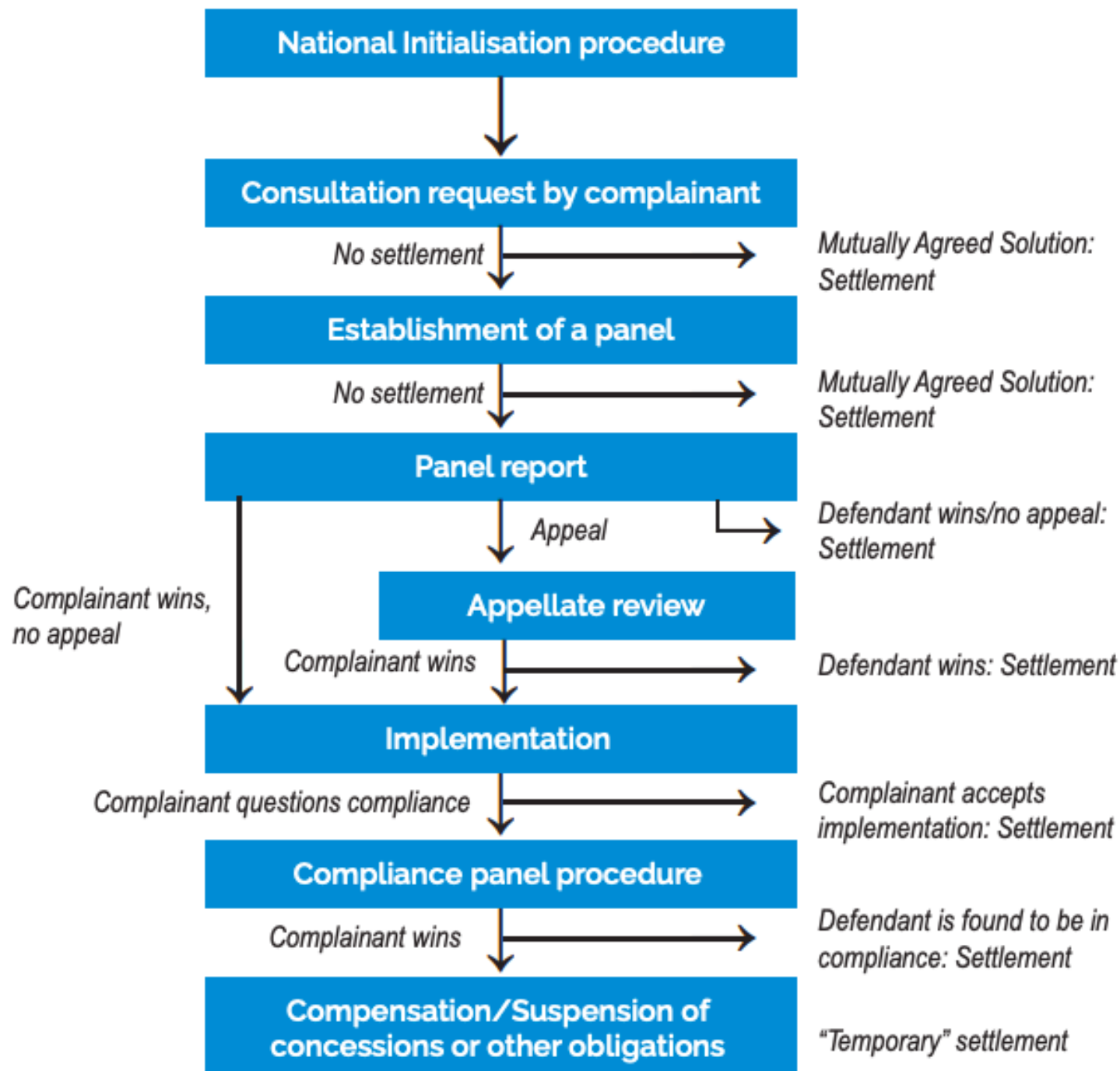
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[DISPUTE SETTLEMENT](#)

16 AUGUST 2018

China initiates dispute complaints against US solar cell duties, renewable energy measures

China has requested WTO dispute consultations with the United States regarding US safeguard duties imposed on imports of crystalline silicon photovoltaic products. China has also requested WTO dispute consultations with the United States regarding measures at the state and municipal level that provide incentives for the use of domestically sourced renewable energy products and technologies. The two requests were circulated to WTO members on 16 August.




WTO backs U.S. in solar cell case brought by China

By Reuters

September 3, 2021 4:34 AM GMT+8 · Updated 3 years ago



A logo is pictured outside the World Trade Organization (WTO) building in Geneva, Switzerland, April 1, 2021. REUTERS/Denis Balibouse/File Photo [Purchase Licensing Rights](#) 

The WTO had great success

- Most disputes were resolved **BEFORE** reaching the level of a panel of judges under the dispute settlement mechanism.
- **Why?**
- Foreseeing the punishment, countries tend to resolve the dispute before escalating to an actual panel (**deterrence** effect)
- **Precedent-setting** and future policy **flexibility**

But...



WTO Appellate Body Crisis

- The United States has blocked appointments to the [seven-judge](#) Appellate Body
- US concerns: WTO exceeding its mandate
- Dispute settlement mechanism was forced to shut down in Dec 2019 with only one judge left
- On Nov 30, 2020, all Appellate Body judges left the office.
- Proposal to start the process of selecting new judges blocked 73 times and counting!

Politics

China Appeals WTO Ruling Over Trump Era's Solar-Panel Tariffs



Photographer: Tomohiro Ohsumi/Bloomberg



By [Bryce Baschuk](#)



September 21, 2021 at 1:15 AM GMT+8

“Appeal into the void”

As a result of the US hold on Appellate Body appointment and reappointment procedures and the expiry of the terms of the Appellate Body members, the Appellate Body is, since December 2019, no longer able to review new or pending appeals. To date, more than 20 panel rulings have been appealed “into the void”, meaning that a resolution of these dispute proceedings is not possible until new Appellate Body members are appointed. All future panel rulings also face the risk of being appealed “into the void” unless a solution is found to the impasse.

Thank You!



Take-away

- WTO is a small international organization
- Purposes: Provide a negotiation forum, administer trade agreements, provide a dispute settlement mechanism
- Chief principles: MFN, Nondiscrimination
- Major negotiation issues: tariffs, nontariff barriers, antidumping, intellectual property rights, textiles, agriculture, services
- Regarding disputes - most are settled before full escalation
- So the WTO does not cast many rulings - but it still may have a big effect as a deterrent
 - But now the Appellate Body is paralyzed.