

# International Political Economy (SOCS-SHU 222)

THE WTO AND THE WORLD TRADE SYSTEM

Instructor: JING QIAN





# Welcome new friends!

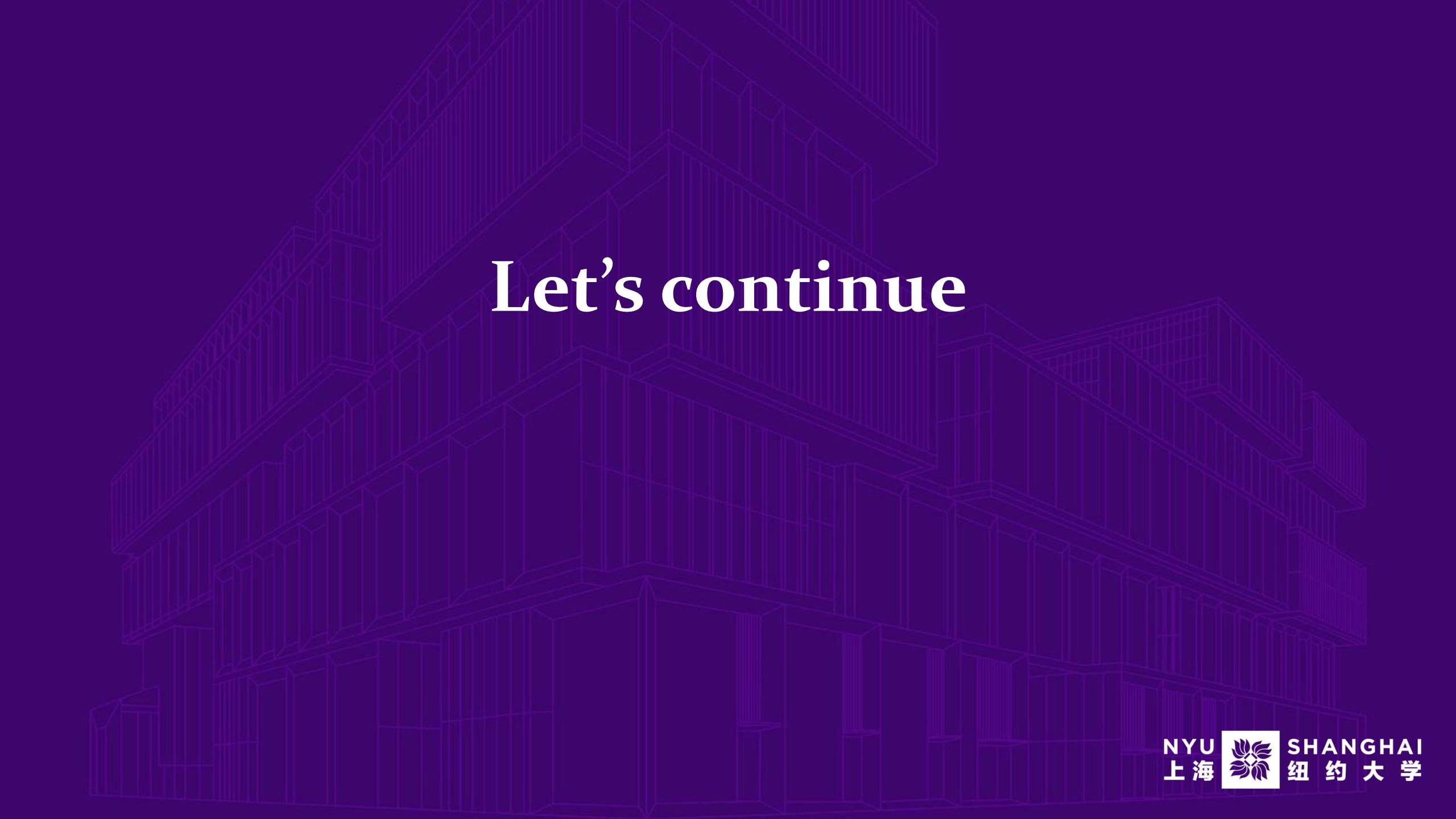
# Logistics

- Library workshop this Wednesday
  - Attendance & tardiness tracking begins this Wednesday
- No class on next Monday, Feb 2
- Field trip to NDB HQ on Friday, Feb 6
  - Required readings are now posted on the online syllabus
- No Office Hour this Wednesday (email me)

# Presentation Schedule

	<b>Presentation 1</b>	<b>Presentation 2</b>
Feb 23 – A State-Centered Approach to Trade Politics	Forest Haviland	Kaitlyn Chen
Mar 2 – Trade and Development I: Import Substitution Industrialization	Carson Decker	
Mar 11 – Trade and Development II: Neoliberalism and Institutionalism	AJ Noble	
Mar 18 – Multinational Corporations in the Global Economy	Jenny Wu	
Mar 23 – The Politics of Multinational Corporations	Joseph Chien	
<b>Half-Semester Division</b>		
Mar 25 – The International Monetary System	Junelle Belchere	
Mar 30 – Cooperation, Conflict, and Crisis in the Contemporary International Monetary System	Trinity Kitchen	
Apr 1 – A Society-Centered Approach to Monetary and Exchange-Rate Policies	Leo (Zhiteng) Yuan	
Apr 13 – A State-Centered Approach to Monetary and Exchange-Rate Policies	Amelia Yuan	
Apr 15 – Developing Countries and International Finance I: The Latin American Debt Crisis	Kassidy Sacley	
Apr 20 - China's Oversea Finance	Julia Yi	Max Valtchev
Apr 27 – Developing Countries and International Finance II: The Global Capital Flow Cycle	Athena Manapsal	
Apr 29 – The European Monetary Union	Rouda Al Mazrouei	

Available at <https://jingqian.org/IPEclass/schedule> and online syllabus



# 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

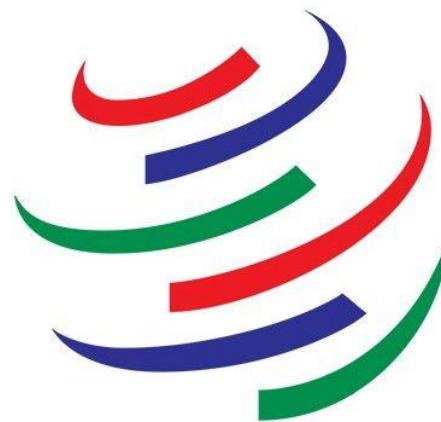
**Why is this even a news?**

# Anarchy & Sovereignty

**But there are still rules...**

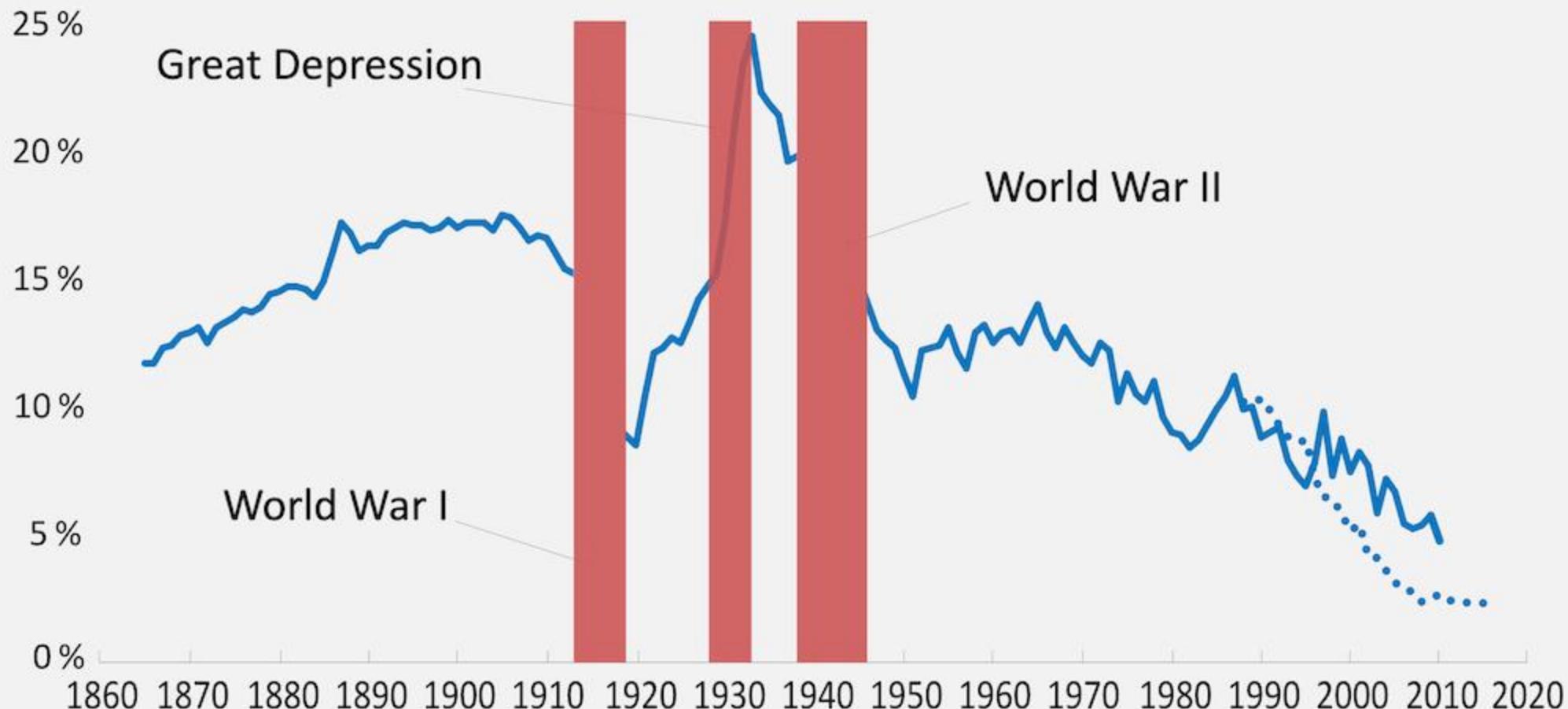
**Countries cannot arbitrarily determine tariffs,**

**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.



INSTITUTE FOR RESEARCH IN ECONOMIC AND FISCAL ISSUES

[www.en.irefeurope.org](http://www.en.irefeurope.org)

# 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 General Agreement on Tariffs and Trade

- 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](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/secre\\_e/budget\\_e.htm](http://www.wto.org/english/thewto_e/secre_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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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

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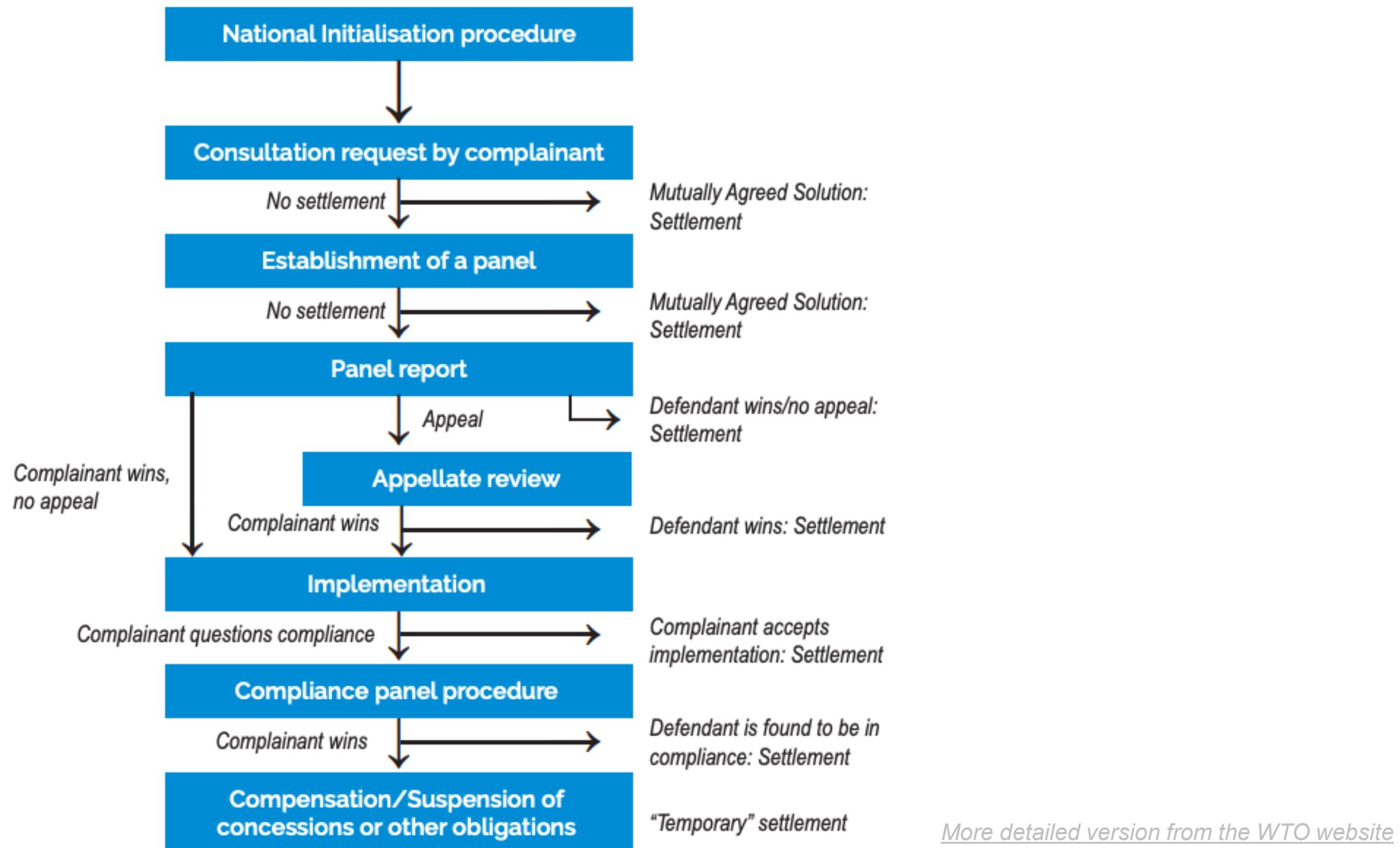
[home](#) → [wto news](#) → [2018 news](#) → [news item](#)

[DISPUTE SETTLEMENT](#)

16 AUGUST 2018

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

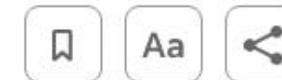
China has requested WTO dispute consultations with the United States regarding US safeguard duties imposed on imports of crystalline silicon photovoltaic products. China has also requested WTO dispute consultations with the United States regarding measures at the state and municipal level that provide 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!

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# 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.

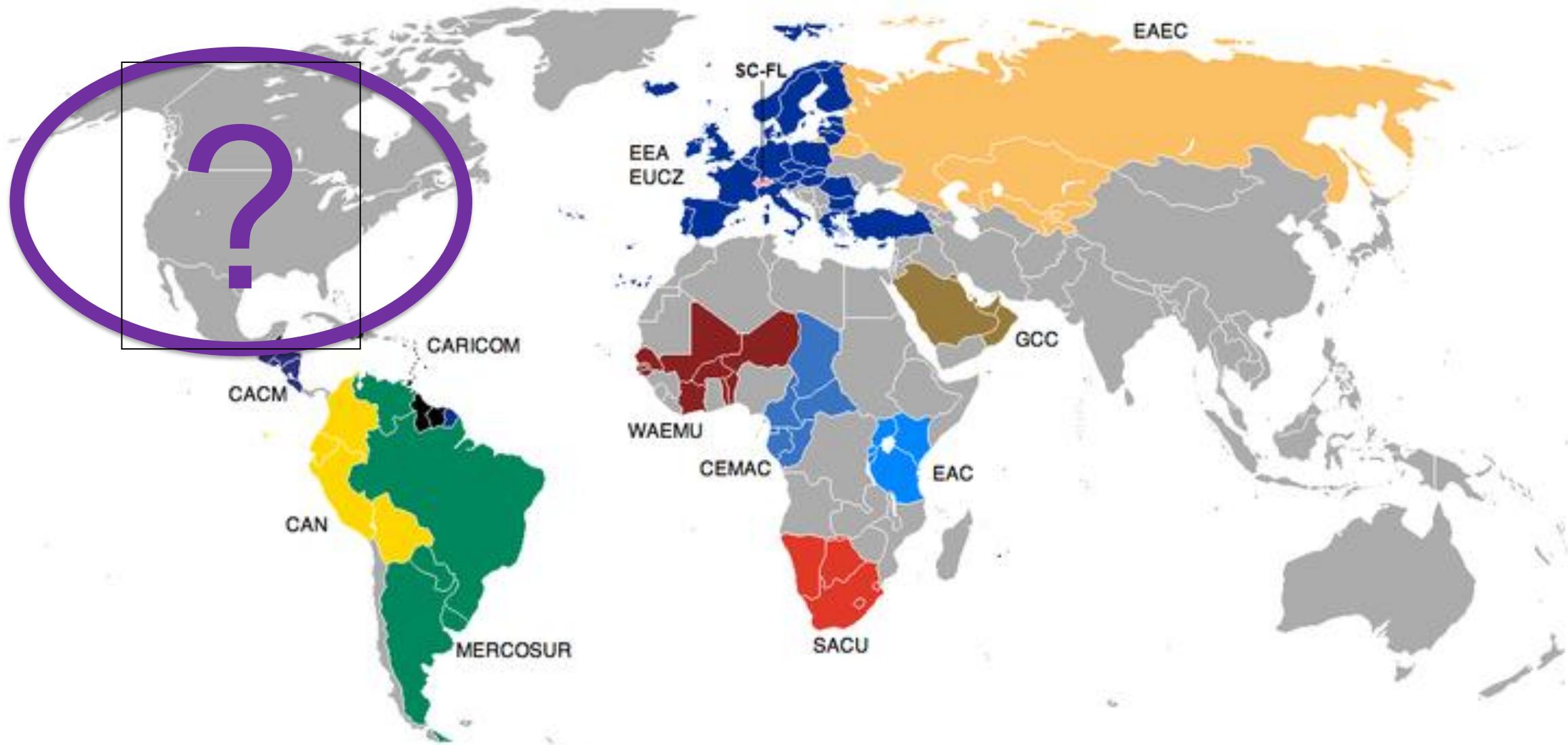
# Regional Trade Agreements

# RTAs

- **Free Trade Area** (e.g., NAFTA ➔ USMCA)
  - Eliminate tariffs amongst members
  - Members maintain independent trade policies with non-members
- **Customs union** (e.g., EU)
  - Eliminate tariffs amongst members
  - Common tariff policy with non-members
- Discriminatory?
  - Allowed under GATT Article XXIV – as long as tariffs are no higher than the level applied by the countries prior to the arrangement
- Currently 373 RTAs in operation [https://www.wto.org/english/tratop\\_e/region\\_e/region\\_e.htm](https://www.wto.org/english/tratop_e/region_e/region_e.htm)
  - 2020: 303 RTAs; 2022: 354; 2023: 355
- Most are bilateral (e.g., KORUS)
- Most are free trade agreements

# Customs Unions

- Central American Common Market (CACM)
- Andean Community (CAN)
- Caribbean Community (CARICOM)
- Economic and Monetary Community of Central Africa (CEMAC)
- East African Community (EAC)
- Eurasian Economic Community (EAEC)
- European Economic Area (EEA) (*plus EC – Andorra, EC – Turkey*)
- Gulf Cooperation Council (GCC)
- Southern Common Market (MERCOSUR)
- Southern African Customs Union (SACU)
- West African Economic and Monetary Union (WAEMU)



# 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.

## Article I

### ***General Most-Favoured Nation Treatment***

1. With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports, and with respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation, and with respect to all matters referred to in paragraphs 2 and 4 of Article III,\* any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.

## Article III\*

### *National Treatment on Internal Taxation and Regulation*

1. The contracting parties recognize that internal taxes and other internal charges, and laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products, and internal quantitative regulations requiring the mixture, processing or use of products in specified amounts or proportions, should not be applied to imported or domestic products so as to afford protection to domestic production.\*
2. The products of the territory of any contracting party imported into the territory of any other contracting party shall not be subject, directly or indirectly, to internal taxes or other internal charges of any kind in excess of those applied, directly or indirectly, to like domestic products. Moreover, no contracting party shall otherwise apply internal taxes or other internal charges to imported or domestic products in a manner contrary to the principles set forth in paragraph 1.\*

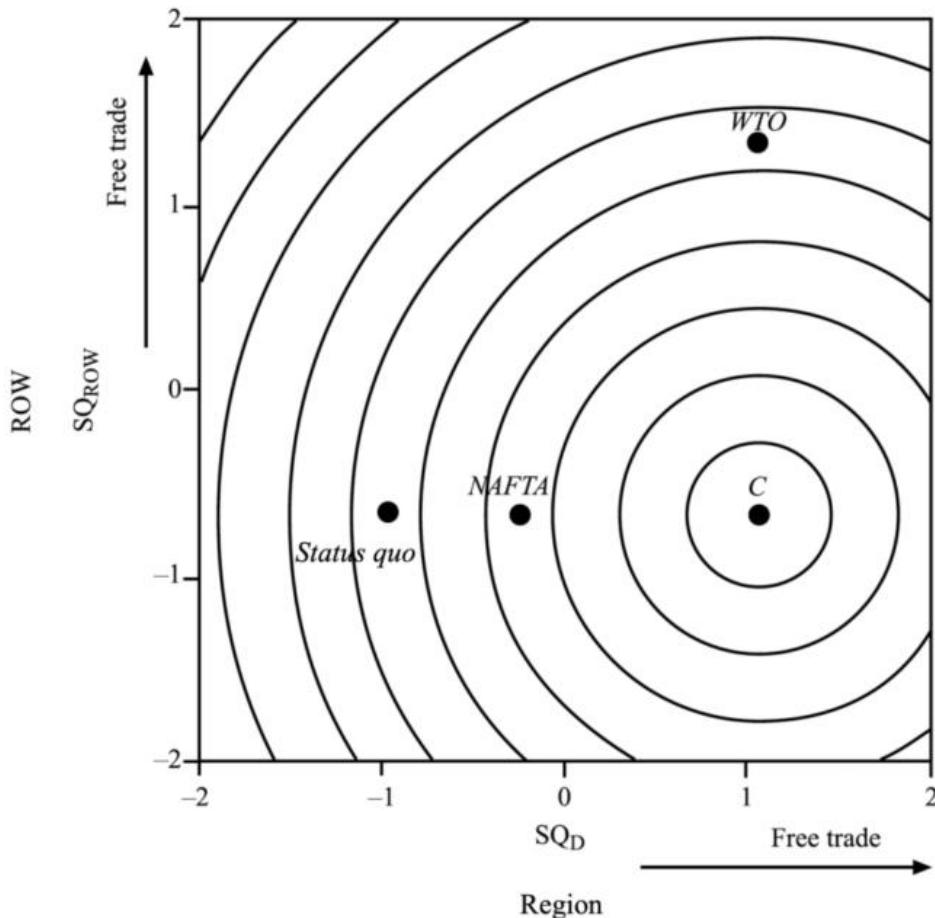
# Initial GATT members (1/1/1948)

- |                           |                       |
|---------------------------|-----------------------|
| 1. Australia              | 12. India             |
| 2. Belgium                | 13. Lebanon           |
| 3. Brazil                 | 14. Luxembourg        |
| 4. Burma                  | 15. Netherlands       |
| 5. Canada                 | 16. New Zealand       |
| 6. Ceylon                 | 17. Norway            |
| 7. Chile                  | 18. Pakistan          |
| 8. China                  | 19. Southern Rhodesia |
| 9. Cuba                   | 20. Syria             |
| 10. Czechoslovak Republic | 21. South Africa      |
| 11. France                | 22. United Kingdom    |
|                           | 23. United States     |

# Forum Shopping (Busch 2007)

- RTAs open up venue for **forum shopping**
  - Countries may choose the dispute settlement forum that best suites their interest
  - Shop under what interest?
- What kind of precedents a complaint wants to establish?
  - Regional/multilateral/none

# Forum Shopping (Busch 2007)



- Complainant (C) prefers
- $(SQ_D, SQ_{ROW}) = (1, -0.5)$
- Status quo is  $(-1, -0.5)$
- If goes to WTO, outcome is  $(1, 1.5)$
- If goes to NAFTA, outcome is  $(-0.1, -0.5)$
- So NAFTA is better than WTO
- (closer to C's ideal point).

- The preference has two dimensions! (Region vs. ROW)
- WTO is not ideal if C only wants regional liberalization.

# WTO and the “China Shock”

## Exports of goods and services (current US\$) - China

World Bank national accounts data, and OECD National Accounts data files.

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