NEGOTIATIONS AND INTERNATIONAL ORGANIZATIONS

SETTING THE STAGE II: ECONOMIC BACKGROUND AND INTERNATIONAL ORGANIZATIONS

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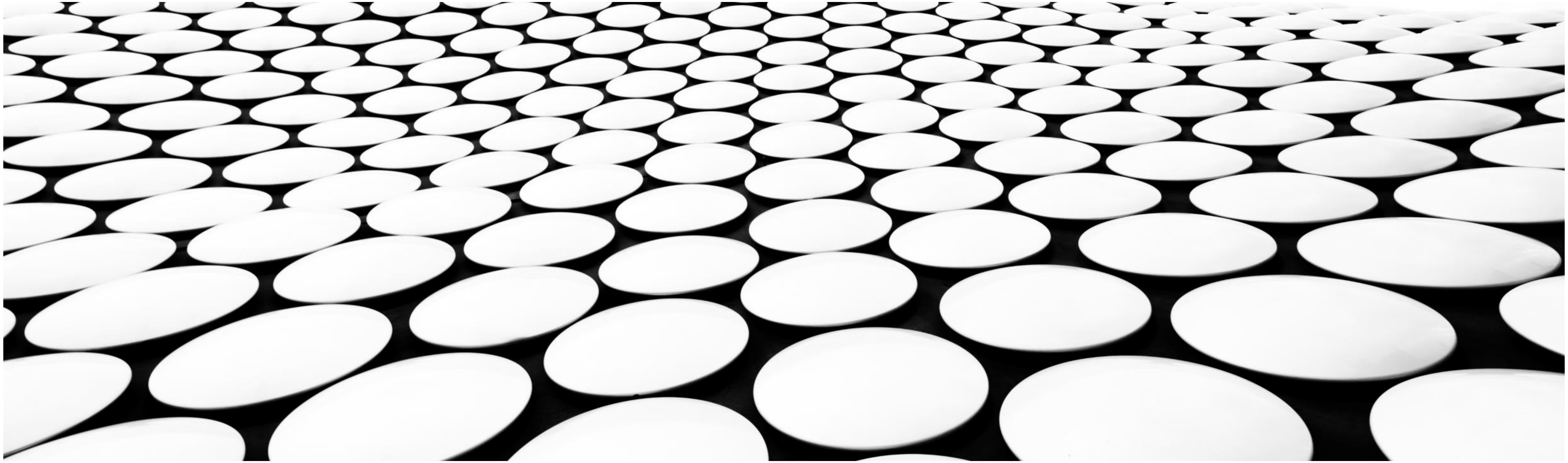


TODAY'S LECTURE

- Some Economics Background
  - Balance of Payments/Current Account/Trade Balance: Why do we care?
  - Trade Policy Tools
- Historical Background to IMF, World Bank and WTO
- The WTO

READING

- Anne O. Krueger (1999) Are Preferential Trading Arrangements Trade Liberalizing or Protectionist?, *Journal of Economic Perspectives* 13: 105 124
- Krugman, Obstefld and Melitz (2018) *International Economics: Theory and Policy*, 11th ed.
  - Chapter 2. World Trade: An Overview
  - Chapter 9. The Instruments of Trade Policy
  - Chapter 10 The Political Economy of Trade Policy 274
  - Chapter 13 National Income Accounting and the Balance of Payments
- Douglas A. Irwin (1995) The GATT in Historical Perspective, *American Economic Review* 85(2):323 28.
- Steinberg, R. H. (2003) In the Shadow of Law or Power? Consensus Based Bargaining and Outcomes in the GATT/WTO, *International Organization* 56(2): 339 74.

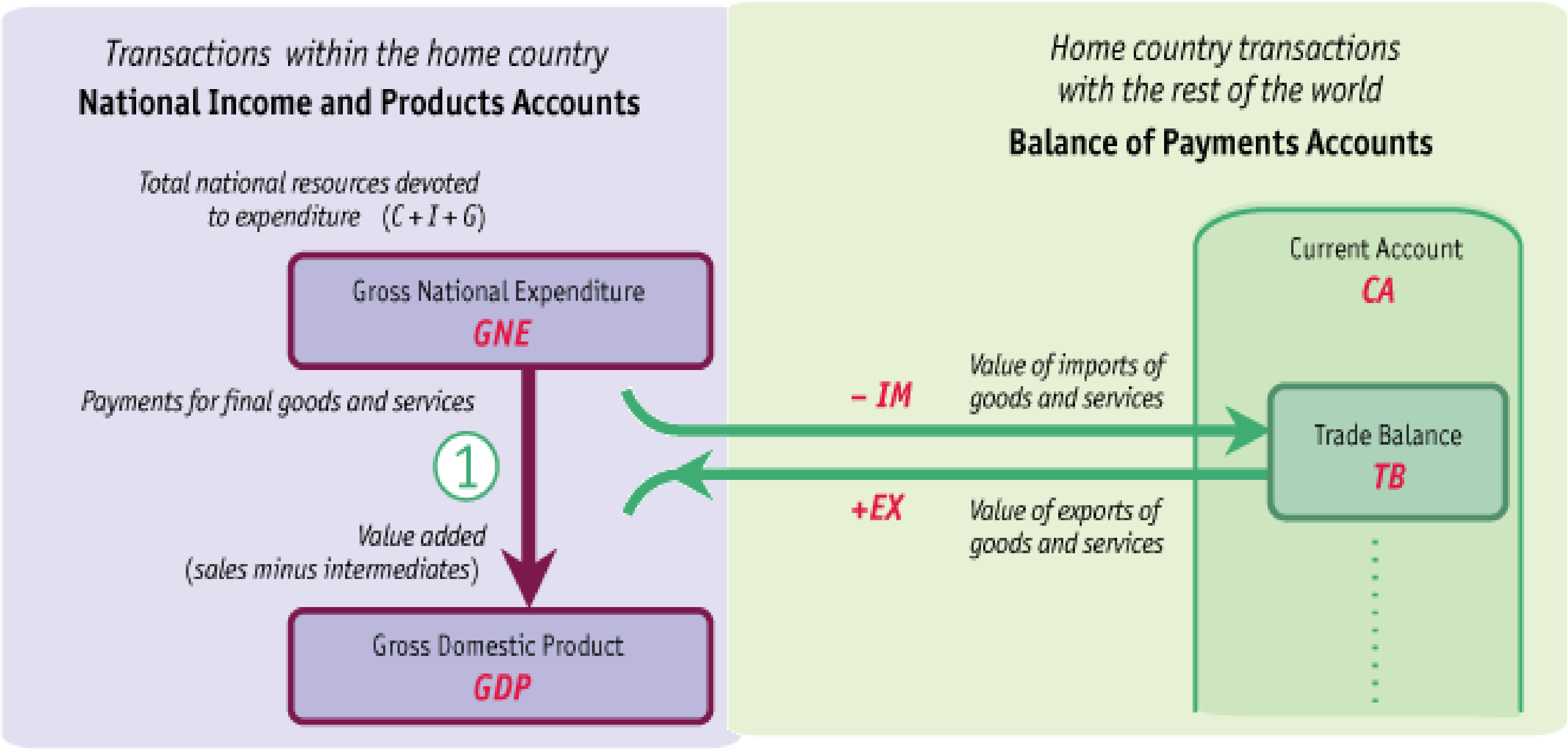
READING

- Hathaway, O. A. (1998) Positive Feedback: The Impact of Trade Liberalization on Industry Demands for Protection, *International Organization* 52(3):575 612
- Goldstein, A. E. and S. M. McGuire (2004) The Political Economy of Strategic Trade Policy and the Brazil Canada Export Subsidies Saga, *World Economy* 27(4): 541 66.
- WTO website: Understanding the WTO and from there Principles of the Trading System, The GATT Years, and The Uruguay Round.
- Then Tariffs: more bindings and closer to zero, Anti-dumping, subsidies, safeguards: contingencies, etc and Non-tariff barriers: red tape, etc

ALWAYS BEAR IN MIND!!!

- A basic ***political economy*** principle is that the winners don't like being taxed to compensate losers.
- And the battle is joined, not over what is best for society but rather over who will be the winners and losers.
- What is best for the country may not be best for my region, or group, or industry, or class – and so I will fight it.
- **Therefore**: what is best globally, may not be best for a particular country: *transfers* are not easy to implement…

FLOW OF PAYMENTS IN AN OPEN ECONOMY



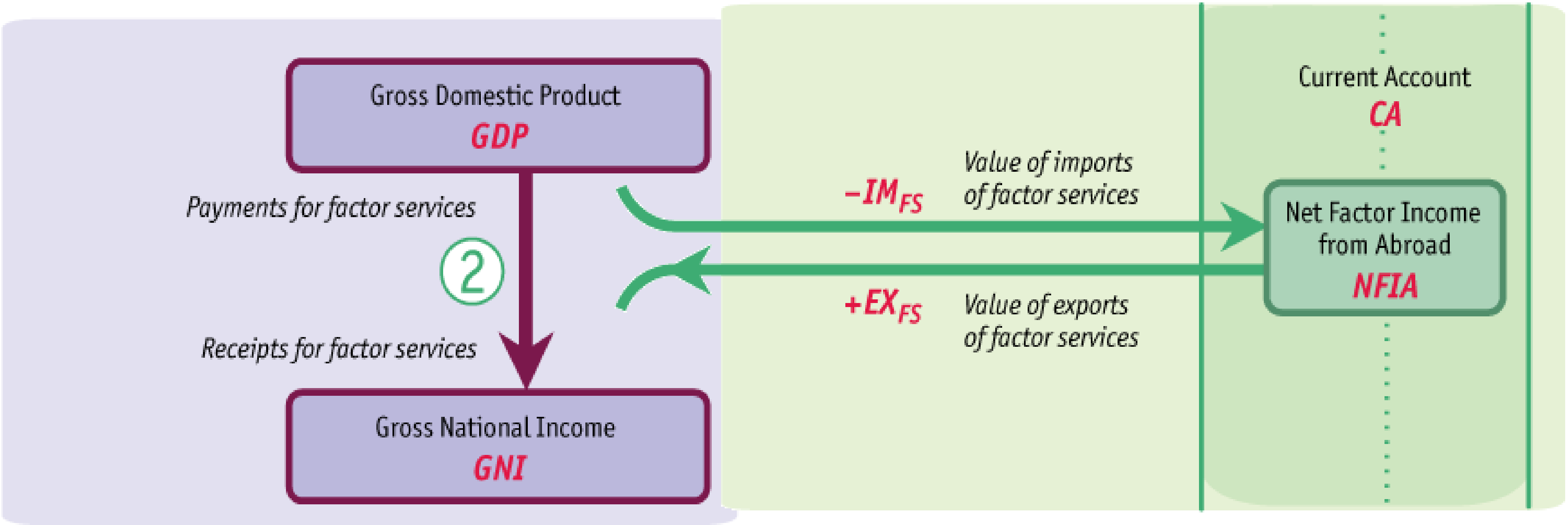
$GDP = C + I + G + EX - IM$

$GDP = C + I + G + TB$

$GDP = GNE + TB$

The difference between payments made for imports and payments received for exports is called the trade balance (TB), and it equals net payments to domestic firms due to trade. GNE plus TB equals GDP, the total value of production in the home economy.

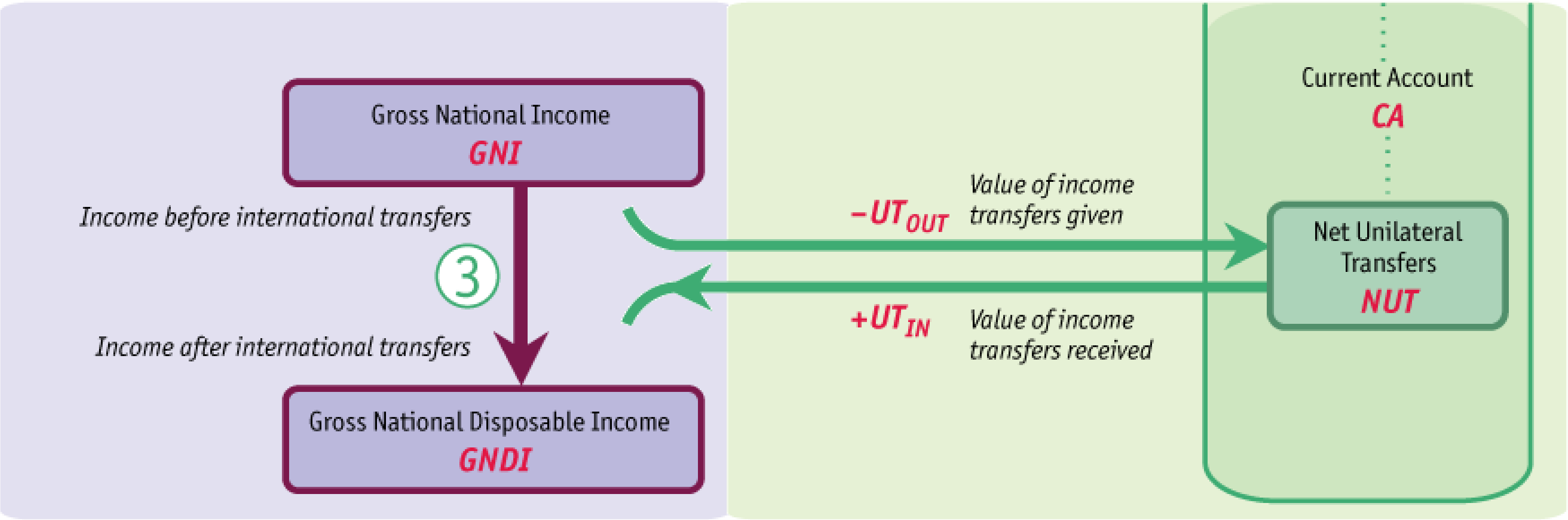
FLOW OF PAYMENTS IN AN OPEN ECONOMY



$GNI = GDP + NFIA$

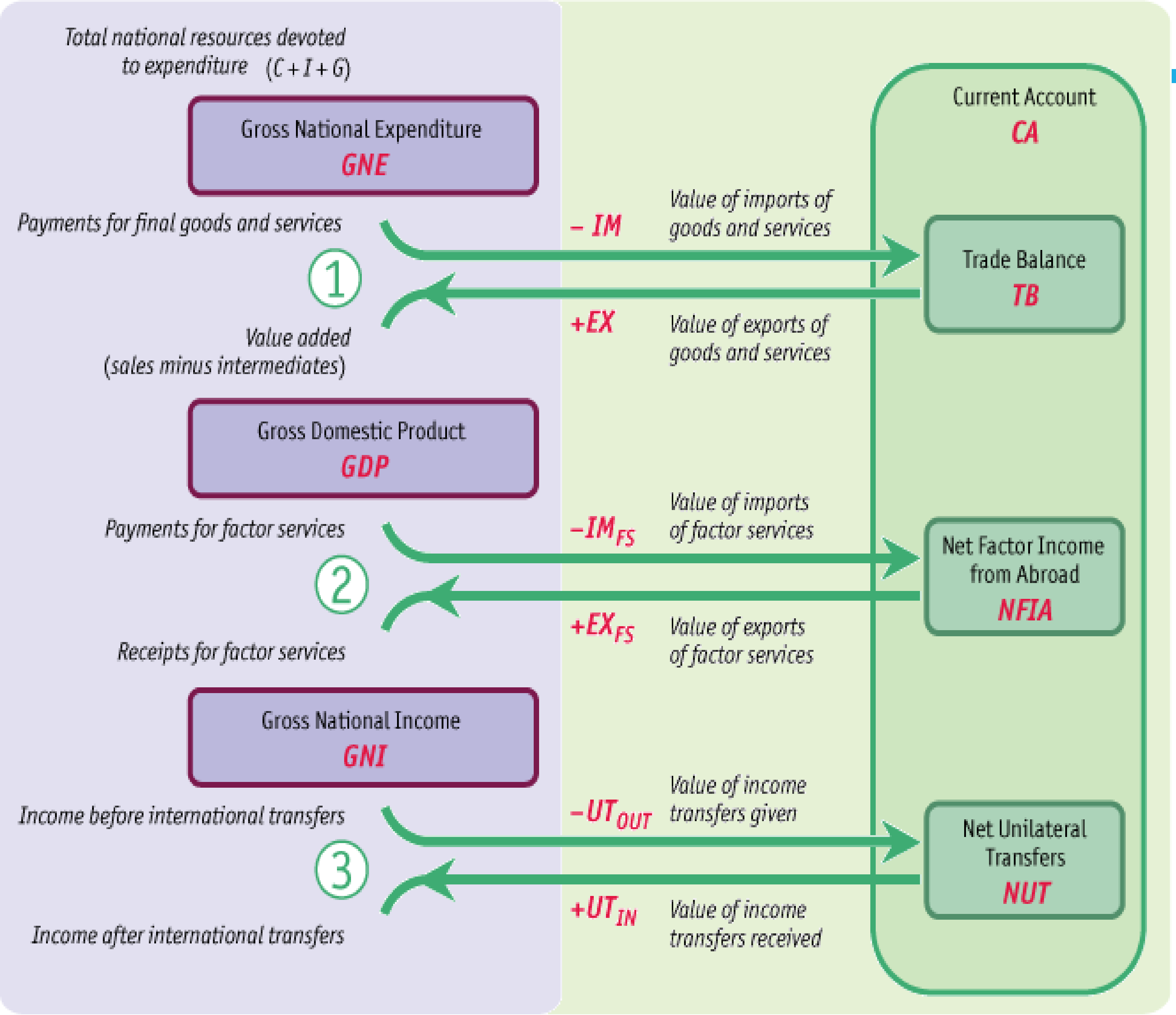
The value of factor service exports minus factor service imports is known as net factor income from abroad (NFIA), and thus GDP plus NFIA equal GNI, the total income earned by domestic entities from all sources, domestic and foreign.

FLOW OF PAYMENTS IN AN OPEN ECONOMY



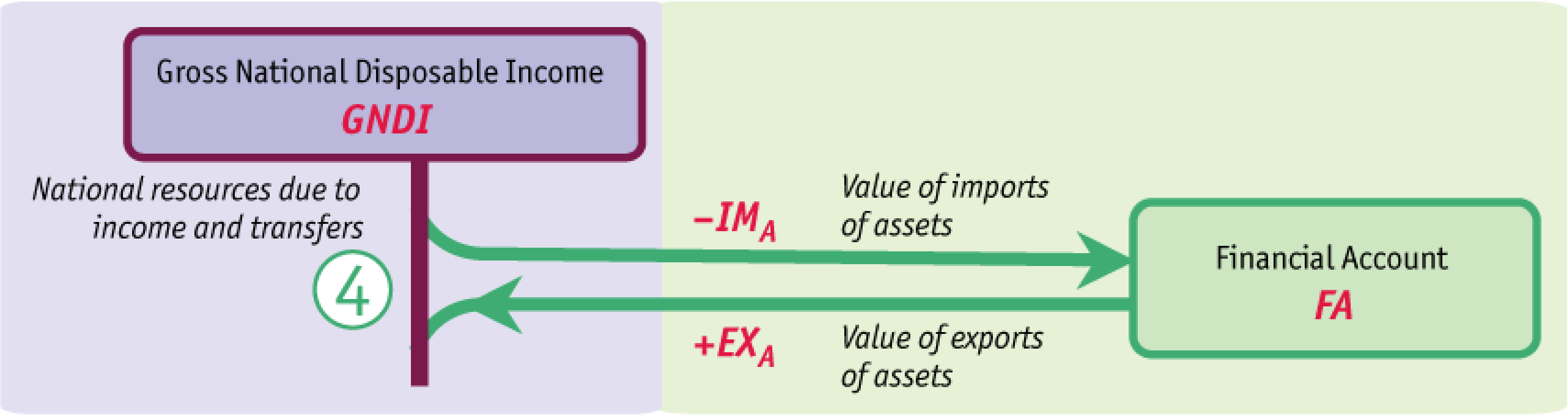
$$GNDI = GNI + NUT$$

- Gifts may take the form of income transfers or "in kind" transfers of goods and services. They are considered nonmarket transactions, and are referred to as *unilateral transfers.*
- Net unilateral transfers (NUT) equals the value of unilateral transfers the country receives from the rest of the world minus those it gives to the rest of the world.
- These net transfers have to be added to GNI to calculate gross national disposable income (GNDI). Thus, GNI plus NUT equals GNDI, which represents the total income resources available to the home country.



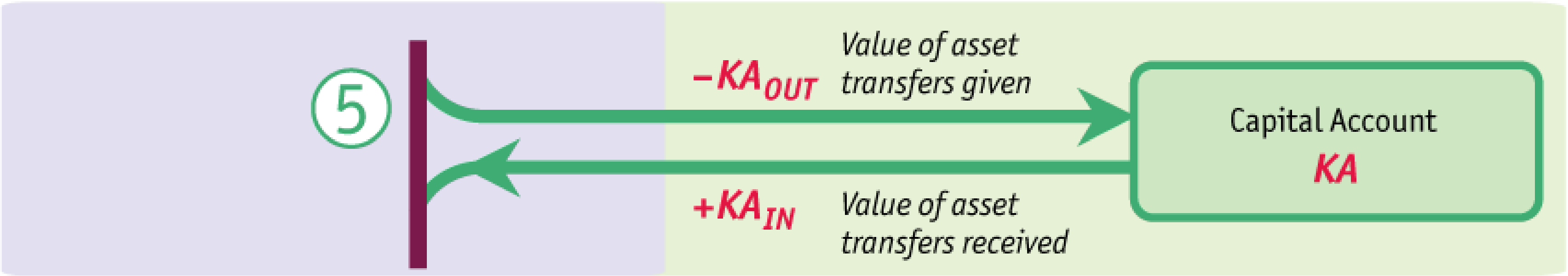
The ***current account*** (***CA***) is a tally of all international transactions in goods, services, and income (occurring through market transactions or transfers).

FLOW OF PAYMENTS IN AN OPEN ECONOMY

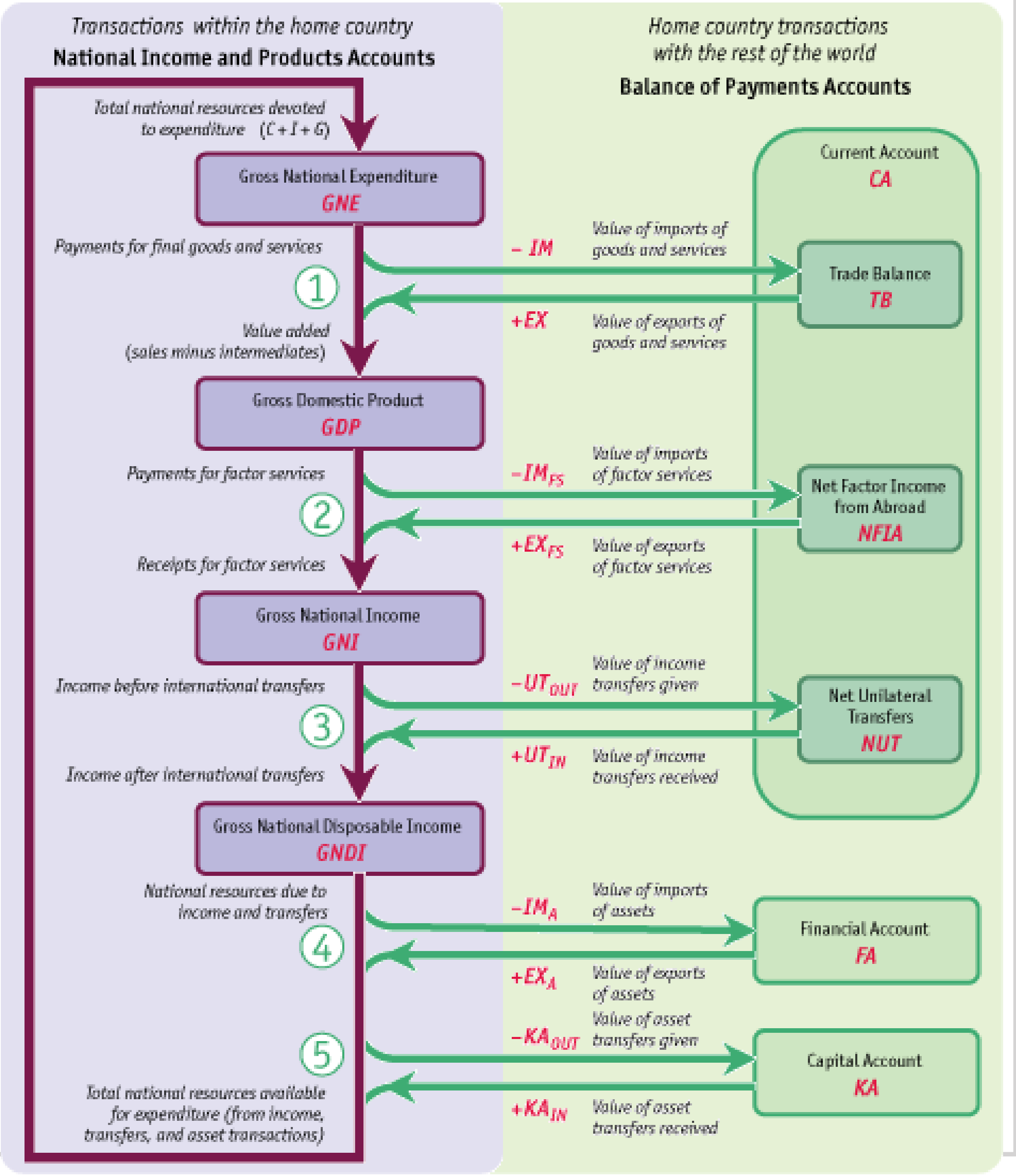


The value of asset exports minus asset imports is called the ***financial account*** (***FA***). These net asset exports are added to home GNDI when calculating the total resources available for expenditure in the home country.

FLOW OF PAYMENTS IN AN OPEN ECONOMY



A country may not only buy and sell assets but also transfer assets as gifts. Such asset transfers are measured by the ***capital account*** (*KA*), which is the value of capital transfers from the rest of the world minus those to the rest of the world.



- **The Open Economy** Measurements of national expenditure, product, and income are recorded in the national income and product accounts, with the major categories shown on the left.
- Measurements of international transactions are recorded in the balance of payments accounts, with the major categories shown on the right.
- The purple line shows the flow of transactions within the home economy.
- The green lines show all cross-border transactions.

FLOW OF PAYMENTS IN GREECE

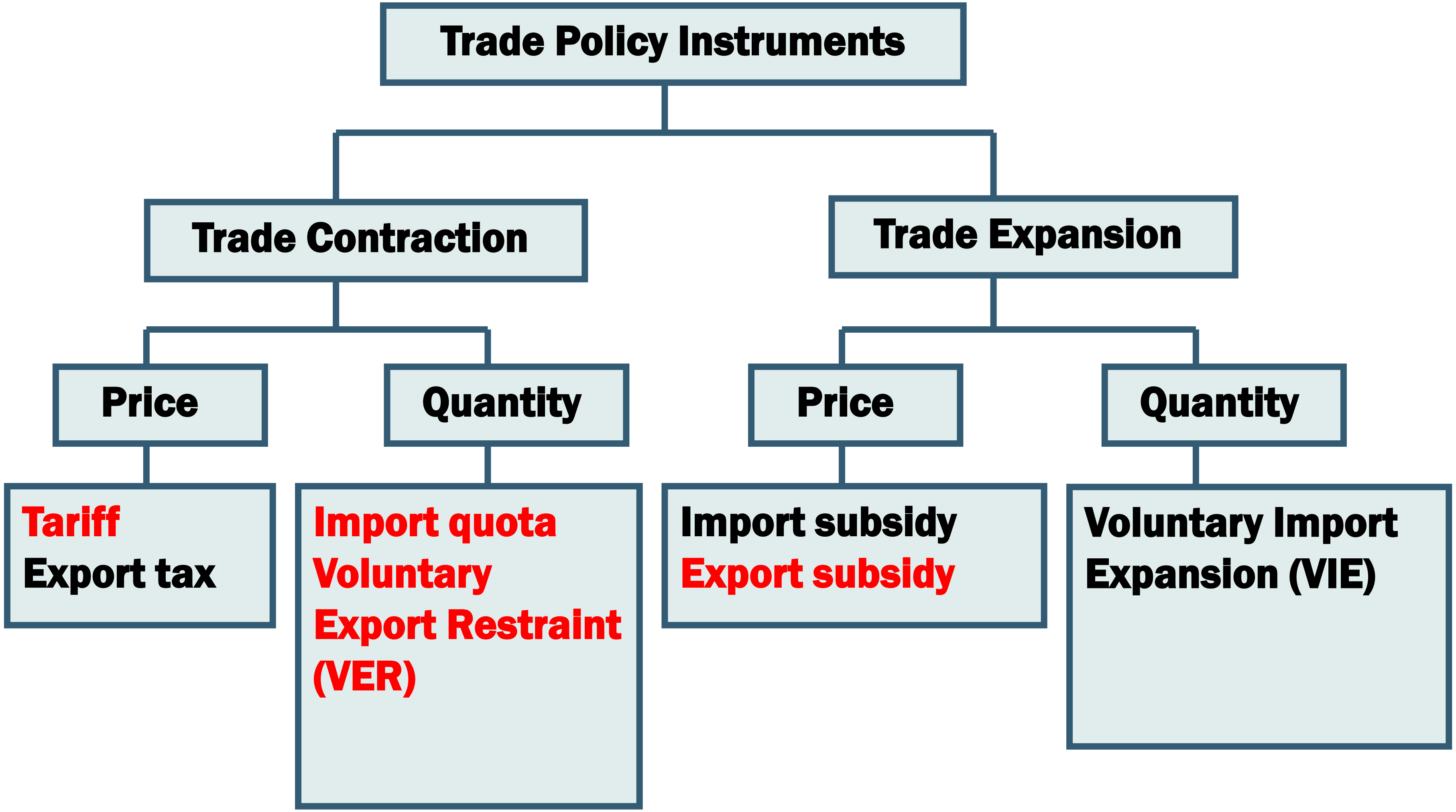
	BALANCE OF PAYMENTS (million euro)		
		2019	2020
I	CURRENT ACCOUNT (I.A + I.B + I.C + I.D)	-2,725.5	-10,964.4
	GOODS AND SERVICES (I.A + I.B)	-1,717.4	-11,249.7
I.A	GOODS (I.A.1 - I.A.2)	-22,833.3	-18,528.1
	OIL balance	-5,040.5	-3,196.0
	BALANCE OF GOODS excluding oil	-17,792.8	-15,332.1
	Ships' Balance	-345.1	-64.9
	BALANCE OF GOODS excluding ships	-22,488.2	-18,463.2
	BALANCE OF GOODS excluding oil and ships	-17,447.7	-15,267.2
I.A.1	Exports	32,433.6	28,904.4
	Oil	9,078.8	6,102.5
	Ships	91.5	153.1
	Other goods	23,263.4	22,648.9
I.A.2	Imports	55,266.9	47,432.5
	Oil	14,119.3	9,298.4
	Ships	436.6	217.9
	Other goods	40,711.1	37,916.1
I.B	SERVICES (I.B.1 - I.B.2)	21,115.9	7,278.3
I.B.1	Receipts	40,162.6	22,711.3
	Travel	18,178.8	4,318.8
	Transportation	17,303.1	13,814.2
	Other services	4,680.7	4,578.3
I.B.2	Payments	19,046.8	15,433.0
	Travel	2,743.8	792.9
	Transportation	11,377.4	9,873.0
	Other services	4,925.5	4,767.1

I.C	PRIMARY INCOME (I.C.1 - I.C.2)	-1,591.6	-275.9
I.C.1	Receipts	6,202.9	6,324.1
	Compensation of employees	246.9	201.4
	Investment income	3,046.7	2,942.0
	Other primary income	2,909.3	3,180.7
I.C.2	Payments	7,794.5	6,599.9
	Compensation of employees	1,411.6	1,336.4
	Investment income	5,975.9	4,838.8
	Other primary income	407.0	424.7
I.D	SECONDARY INCOME (I.D.1 - I.D.2)	583.5	561.2
I.D.1	Receipts	3,827.9	4,064.5
	General Government	2,361.2	2,452.7
	Other sectors	1,466.8	1,611.9
I.D.2	Payments	3,244.5	3,503.4
	General Government	1,830.3	1,914.9
	Other sectors	1,414.2	1,588.5
II	CAPITAL ACCOUNT (II.1 - II.2)	679.8	2,733.6
II.1	Receipts	1,178.7	3,124.5
	General Government	1,023.0	2,932.0
	Other sectors	155.8	192.5
II.2	Payments	498.9	390.9
	General Government	4.9	4.4
	Other sectors	494.0	386.5
III	CURRENT ACCOUNT AND CAPITAL ACCOUNT (I + II)	-2,045.6	-8,230.9

FLOW OF PAYMENTS IN GREECE

		2019	2020
IV	FINANCIAL ACCOUNT * (IV.A + IV.B + IV.C + IV.D)	-2,247.0	-7,747.7
IV.A	DIRECT INVESTMENT*	-3,910.5	-2,332.3
	Assets	562.4	568.6
	Liabilities	4,472.9	2,900.9
IV.B	PORTFOLIO INVESTMENT*	24,231.5	48,339.5
	Assets	25,927.1	35,443.0
	Liabilities	1,695.6	-12,896.5
IV.C	OTHER INVESTMENT*	-22,652.0	-55,291.1
	Assets	-3,605.6	2,362.1
	Liabilities	19,046.4	57,653.2
	(Loans of General Goverment)	-4,444.8	1,342.6
IV.D	**CHANGE IN RESERVE ASSETS ****	**84.0**	**1,536.2**
V	BALANCING ITEM (I + II - IV + V = 0)	-201.3	483.2
	RESERVE ASSETS (STOCK)* * *	**7,571**	**9,739**

INSTRUMENTS OF TRADE POLICY



Local content requirements

TYPES OF TARIFFS AND EFFECTS…

- A tariff is a tax levied when a good is imported.
- A specific tariff is levied as a fixed charge for each unit of imported goods.
  - For example, $3 per barrel of oil.
- An ad valorem tariff is levied as a fraction of the value of imported goods.
  - For example, 25% tariff on the value of imported trucks.
- A compound duty (tariff) is a combination of an ad valorem and a specific tariff.
  - A tariff 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.
  - Welfare…

EXPORT SUBSIDY

- An export subsidy can also be *specific* or *ad valorem*:
  - A specific subsidy is a payment per unit exported.
  - An ad valorem subsidy is a payment as a proportion of the value exported.
- An export subsidy raises the price in the exporting country, (consumers worse off) and (producers better off).
- Also, government revenue falls due to paying for the export subsidy.

IMPORT QUOTA

- An import quota is a restriction on the quantity of a good that may be imported.
- This restriction is usually enforced by issuing licenses or quota rights.
- A binding import quota will push up the price of the import because the quantity demanded will exceed the quantity supplied by Home producers and from imports.
- When a quota instead of a tariff is used to restrict imports, the government receives no revenue.
  - Instead, the revenue from selling imports at high prices goes to quota license holders.
  - These extra revenues are called **quota rents.**

LOCAL CONTENT REQUIREMENT

- A **local content requirement** is a regulation that requires a specified fraction of a final good to be produced domestically.
- It may be specified in value terms, by requiring that some minimum share of the value of a good represent home value added, or in physical units.
- From the viewpoint of domestic producers of inputs, a local content requirement provides protection in the same way that an import quota would.
- From the viewpoint of firms that must buy home inputs, however, the requirement does not place a strict limit on imports but allows firms to import more if they also use more home parts.
- Local content requirement provides neither government revenue (as a tariff would) nor quota rents.
- Instead, the difference between the prices of home goods and imports is averaged into the price of the final good and is passed on to consumers.

OTHER TRADE POLICIES

- Export credit subsidies
  - A subsidized loan to exporters
  - U.S. Export-Import Bank subsidizes loans to U.S. exporters.
- Government procurement
  - Government agencies are obligated to purchase from home suppliers, even when they charge higher prices (or have inferior quality) compared to foreign suppliers.
- Bureaucratic regulations
  - Safety, health, quality, or customs regulations can act as a form of protection and trade restriction.

INTERNATIONAL TRADE AGREEMENTS: A BRIEF HISTORY

- In 1930, the United States passed a remarkably irresponsible tariff law, the Smoot-Hawley Act.
  - Tariff rates rose steeply and U.S. trade fell sharply.
- Initial attempts to reduce tariff rates were undertaken through bilateral trade negotiations:
  - U.S. offered to lower tariffs on some imports if another country would lower its tariffs on some U.S. exports.
- Bilateral negotiations, however, do not take full advantage of international coordination.
  - Benefits can “spill over” to countries that have not made any concessions.

SOME HISTORICAL BACKGROUND

- WWI completely disorganizes trade networks and trade flows
- The Bretton Woods Conference which convened in 1944 was originally intended to draft a charter for the IMF (https://www.imf.org/) and the World Bank. However, it was recognized at this conference that these two institutions alone would not be enough to tackle situations such as the “Great Depression”.
- The Conference, therefore, recommended that governments seek to reach agreement on ways and means to reduce obstacles to international trade and in other ways promote mutually advantageous international commercial relations.

SOME HISTORICAL BACKGROUND

- Interwar: Protectionism, Increasing Tariffs
- So, the original intention was to create a third institution to handle the trade side of international economic cooperation, joining the two Bretton Woods institutions, namely, the IMF and the World Bank.
- The idea was to create an organization called the International Trade Organization (ITO) at the United Nations Conference on Trade and Employment in Havana, Cuba in 1947.
- Even though a charter for ITO was agreed in March 1948, non-ratification by the US subsequently killed the ITO.

SOME HISTORICAL BACKGROUND

- In parallel, beginning December 1945, about 15 countries had begun talks to reduce and bind customs tariffs. By October 1947, the group which had expanded to 23 countries came up with a package of trade rules and 45,000 tariff concessions affecting $10 Billion worth of trade.
- A unique feature was that these tariff concessions came into effect in June 1948 through a "Protocol of Provisional Application". Thus, was born the General Agreement on Tariffs and Trade (GATT) with 23 founding members.

SOME HISTORICAL BACKGROUND

A. It was not a legal organization. It remained a “provisional contract” among its members.

B. It was far from universal in terms of membership. A handful of countries, led mainly by the developed and the industrialized world comprised its membership.

C. GATT was hardly high-profile. It was thought of as an arcane set-up best left to technical experts who mastered customs tariffs and classification.

D. Countries such as India, who were founding members, hardly played an influential role in the later GATT Rounds of trade negotiations. They were mere bystanders.

SOME HISTORICAL BACKGROUND

- Stronger proponent of multilateralism: the US… *Reciprocal Trade Agreements* program (a reciprocal, nondiscriminatory bargaining tariff)
- Setback: participation in an IO needs to be ratified
- US Congress: did not ratify the Havana accord. However, GATT was a trade agreement rather than an IO, hence approval from US Congress was not necessary. Presidential decree suffices…
- GATT: rather informal.

FORMING THE WTO

- Uruguay Round (1986): decision to transform GATT to WTO:
- Why
  - Club rather than an IO, so regulations are not enforceable
  - Loose procedures for conflict resolution that did not help in smoothing confrontation
  - US CA deficits lead to US being accused of ***unfair*** trade
- An **IO**…
- Wider range of negotiations well beyond those of GATT (services, copyrights, investments)
  - Pressure from the US, EU and other developed economies that were leaders in these fields and started being threatened

FORMING THE WTO

- 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 Multi-Fiber Agreement (**MFA**) were to be eliminated by 2005.
- Quotas on imports from China had to be temporarily reimposed due to surge in Chinese clothing exports when MFA expired.
- In 2001, a new round of negotiations was started in Doha, Qatar, but these negotiations have not yet produced an agreement.
  - Most of the remaining forms of protection are in agriculture, textiles, and clothing—industries that are politically well organized.

WHAT IS THE WTO?

- An organization for liberalizing trade.
- A forum for governments to negotiate trade agreements.
- A place for governments to settle trade disputes.
- It operates a system of trade rules.

WHAT IS THE WTO?

- 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.

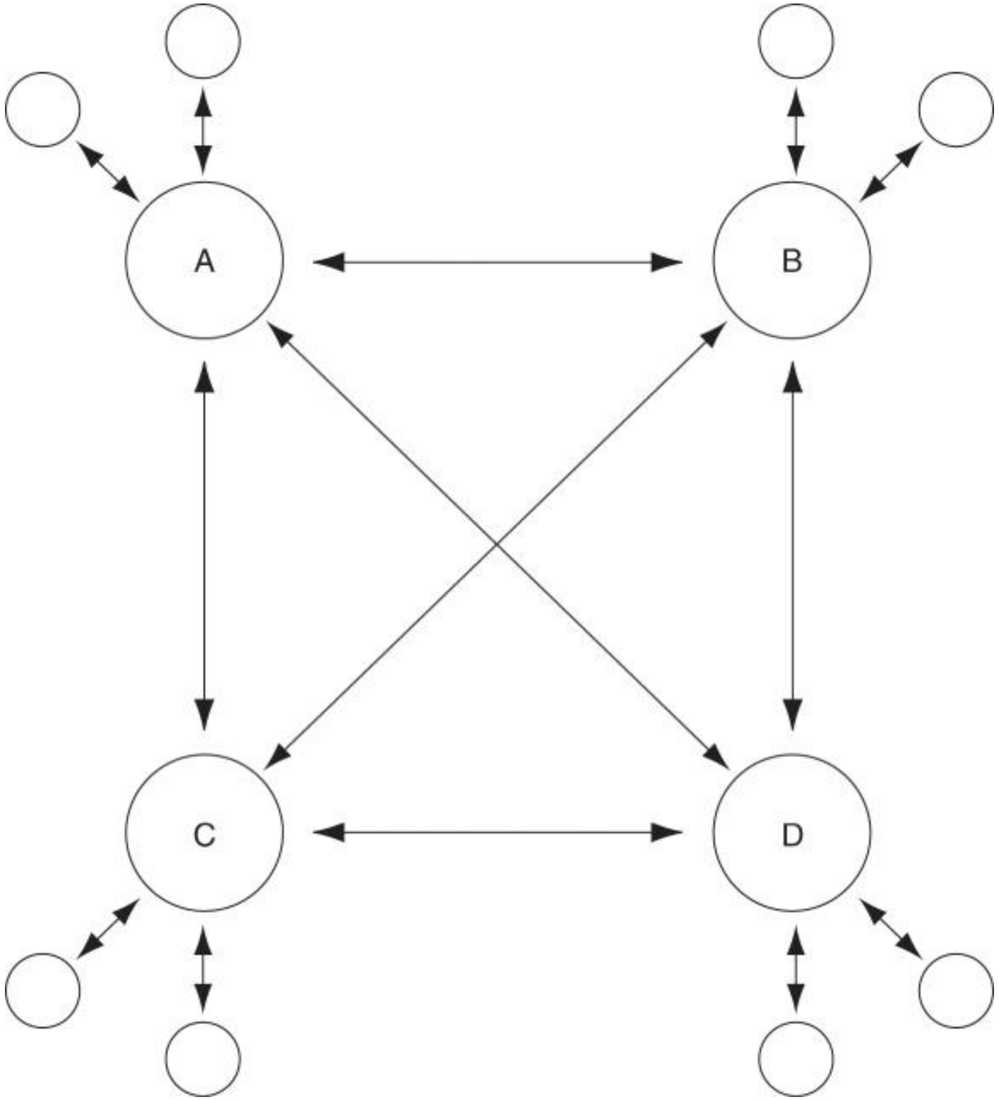
WHAT IS THE WTO?

- The World Trade Organization is based on a number of agreements:
  - *General Agreement on Tariffs and Trade:* covers trade in goods.
  - *General Agreement on Tariffs and Services:* covers trade in services (ex., insurance, consulting, legal services, banking).
  - *Agreement on Trade-Related Aspects of Intellectual Property:* covers international property rights (ex., patents and copyrights).
  - *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.
    - The panel decides whether member counties are breaking their agreements.
    - A country that refuses to adhere to the panel's decision may be punished by the WTO allowing other countries to impose trade restrictions on its exports.

WHAT IS THE WTO? A NEGOTIATING FORUM

- The WTO is a place where member governments go, to try to sort out the trade problems they face with each other.
- The WTO was born out of **negotiations**, and everything the WTO does is the result of **negotiations**.
- Most of the WTO's current work comes from the **1986-94** negotiations called the **Uruguay Round** and earlier negotiations under the General Agreement on Tariffs and Trade (GATT).
- The WTO is currently **the host to new negotiations**, under the "Doha Development Agenda" launched in 2001.

A TYPICAL DAY AT THE WTO…



WHAT IS THE WTO? A SET OF RULES (1)

- WTO agreements, negotiated and signed by the most of the world's trading nations. These documents provide the legal ground-rules for international commerce.
- They are essentially contracts, binding governments to keep their trade policies within agreed limits. Although negotiated and signed by governments, the goal is to help producers of goods and services, exporters, and importers conduct their business, while allowing governments to meet social and environmental objectives.
- The system's purpose is to help trade flow as freely as possible – so long as there are no undesirable side-effects – because this is important for economic development and well-being.

WHAT IS THE WTO? A SET OF RULES (2)

- Free Trade Flow means removing obstacles. It also means ensuring that individuals, companies and governments know what the trade rules are around the world and giving them the confidence that there will be no sudden changes of policy.
- In other words, the rules have to be “transparent” and predictable.

WHAT IS THE WTO? DISPUTE RESOLUTION ORGANIZATION

- Trade relations often involve conflicting interests.
- Agreements, including those painstakingly negotiated in the WTO system, often need interpreting.
- The most harmonious way to settle these differences is through some neutral procedure based on an agreed legal foundation.
- This is exactly the purpose behind the dispute settlement process written into the WTO agreements.

WTO: TRADE WITHOUT DISCRIMINATION

1. **Most-favored-nation (MFN): treating other people equally**

   - Under the WTO agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favor (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members.

2. **National treatment: Treating foreigners and locals equally**

   - Imported and locally-produced goods should be treated equally – at least after the foreign goods have entered the market. The same should apply to foreign and domestic services, and to foreign and local trademarks, copyrights and patents.

   - National treatment only applies once a product, service or item of intellectual property has entered the market. Therefore, charging customs duty on an import is not a violation of national treatment even if locally-produced products are not charged an equivalent tax.

WTO: PREDICTABILITY

- Sometimes, promising not to raise a trade barrier can be as important as lowering one, because the promise gives businesses a clearer view of their future opportunities.
- In the WTO, when countries agree to open their markets for goods or services, they “bind” their commitments. For goods, these bindings amount to ceilings on customs tariff rates.
- A country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade.
  - One of the achievements of the Uruguay Round of multilateral trade talks was to increase the amount of trade under binding commitments

WTO AND TARIFFS

- The bulkiest results of Uruguay Round are the 22,500 pages listing individual countries' commitments on specific categories of goods and services.
- These include commitments to cut and "bind" their customs duty rates on imports of goods. In some cases, tariffs are being cut to zero.
- There is also a significant increase in the number of "bound" tariffs – duty rates that are committed in the WTO and are difficult to raise.
  - For developed countries, the bound rates are generally the rates actually charged. Most developing countries have bound the rates somewhat higher than the actual rates charged, so the bound rates serve as ceilings.
  - Changing tariffs: feasible but countries have to negotiate with the countries most concerned and that could result in compensation for trading partners' loss of trade.

WTO AND STANDARDS (1)

- How do you ensure that your country's consumers are being supplied with food that is safe to eat — "safe" by the standards you consider appropriate?
- A separate agreement on food safety and animal and plant health standards (the **Sanitary and Phytosanitary Measures Agreement** or **SPS**) sets out the basic rules.
  - Member countries are encouraged to use international standards, guidelines and recommendations where they exist. When they do, they are unlikely to be challenged legally in a WTO dispute.
  - The agreement still allows countries to use different standards and different methods of inspecting products.
  - The agreement includes provisions on control, inspection and approval procedures. Governments must provide advance notice of new or changed sanitary and phytosanitary regulations, and establish a national enquiry point to provide information.

WTO AND STANDARDS (2)

- Technical regulations and standards are important, but they vary from country to country.
- Standards can become obstacles to trade, but they are also necessary for a range of reasons, from environmental protection, safety, national security to consumer information.
- The **Technical Barriers to Trade Agreement (TBT)** tries to ensure that regulations, standards, testing and certification procedures do not create unnecessary obstacles.
  - The agreement also sets out a code of good practice for both governments and non-governmental or industry bodies to prepare, adopt and apply voluntary standards.
  - The agreement says the procedures used to decide whether a product conforms with relevant standards have to be fair and equitable. It discourages any methods that would give domestically produced goods an unfair advantage.

ANTI-DUMPING, SUBSIDIES, SAFEGUARDS

- Binding tariffs and applying them equally to all trading partners (most-favored-nation treatment, or MFN) are key to the smooth flow of trade in goods. The WTO agreements uphold the principles, but they also allow exceptions — in some circumstances.
- Three of these issues are:
  1. actions taken against dumping (selling at an unfairly low price)
  2. subsidies and special “countervailing” duties to offset the subsidies
  3. emergency measures to limit imports temporarily, designed to “safeguard” domestic industries.

NON-TARIFF BARRIERS (NTBS)

- A number of agreements deal with various bureaucratic or legal issues that could involve hindrances to trade:

1. Import licensing
2. Rules for the valuation of goods at customs
   - a set of valuation rules, expanding and giving greater precision to the provisions on customs valuation
3. Pre-shipment inspection: further checks on imports
4. Rules of origin: made in … where?
5. Investment measures
   - prohibits trade-related investment measures, such as local content requirements, that are inconsistent with basic provisions of GATT.