

WORLD TRADE ORGANISATION AND TRADE LIBERALISATION

Jacob A. Jordaan
Utrecht University School of Economics
j.a.jordaan@uu.nl

Outline

- **Introduction**
 - Organising international trade liberalisation
- **GATT/WTO**
 - Scope, functions and structure
 - Key characteristics
 - Dispute settlement and enforcement of rules
- **Negotiating forum**
 - Uruguay round last successful one
 - MTN and reciprocity
 - Tariffs versus Non-Tariff Barriers
- **Towards deeper integration**
- **Discussion**

Literature

- Chapter 2 The World Trade Organisation
- Chapter 4 Negotiating Forum
- Chapter 13 Towards deeper integration? The 'Trade and' agenda

Introduction

- **Trade liberalisation generates positive welfare effects**
- **But how can we organise trade liberalisation?**
 - Many countries, different characteristics, power relations, etc.
- **Institutionalising trade negotiations**
 - System of established and prevalent (social) rules that structure (social) interactions
 - Economics: Growing recognition of importance institutions
- **At the international level: institutions more enabling and facilitating**
- **GATT (1947) / WTO**
 - No guarantee that countries select optimal trade policies
 - Growing number of rules and regulations that facilitate negotiations
 - Continued strive towards free trade

World Trade Organization

- **Post WWII: attempts to create International Trade Organisation**
- **Instead: General Agreement on Tariffs and Trade + IMF + World Bank**
- **Extensions**
 - General Agreement on Trade in Services
 - Trade related aspects of intellectual property rights (TRIPS)
- **1995 consolidation into one organisation: WTO**



Geneva, Switzerland

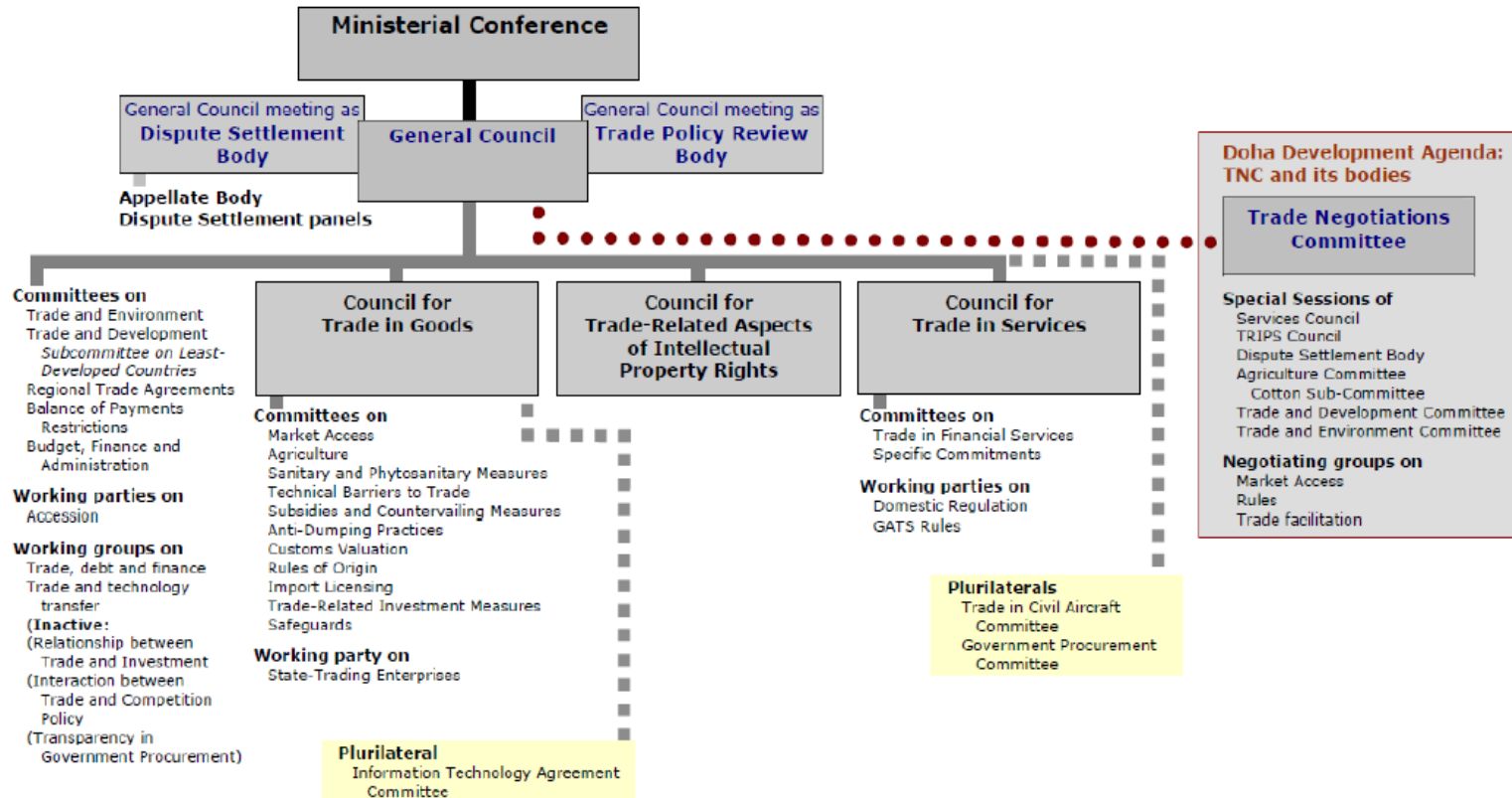
WTO

- **GATT: flexible forum to negotiate and make deals**
- **WTO: common institutional framework for trade negotiations**
 - Sets the rules of the game
- **Functions of WTO**
 - Implementation of multilateral trade agreements
 - Forum for negotiations
 - Dispute settlement
 - Trade policy review mechanism
 - Cooperation with IMF and World Bank to achieve coherent policy making

Organisational structure

WTO structure

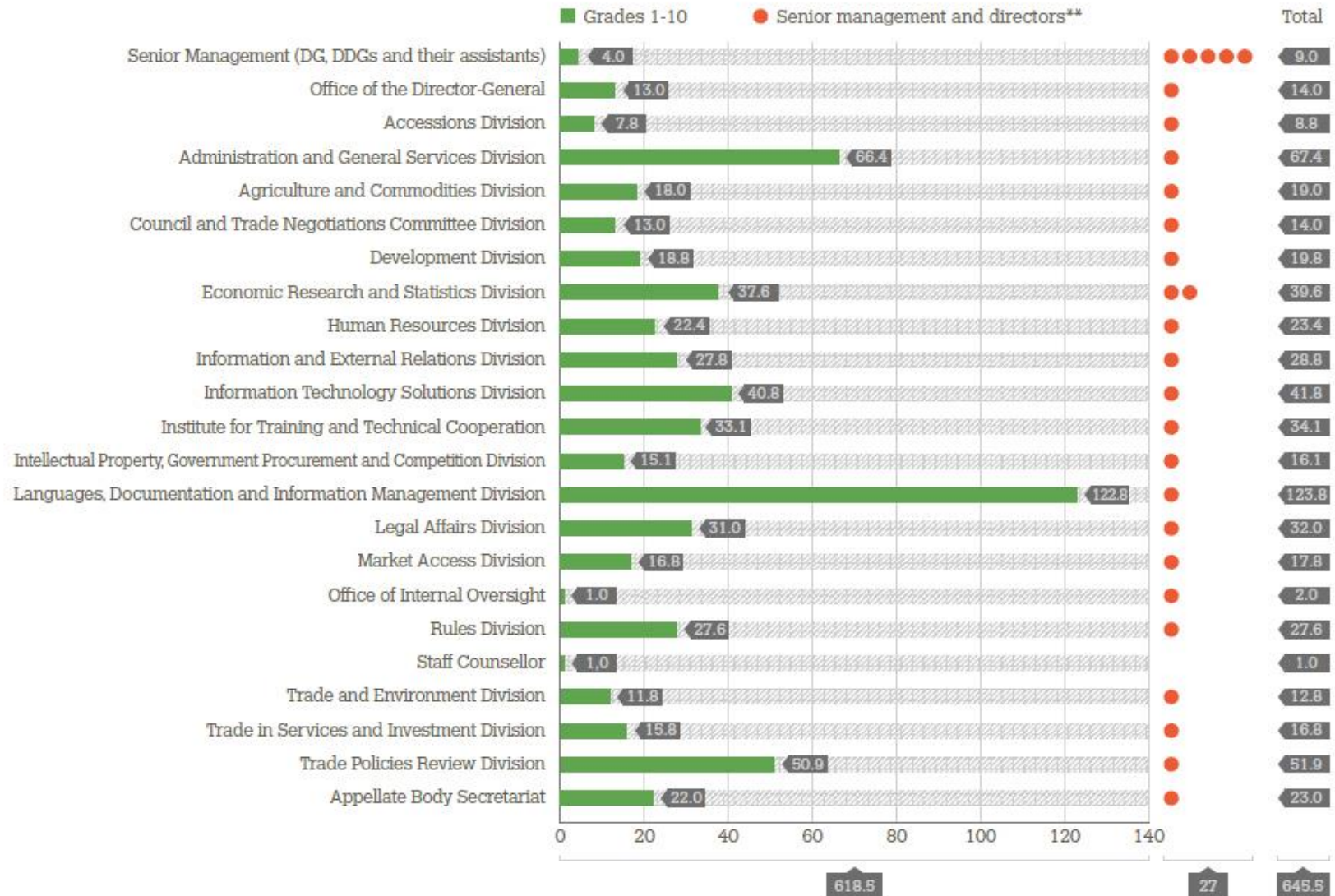
All WTO members may participate in all councils, committees, etc, except Appellate Body, Dispute Settlement panels, and plurilateral committees.



Key

- Reporting to General Council (or a subsidiary)
- Reporting to Dispute Settlement Body
- Plurilateral committees inform the General Council or Goods Council of their activities, although these agreements are not signed by all WTO members
- Trade Negotiations Committee reports to General Council

The General Council also meets as the Trade Policy Review Body and Dispute Settlement Body



* Includes posts not yet filled. Figures in decimals indicate staff members who work a percentage of the working week (e.g. 80 per cent).

** Two grade 10s as Officers in Charge (Accessions and Legal Affairs Divisions) counted in this instance as "Directors".

Main principles WTO

1. Non-discrimination

a. Most favoured nation principle

- Economic reason (consumer can buy cheapest imports)
- Limits market power of large countries
- Increase costs of trade barriers (not possible to introduce trade barriers against one country)

b. National treatment principle

- Foreign goods treated like domestic goods once they are in the trade area
- Virtually all-encompassing

Main principles WTO (cont.)

2. Binding and enforceable commitments

- MFN ensures that all member countries are included
- Dispute settlement ensures that all countries can resort to WTO in case of conflict

3. Transparency

- Enforcement of commitment
- Information crucial: negotiate trade deals, non tariff barriers, do countries play by the rules?
- Sources of information: committees, working groups; publications
- Reduces pressure on dispute settlement system
- “Ownership” of WTO

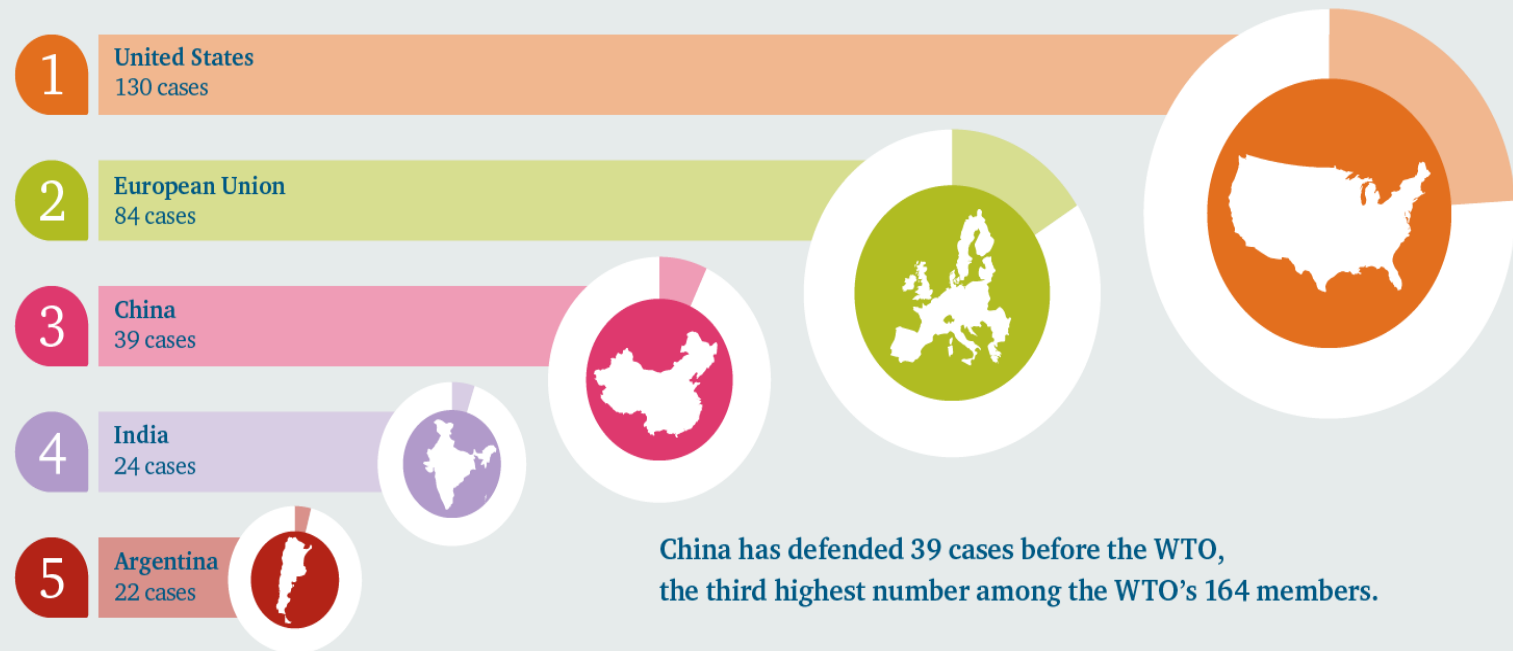
4. Safety valves

- Possibilities to restrict trade



China and WTO Dispute Settlement: Top 5 Respondents

CHATHAM
HOUSE
The Royal Institute of
International Affairs



Source: The World Trade Organization

Figures correct as of 16 March 2017

Negotiating forum

- **Thus far, several trade rounds have been concluded**
- **Last one: Uruguay Round (1986-1994)**
- **Outcomes**
 - Average tariffs reduced by 38%
 - Plus tariffs became “bound”
 - Agriculture and textiles and clothing subjected to rules
 - Creation of WTO
 - New agreements on services and TRIPS
 - Majority of Tokyo Round codes extended to all members
- **Doha Round**
 - Agreement to create a transparency mechanism for PTAs and to mobilise and monitor the provision of additional “aid for trade” by high income countries. Market access and rule-making outcomes not clear yet

Trade negotiations

- **Prisoner's dilemma captures key challenge**

	Country B	
	Free Trade	Protection
Country A		
Free Trade	P-c, P-c	-c, P
Protection	P, -c	0,0

- P = profit; c = costs
- **Whatever Country A chooses to do, Country B will pick protection**

How to deal with this?

- **The concept of reciprocity**
= exchange of market access commitment on a reciprocal basis
- **Two advantages**
 - a) The total gains from liberalisation increase
 - b) Trade liberalisation becomes politically more feasible
= Import competing versus exporting firms/industries

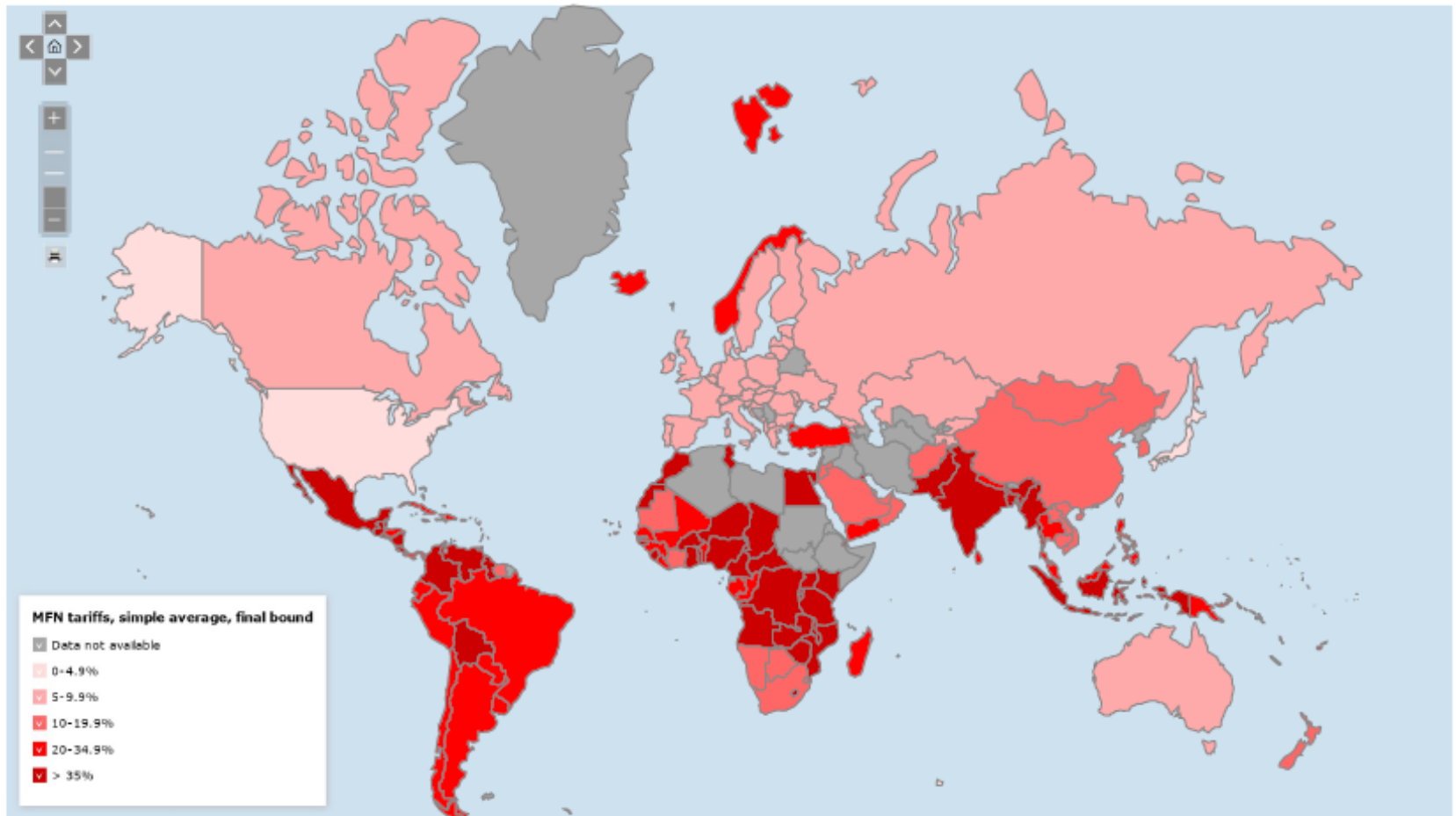
Reciprocity

- **Actions conditional on actions by counterpart**
- **Often however, negotiations start bilateral, and then turn multilateral (MFN)**
- **This may create free rider problem**
 - Solution: Principle supplier rule / green room consultations
 - Multilateral balancing
- **First difference reciprocity**
- **Impact on welfare not used as measure to calculate reciprocity!**

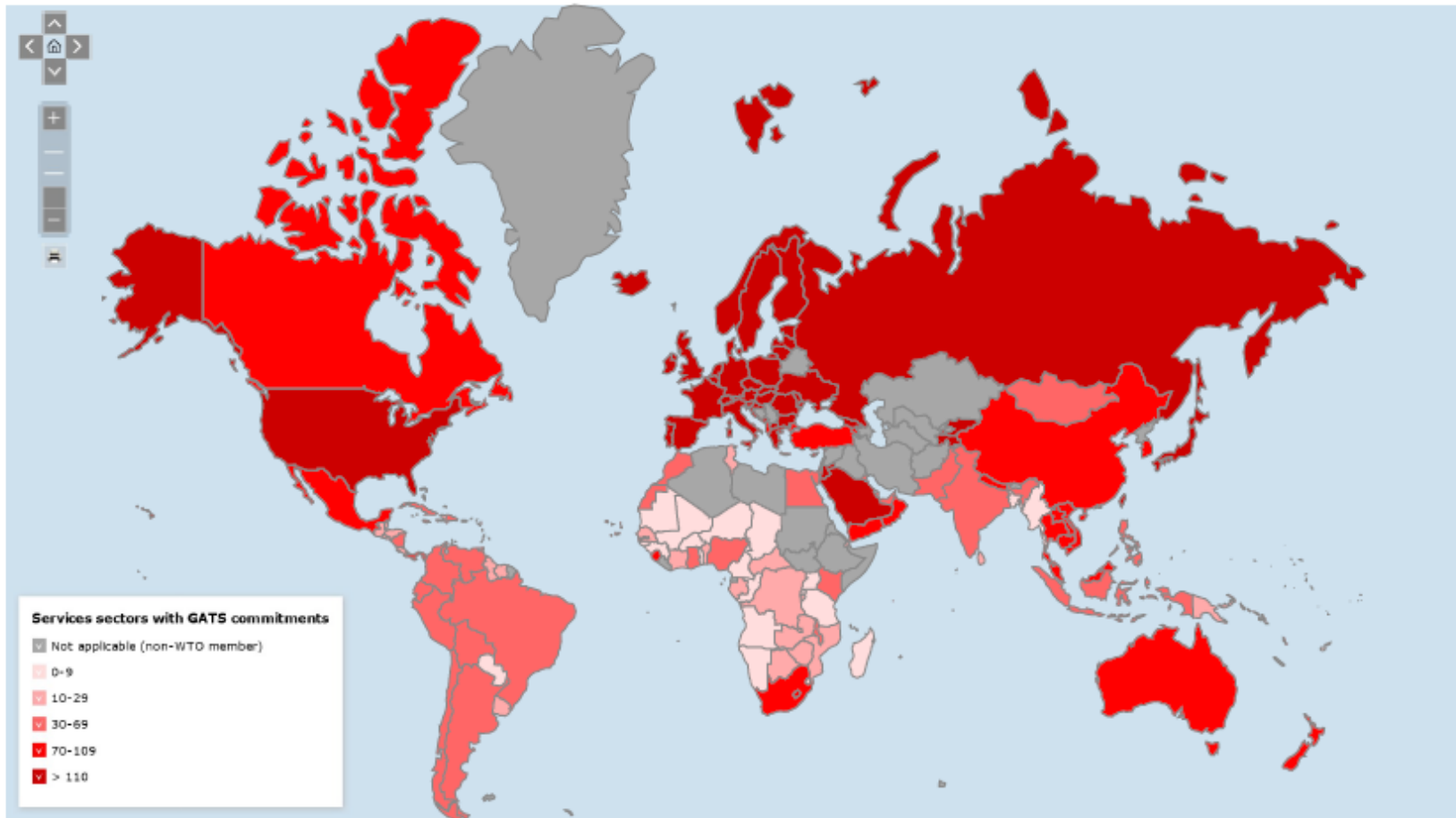
Trade negotiations

- **Countries are trading market access: barter trade**
- **Often long list of possible products / industry codes, etc.**
- **Can create tricky situations**
 - What if a country can not find a product in another country that it wants to barter for?
 - Number of participants may solve this, but may also make it more complex
 - Country A wants something from country B, who wants something from country C, who wants something from country A
 - Valuation of different goods/products/industries, etc.
- **Don't forget: the deal is that a country “allows” another country to sell a product cheaper than that the country can make itself, but only if the other country also buys products from the country!**

Tariffs world wide



Commitment to trade liberalisation services



Tariff Barriers

- **GATT/WTO very successful in lowering tariffs**
- **Developed countries instrumental in this**
- **Developing countries benefit from increased market access and especially cheaper imports**
- **In EU, one of the key achievements has been the strong lowering of tariffs on intra and inter-EU trade**
- **Single Market 1992**

- **Still not completely fixed!**
 - New Single Market Proposal
 - Met with markedly less enthusiasm

EU 1992: elimination of tariffs

- **Total potential gains: 200 billion ECU (5% EU GDP)**
- **Removal of tariffs**
- **Removal of entry barriers**
- **Economies of scale**
 - Short run
 - Long run
- **Presented as technical exercise**
 - To gain political support

Findings (1)

	Billions ECU	% of GDP
1. Gains from removal of barriers affecting trade	8-9	0.2-0.3
2. Gains from removal of barriers affecting overall production	57-71	2.0-2.4
3. Gains from removing barriers (sub-total)	65-80	2.2-2.7
4. Gains from exploiting economies of scale more fully	61	2.1
5. Gains from intensified competition reducing business ineffectiveness and monopoly profits	46	1.6
6. Gains from market integration (sub-total)	62*-107	2.1*-3.7
7. <u>Total Gains</u>		
- for 7 Member States at 1985 prices	127-187	4 1/4 - 6 1/2
- for 12 Member States at 1988 prices	170-250	4 1/4 - 6 1/2

Findings (2)

Table 2

Macroeconomic consequences of EC market integration
accompanied by economic policy measures

Nature of economic policy	Economic consequences				
	GDP as %	Consumer prices as %	Employment (in millions)	Public deficit as % point of GDP	External balance as % point of GDP
Without accompanying economic policy measures	4.5	-6.1	1.8	2.2	1.0
With accompanying economic policy measures	7.0	-4.5	5.0	0.4	-0.2
Margin of error:	± 30%				

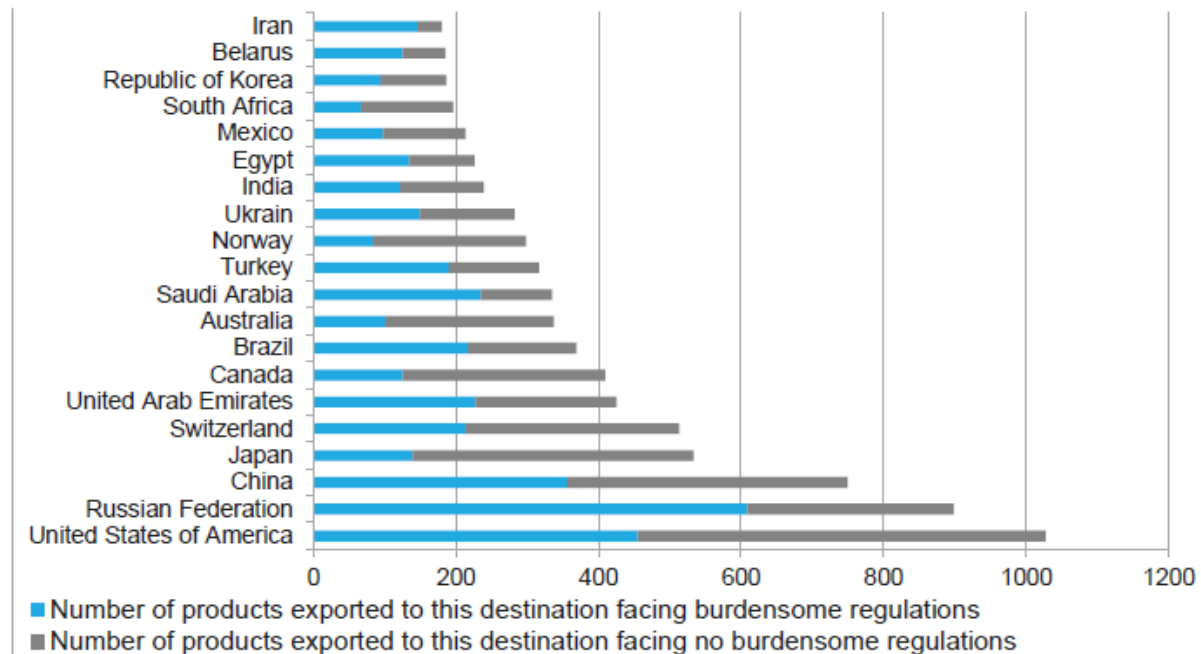
Non-Tariff Barriers

- **More difficult to deal with**
- **From border (tariffs) to behind the border restrictions**
- **Range of quantitative restrictions; becoming less important**
 - Quotas, Embargoes, Voluntary export restraints, Performance requirements
- **Non-tariff barriers / Non Tariff Measures**
 - Technical/quality standards
 - Customs practices
 - Sales and distribution; Licensing
 - Government procurement
 - Entry taxes and other charges

International Trade Centre

- Survey among 8,100 exporting firms in EU

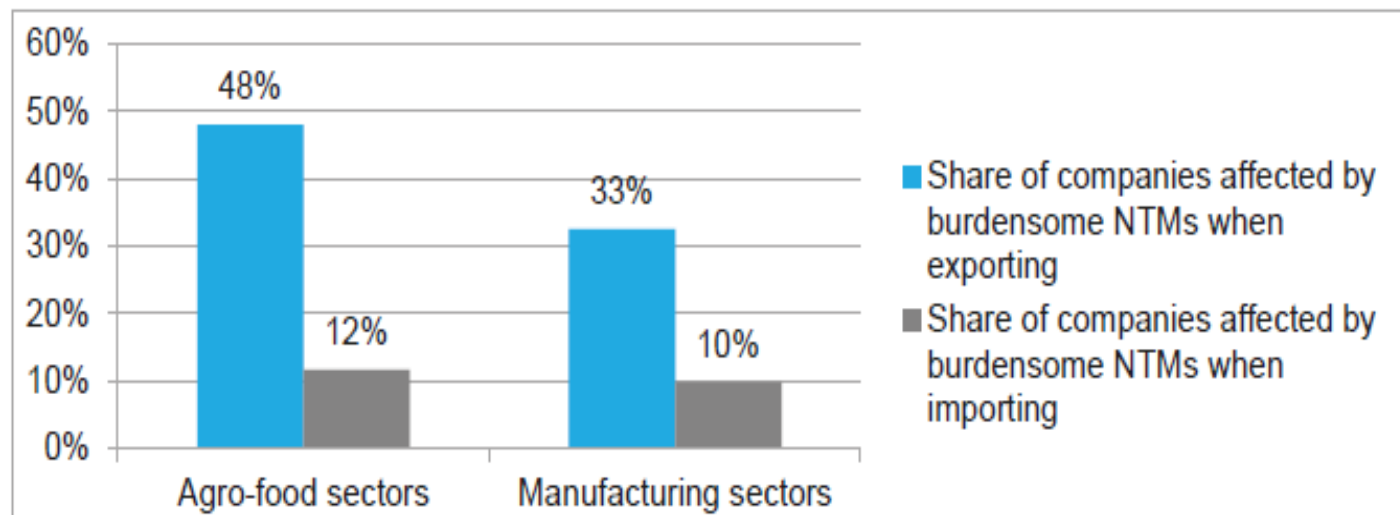
Figure 2. Geographical distribution of exports (top 20 destinations)



Source: ITC business survey in the EU, 2015-2016

Impact NTMs

Figure 1. Share of companies affected by burdensome NTMs at export, by main sector



Source: ITC business survey in the EU, 2015-2016.

Table 1. Issues with burdensome regulations raised by EU exporter, by type

	Number of issues (product/destination/partner)	Share of Total (%)
A. Technical requirements	1,229	16.9
B. Conformity assessment	2,314	31.9
C. Pre-shipment inspections and other entry formalities	582	8.0
D. Trade remedies	41	0.6
E. Quantity control measures	215	3.0
F. Charge, taxes and price control measures	193	2.7
G. Finance measures	103	1.4
H. Anti-competitive measures	33	0.5
I. Trade related investment measures	10	0.1
J. Distribution restrictions	24	0.3
K. Restrictions on post-sales services	12	0.2
L. Subsidies	1	0.0
M. Government procurement restrictions	29	0.4
N. Intellectual property	13	0.2
O1. Preferential rules of origin and related certificates of origin	580	8.0
O2. Non-preferential rules of origin and related certificates of Origin	594	8.2
P. Export related measures	1,291	17.8
Total	7,264	100

Source: ITC business survey in the EU, 2015-2016.

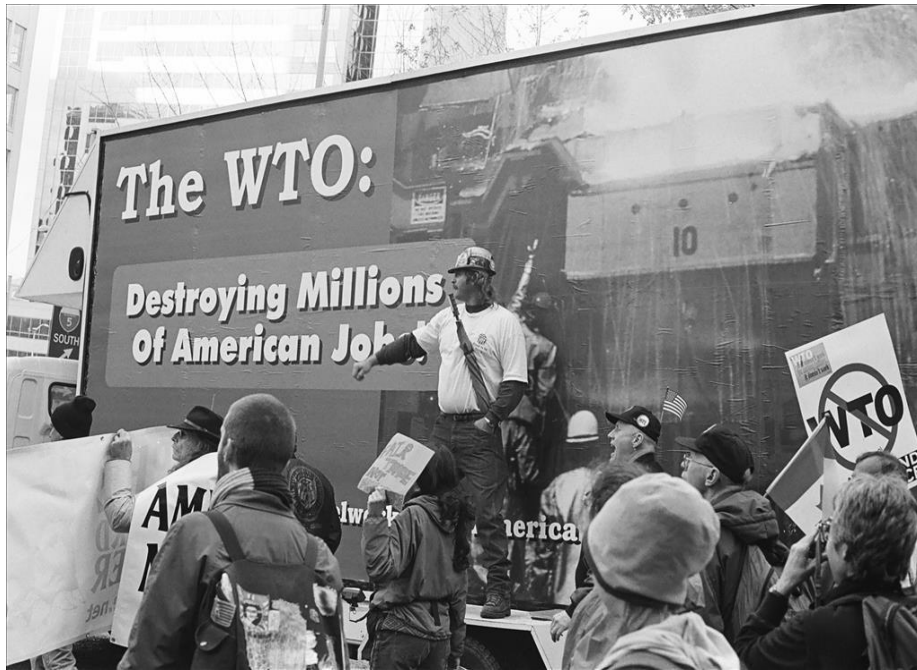
How to deal with NTBs?

- **Calculating value of concessions much more difficult**
 - How do you calculate tariff-equivalents?
- **Links with other issues, interest groups**
- **Regulation versus protection / industrial support**
- **More sensitive: how to present as technical exercise?**
- **First difference liberalisation difficult**
- **Negotiations more focused on transparency and non-discrimination**
 - But does that limit the progress / benefits?

Example of important NTB

- **German beer purity law (Reinheitsgebot)**
- **Bavarian law from 1516**
- **Food safety and restriction of use of wheat in beer to facilitate bread production**
- **1907 law applied in entire country**
- **Started to work as NTB against import of beer from other countries**
- **Lobby groups in Germany managed for long time to keep law in place**
 - 1987 European court decided that this went against the common market principle
 - Now the German Beer federation is trying to get the Reinheitsgebot recognized by the UNESCO for the World Heritage List

Battle of Seattle 1999



Developed versus developing countries



What to make of this?

ALLIANCE FOR
american
manufacturing



Recent trade liberalization processes

- **The ‘Trade and’ Agenda**
- **Trade and trade liberalization increasingly linked to various other issues**
 - These issues are important
 - But should they be linked to trade liberalization?
- **“Easy gains” from trade liberalization have been obtained**
 - Liberalization measures at the border = shallow integration
- **If we want more gains**
 - Need for deep integration = measures behind the border
 - Good explanation why links are made between trade lib and other issues?!
- **Cooperation on regulatory policies**

Terminology is changing

- **From market access to market contestability**
- **Look at policies, regulations, etc. that impact upon competition**
 - Trade policies
 - Foreign Direct Investment
 - Government procurement
 - Subsidies
 - Rules and regulations discriminating against foreign firms
- **Important discussions to be had whether this can be done through the traditional WTO principles or that other arrangements are necessary**
 - e.g. PTAs, bilateral investment treaties, etc.

What about non-economic objectives?

- **These feature strongly in the media**
- **We need to think carefully whether the link with trade liberalization is always there**
- Environment
- Social standards
- Labor rights
- Democracy
- Institutions
- Race to the bottom argument?

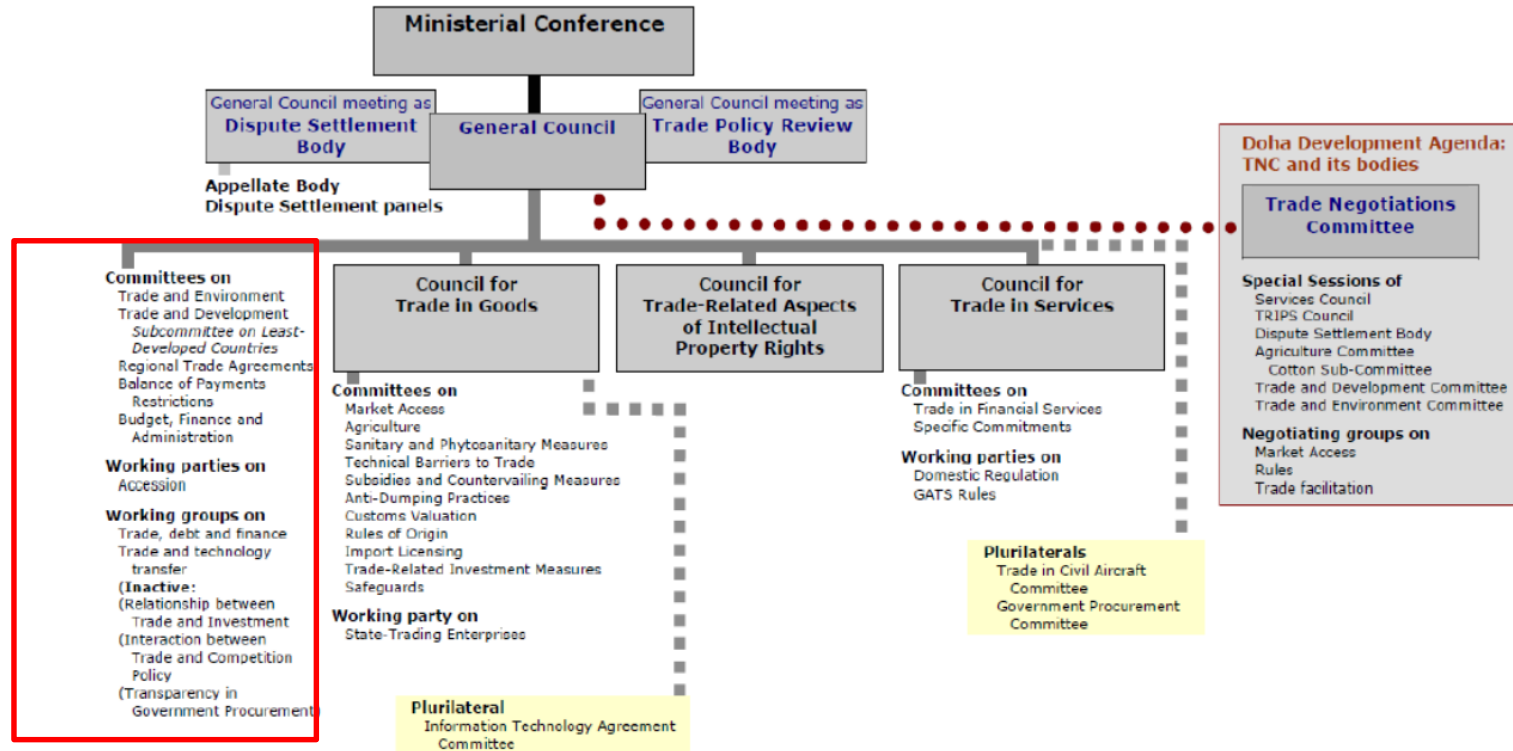
Doha round

- **All these aspects play a role in negotiations started in Doha**
- **Much more difficult to create uniformity, harmonization, mutual recognition, etc.**
- **Developed versus developing countries**
- **Economic versus non-economic considerations**
- **Suitability of WTO to provide appropriate framework for negotiations?**
 - Little consensus on topics to be discussed
 - Coalition forming smaller and developing countries more effective
 - Emerging economies are starting to play a more important role
- **Doha Round talks are suspended now**



WTO structure

All WTO members may participate in all councils, committees, etc, except Appellate Body, Dispute Settlement panels, and plurilateral committees.



Key

Reporting to General Council (or a subsidiary)

Reporting to Dispute Settlement Body

Plurilateral committees inform the General Council or Goods Council of their activities, although these agreements are not signed by all WTO members

Trade Negotiations Committee reports to General Council

The General Council also meets as the Trade Policy Review Body and Dispute Settlement Body

Main points

- **Multilateral trade liberalisation is particular process**
- **WTO represents key institution facilitating this process**
 - Reciprocity, non-discrimination, etc.
- **Has achieved remarkable progress up until Uruguay round**
- **Still tariffs not completely eliminated**
- **Non tariff barriers prove to be more difficult**
 - Searching for alternative ways to foster trade
 - From shallow integration to deep integration
- **Coinciding with growing protests against trade liberalisation**
- **Increasingly links are made with variety of issues, topics, etc.**
- **Growing stagnation of integration process**

Discussion points (1)

Is the WTO still the best institutional setting for contemporary processes of trade liberalisation?

Discussion points (2)

The current move towards deep integration is taking the process of trade liberalisation too far

Discussion points (3)

Environment, Labor rights, Social rights are intricately linked to trade liberalization