

M U N I
E C O N

Political Economy of Trade Policy & International Trade Agreements

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Institutional Frame of the International Trade

- World Trade Organization

(follower of GATT – General Agreement on Tariffs and Trade)

- the most important multilateral international organization
- formulates the basic rules of international trade
- is able to enforce them
- the single EU internal market
- free trade areas, customs unions
- bilateral and multilateral agreements

Case I – Dolphins & Tunas

- **problem** – same prey of dolphins and tunas causes killing dolphins during industrial hunting of tunas (millions during 60s and 70s)
- **measures**
 - USA under the pressure of environmental activists enforced the Marine Mammal Protection Act in 80s
 - banned “encirclement nets” and imports from countries that allow them
 - stopped imports of tuna from Mexico, Venezuela, Vanuatu; secondary from Costa Rica, Italy, Japan, Spain, France, the Netherlands Antilles and UK, bec. they did not permitted imports of “unsafe” tuna

Case I – Dolphins & Tunas

– results

- Mexico made a complaint to a panel of the GATT (General Agreement on Tariffs and Trade) about discrimination in breach of international agreements
- GATT panel canceled import ban

– conclusions

- state cannot discriminate all producers, base import bans on their nationality and do not react on individual practices of the producer
- it is possible to prefer environmentally safer practices by labeling and let consumers to choose

Case I – Dolphins & Tunas



Case II – EU vs. RF (Pigs & Pork)

- **problem** – two wild boars in Lithuania and two in Poland died of African swine fever in 2014
- **measures** – ban on import of pigs and pork to Russian Federation from whole EU
- **results**
 - after unsuccessful diplomatic negotiations EU complained to DSB (Dispute Settlement Body) of WTO (World Trade Organization)
 - whole case was complicated by Ukraine crisis; generally RF accessed WTO in 2012, but continues with protectionist actions based on real (but exaggerated) reasons or political decisions
 - ban canceled in 12/2017 after WTO intervention

Case III – Czech Methanol Case

- **problem** – in the end of 2012 methanol in spirits killed 47 Czechs, 3 Poles, dozens of people were hospitalized with serious health problems
- **measures**
 - Slovakia ban import of all spirits made in the Czech Republic until all the bottles had new duty stamps and special documents to avoid the distribution of the defective alcohol on Slovak market
 - measures in Poland were similar
- **results** – the ban was canceled after three weeks when the main actions against the defective alcohol were made

Case III – Czech Methanol Case

- **conclusions** – it is possible and in compliance with international agreements to ban import of some kind of goods from particular country, if
 - the measures are adequate to the situation,
 - do not discriminate any producer and
 - are finished as soon as the situation changes to normal.

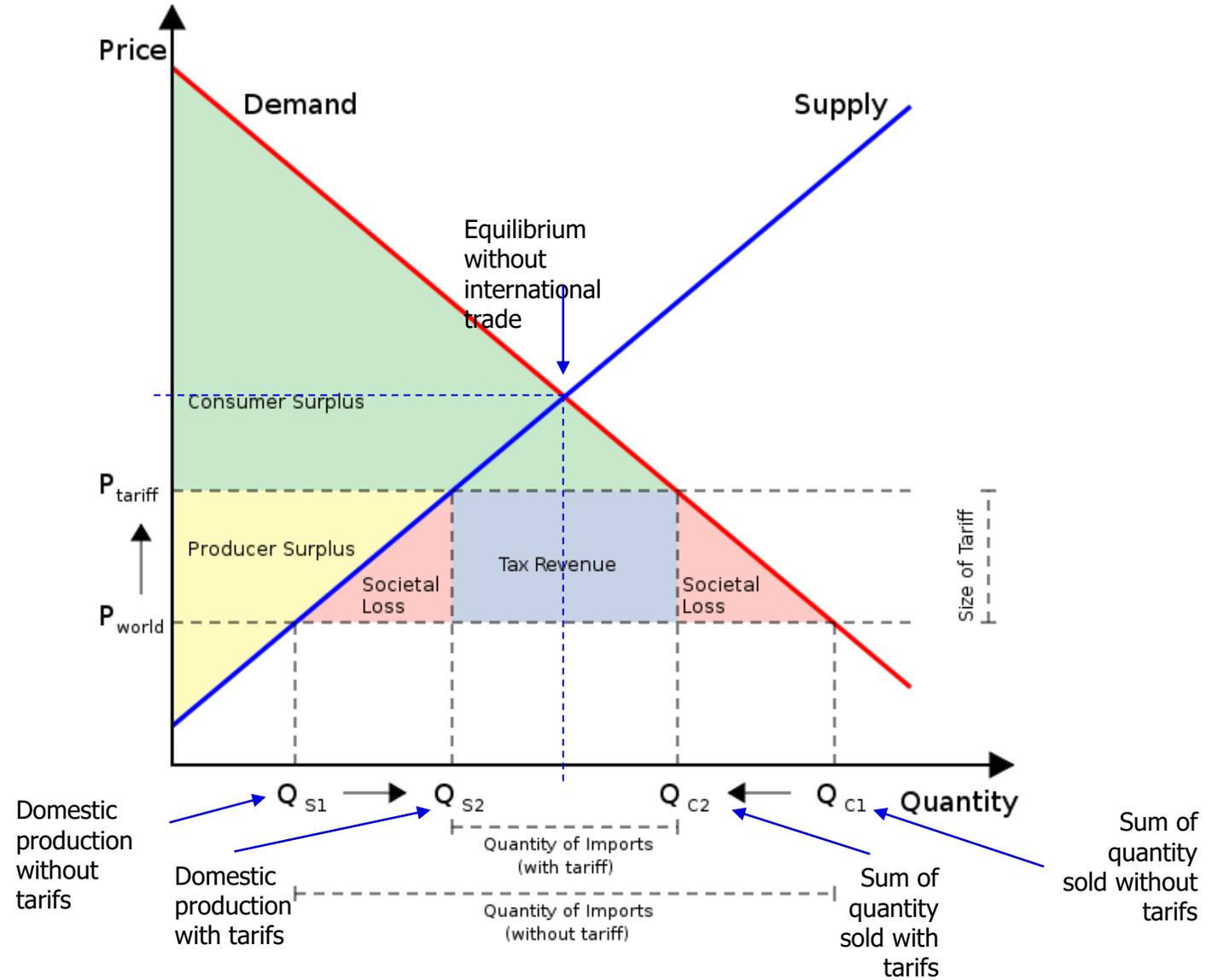
International Trade Policy

- brief macroeconomic theory
- arguments for free trade
- arguments against free trade
- principles of political negotiation

Macroeconomic Theory

- **prerequisite** – small country unable to influence world prices, low tariffs
- what are the effects of the tariff for
 - domestic suppliers?
 - domestic consumers?
 - quantity of imports?
 - production distortion?
 - consumption distortion?

Effects of Tariffs



Rent Seeking

- wasteful activities of producers
- reacts on protectionist measures
 - overproduction during politically important periods (e.g. due to license processes, administrative restrictions, filling quotas,...)
 - costs for warehousing and distribution of overproduced goods

Arguments FOR Free Trade

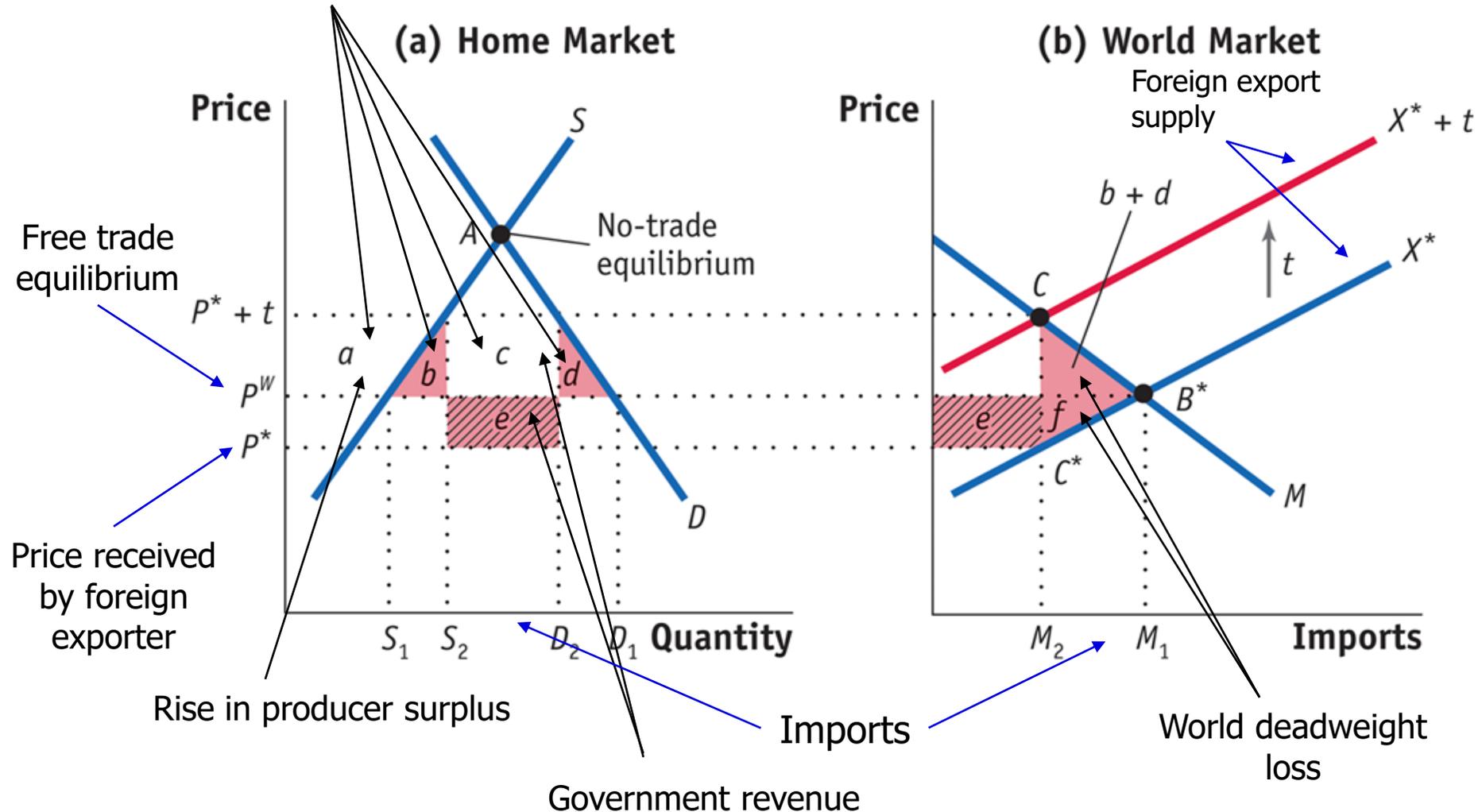
- increased national welfare for small open economies
- increased competition
- economies of scale
- incentives for innovation
- better trade efficiency
- restrictions of lobbying activities
- lower prices for consumers
- stable inflation rate
- comparative advantage application

Arguments AGAINST Free Trade

- increased national welfare for large economies (in short term)
 - (low) tariff → less imports, higher exports → lower world prices → terms-of-trade gains higher than domestic distortions
- but
 - whole world welfare lowers (even if tariff is “optimal”)
 - tariffs causes retaliatory tariffs and measures

Arguments AGAINST Free Trade

Fall in consumer surplus



Arguments AGAINST Free Trade

- clearing of market failures
 - markets are not perfect – do not allocate fast enough all resources, do not react flexibly etc.
- but – who is clever enough to find and count the best solution and foresee all consequences?

Arguments AGAINST Free Trade

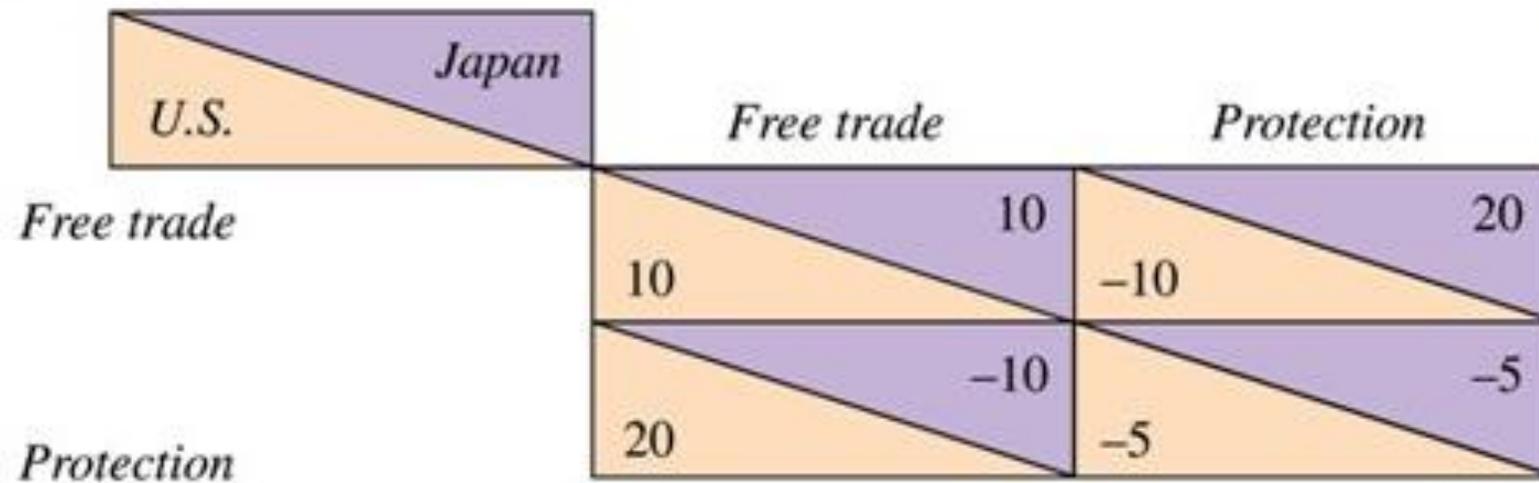
- stable industrial structure
- strategic industries should be under the state control
- short term regulation of the unemployment out of the market
- independence of imports

Summary

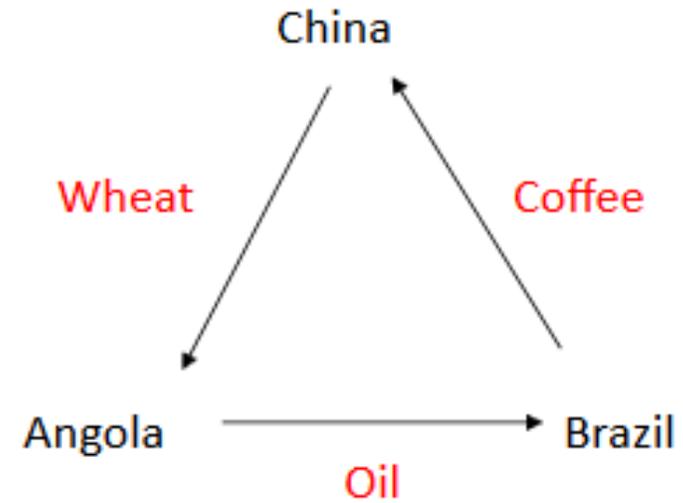
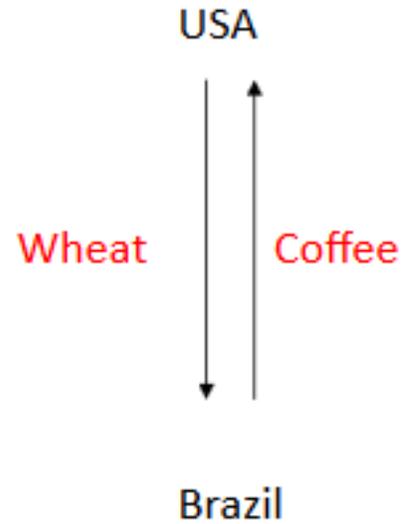
- large conventionally measured costs of deviating from free trade
- immeasurable benefits from free trade (innovations, dynamic development of market, clearing by competition and better allocation of resources)
- politicians are not economists and they are “for sale”
- priorities of politicians are different from “national welfare”

Political negotiations

- Why should states negotiate about international trade?
- Prisoner's dilemma in Game theory



Political negotiations



International Trade Agreements

- World Trade Organization
- World Customs Organization
- World Bank Group
- International Monetary Fund

- many, many, many others (free trade areas, customs unions, agreements about commodities, EU agreements, ...)

World Trade Organization (WTO)

- Brief history (from GATT to WTO)
- Marrakesh Agreements
- Functions, principles and rules
- Dispute resolutions
- Doha Round
- Criticism of the WTO

WORLD TRADE
ORGANIZATION



WTO in the World



Brief history (from GATT to WTO)

- after WWII – Bretton Woods institutions (WB, IMF)
- 1944 – suggestion of ITO
- 1947 – “GATT 1947” (23 members)
- 1948 – ITO refused by USA
- 1948–1986 – 7 rounds
- 1986–1994 – Uruguay Round
- 1994 – Marrakesh Agreements establish WTO
- 2001–? – Doha Development Round
- 2016 – 164 members (98 % of the world trade)

- development of GATT/WTO aims
 - reducing tariffs → anti-dumping agreements → eliminating non-tariff barriers
 - services and intellectual property → involvement of developing countries into international trade

Marrakesh Agreements

- Uruguay round 1986–1994
 - Agreement establishing WTO
 - GATT 1994
 - Trade Related Investment Measures (TRIMS)
 - General Agreement on Trade in Services (GATS)
 - Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)
 - Dispute settlement understanding (DSU)
 - Reviews of governments' trade policies (TPRM)

Functions

- functions
 - oversee the implementation, administration and operation of the covered agreements
 - review and propagate the national trade policies
 - provide a forum for negotiations and for settling disputes
 - assistance of developing, least-developed and low-income countries in transition to adjust to WTO rules and disciplines through technical cooperation and training

Principles and Rules

- Non-discrimination
 - Most-favoured nation rule
 - National treatment policy
- Reciprocity
- Binding and enforceable commitments
- Transparency
- Safety valves

Most-Favoured Nation rule

- WTO member must apply the same conditions on all trade with other WTO members.

National treatment policy

- Imported goods should be treated no less favorably than domestically produced goods (at least after the foreign goods have entered the market).

Dispute Resolutions

- one member country adopts a trade policy measure or takes some action that one or more fellow members consider to a breach of WTO agreements or to be a failure to live up to obligations
- countries agreed to use the multilateral system of settling disputes instead of taking action unilaterally
 - abide by agreed procedures
 - respect judgments of the DSB

Dispute Resolutions (approx. durations)

- 60 days – Consultations, mediation, etc.
- 45 days – Panel set up and panellists appointed
- 6 months – Final panel report to parties
- 3 weeks – Final panel report to WTO members
- 60 days – Dispute Settlement Body adopts report (if no appeal)

Total = 1 year (without appeal)

- 60–90 days Appeals report
- 30 days Dispute Settlement Body adopts appeals report

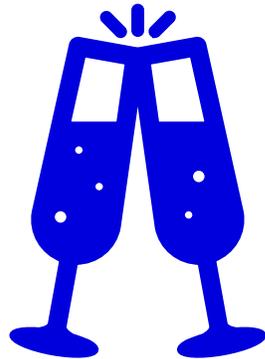
Total = 1 year 3 months (with appeal)

Dispute Resolutions – Results

- members settle their dispute themselves at any stage of the process
- dispute is settled by consultations (approx. 2/3 of cases)
- member carry out recommendations and rulings of DSB within the “reasonable period”
- if not – mutually agreed compensation, e.g. grant of a concession by the respondent state on a product or service of interest to the complainant state
- if the compensation is not agreed, DSB authorize request for temporary retaliatory measures (quotas, tariffs, etc.)

But...

- ...neverending story of Airbus and Boeing
- lasts from 2004
- ended in 2021



Doha Development Round

- 2001 – ???
- **issues** – tariffs, non-tariff measures, agriculture, labor standards, environment, competition, investment, transparency, patents and many more
- **disagreements** – agriculture, industrial tariffs and non-tariff barriers, services, and trade remedies, drug patents
- conflicts between
 - developed nations and developing countries
 - EU and USA (agriculture subsidies)

Criticism of the WTO

- works much more for developed countries and multinational corporations than for developing and low-income countries
- developing countries are not able to negotiate effectively, have less experience, capacities and information
- increases the gap between poor and rich
- undermines national sovereignty
- is destroying the environment
- ignores labor issues
- ...

World Customs Organization

- development of international conventions, instruments, and tools on
 - commodity classification and valuation,
 - rules of origin,
 - collection of customs revenue rules,
 - supply chain security,
 - international trade facilitation,
 - customs enforcement activities,
 - protection of Intellectual Property Rights,
 - assistance with customs reforms and modernization,
 - ...

World Customs Organization

- 1952 (Customs Co-operation Council)
- 182 members
- 98% of all international trade
- maintains the international Harmonized System goods nomenclature (H.S. code)

List of **SOME** Other Agreements

- United Nations (UN, UNCTAD, UNDP, UNEP, ...)
 - World Bank Group (WBG)
 - International Monetary Fund (IMF)

- European Union (EU)
- European Free Trade Association (EFTA)
- North American Free Trade Area (NAFTA)
- Central America Free Trade Area (CAFTA)
- Central European Free Trade Area (CEFTA)

- Organization of the Petroleum Exporting Countries (OPEC)

- League of Arab States
- Commonwealth
- North Atlantic Treaty Organization (NATO)

Back to cases

- international institutions and agreements
 - are more efficient way how to solve disputes
 - establish the rules for international trade
 - limit costs of bilateral agreements
 - eliminate bilateral trade wars
 - limit sovereignty of states
 - counteract protectionism and retaliatory measures

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Questions...?

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Thank You!

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