Trade negotiations and WTO

- History of GATT and WTO

GATT: General Agreement on Tariffs and Trade

Origins: negotiations after WWII to create the International Organization of Trade aborted in 1948 (US congress refused to ratify the agreement)

GATT negotiated in 1947 between 23 countries (12 industrialised and 11 developing)

Beginning of GATT: essentially agreements to lower tariffs but progressively other questions (non tariff barriers and national polices with a trade effect)

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Uruguay Round (last successful Round of negotiation of GATT) in 1994: creation of World Trade Organisation (WTO)

- 148 member countries today (more than 100 developing countries)

2 main objectives:
- liberalisation of international trade
- settlement of trade disputes between members

Negotiations are becoming longer and more difficult: more countries, more complex subjects, more lobbies, more publicity (see Seattle 99, Cancun 2003)

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Main trade negotiations of GATT

<table>
<thead>
<tr>
<th>Year</th>
<th>Main subjects</th>
<th>countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>Tariffs</td>
<td>23</td>
</tr>
<tr>
<td>1960-61</td>
<td>-------------------------------</td>
<td>26</td>
</tr>
<tr>
<td>1964-67</td>
<td>---------------- + anti-dumping measures</td>
<td>62</td>
</tr>
<tr>
<td>1973-79</td>
<td>---------------- + non tariff barriers</td>
<td>102</td>
</tr>
<tr>
<td>1986-94</td>
<td>---------------- + non tariff barriers</td>
<td>123</td>
</tr>
<tr>
<td></td>
<td>rules, services, intellectual property</td>
<td></td>
</tr>
<tr>
<td></td>
<td>disputes settlement, textiles</td>
<td></td>
</tr>
<tr>
<td></td>
<td>agriculture, creation of WTO</td>
<td></td>
</tr>
</tbody>
</table>
Two main principles:  
1. non discrimination
   - a. Most Favoured Nation (MFN)
      If a country lowers its tariffs on a trade partner, all members benefit from it (reduces negotiation costs+ benefits smaller countries)
      Exceptions: regional agreements (European integration, NAFTA etc...300 agreements in the past 10 years), discrimination in favour of developing countries (preferential access)-
   b. Equal treatment of foreign and national producers (no national tax or specific regulation on foreign products)
      However, can be turned through sanitary regulations …to increase cost of market access

2. Reciprocity
   Negotiations: countries exchange concessions on market access but also regulations, intellectual property rights …
   - justifications: 1) political economy
      costs of trade liberalization are concentrated on a few sectors (well organized politically). Benefits (consumers) are not well politically organized and politically with small individual interest. Allows to organize domestic interests (exporters who benefit from foreign market access) that are favourable to liberalization
   2) limits « free riding » effect

<table>
<thead>
<tr>
<th>Pays</th>
<th>concessions received</th>
<th>given</th>
<th>difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>UE</td>
<td>1,94</td>
<td>2,19</td>
<td>-13</td>
</tr>
<tr>
<td>US</td>
<td>1,21</td>
<td>1,07</td>
<td>+12</td>
</tr>
<tr>
<td>Japan</td>
<td>2,06</td>
<td>1,06</td>
<td>+49</td>
</tr>
<tr>
<td>Argentina</td>
<td>0,98</td>
<td>0</td>
<td>+100</td>
</tr>
<tr>
<td>Brazil</td>
<td>1,37</td>
<td>0</td>
<td>+100</td>
</tr>
<tr>
<td>India</td>
<td>1,22</td>
<td>6,16</td>
<td>-405</td>
</tr>
<tr>
<td>S. Korea</td>
<td>1,87</td>
<td>5,99</td>
<td>-220</td>
</tr>
<tr>
<td>Turkey</td>
<td>1,72</td>
<td>3,00</td>
<td>-74</td>
</tr>
<tr>
<td>Thailand</td>
<td>1,33</td>
<td>5,93</td>
<td>-346</td>
</tr>
</tbody>
</table>

Weighted tariff reduction: \(d\text{Tari}ff / (1+\text{Tari}ff)\); difference: received - given in % of received
Other WTO rules (in general do not apply to developing countries as strongly)
- No export subsidies (except agriculture)
- No unilateral import quotas except if risk of market "disorganisation" in practice very large increase in imports (see textiles)
- Any rise in tariffs must be compensated by a reduction of another tariff on the exporter country

GATT, WTO and trade negotiations
- Members of WTO (not the secretariat) that decide to launch negotiations
- Negotiations require large specialist teams (big problem for the developing countries delegations)
- Decisions are taken through consensus (rarely a vote, in this case one country = one vote) ⇒ long negotiations
- Preliminary negotiations limited to few countries:
  Quad: Canada, EU, Japan, US
  + Main exporters and exporters of the product

"Green room meetings" process
A few actors (mainly the "quad") discuss a compromise; crucial role of general secretariat in this case (Supachai Panitchpakdi after 2002, Pascal Lamy today)
Difficult and unfair when more than 100 developing countries are WTO members
Practice very much criticized by developing countries during Seattle (1999), excluded from main negotiations + lack of transparency
Explains partly the failure of negotiations in Seattle where developing countries refuse to launch a new Round
### Before Uruguay Round:
mainly reciprocal concessions between industrialized countries on market access but no agreement on agriculture and textiles

- Kennedy Round (1967): average reduction of 35% of tariffs
- Tokyo Round (1979): tariffs reduction, agreement to mitigate non-tariff barriers

Developing countries give and receive few concessions on market access and use special treatment principle. Those products (agriculture, textile ...) of most interest to them are excluded from negotiations on liberalisation.

### Uruguay Round: 1986-1994
Longest cycle (delay of 4 years), most complex and on the brink of failure many times

Concessions of industrialized countries: opening of markets on agriculture (very limited), textile and clothing (more ambitious but see what happened)

In exchange: commitment of developing countries on intellectual property rights and services

For the first time, questions non directly linked to trade (administrative reforms) are included.

### 1) Trade liberalization
- tariffs: decrease of tariffs of almost 40% (but already low)
- agriculture: modest liberalisation but puts subject on negotiation table; industrialized countries commit on a 6 year period (10 years for developing) to decrease by 36% the value of subsidies to production. But tariffs on imports and subsidies to exports remain high
- textile: progressive elimination (10 years, mainly 2003-2004) on Multifiber agreement (quantitative restrictions on imports (tariffs remain)
- Some rules on market access for public procurement
### 2) Administrative reforms

- creation of WTO:
  - New process for settlement of trade disputes
  - Eliminates necessity of consensus to put a panel in place
    panel (3 to 5 members, experts from countries non involved) if dispute between 2 members
  - Panel report can be rejected only by consensus of members of Dispute Settlement Body
  - authorizes plaintiffs to take compensatory sanctions if favorable judgment

### Progress brought by dispute settlement

- First step towards a system of multilateral rules that gives less power to big countries
- Process is faster (including appeals, around 3 years)
- Increase in the number of complaints from both industrialized and developing countries
- Example: US have been condemned based on Brazilian complaint on cotton subsidies

### Problems

- Principle of differential and preferential treatment for developing countries has remained mostly theoretical
- Technical assistance for developing countries is very insufficient (no African country among plaintiff)
- Most disputes involve industrialized countries
complaints by
ind. developing
Complaints against
ind. 89 35
developing 65 18

More complaints by industrialized countries (EU and US mostly) but not if compared to share in world trade

3. Agreement on trade in services
(20% of total trade but 60% world GDP)
- liberalization of services trade implies the elimination of regulatory barriers (not tariffs) and non discriminatory rules
- liberalization of FDI
- MFN principle does not apply to services except for those that the country decides to open
- Developing countries opened less sectors than US and EU
- Debate on certain public services (education, health)
4. Agreement on intellectual property rights (patents, copyright)

most controversial aspect: Imposed by industrialized countries and little connection with trade

- Obligated member countries to put in place new and costly administrative structures for developing countries
- Deadline
  - 1996: industrialized countries
  - 2000: DCs
  - 2005 now 2013 (2016 for drugs patents)
: LDCs

Cost for DCs:
- limit technology transfers (counter-arguments: intellectual property rights necessary for R&D and necessary to attract FDI)
- Creation of costly administrative structures
- direct cost to pay the patents (or forbidden to buy generics); looks like a deterioration of the terms of trade

Uruguay Round implications:
Net gains clear for the North: decrease of its own tariffs (consumers); exporters of goods and services; intellectual property rights (TOT improvement)
Less clear for South: less concessions obtained than given (but initially DCs had a higher level of protection), direct costs for intellectual property rights and patents
Frustration of DCs + more power at WTO:
Seattle failure (1999): demands of industrialized countries on environment and social norms interpreted by DCs as protectionism
Uruguay Round impact on world trade 1995-2002
Exports South: +9.4% per year
Exports of North: +4.1% per year
Market shares: South: 26.8% (+5.5); North: 73.2% (-5.5)
But unequal: Growth of market shares
CEECs-Turkey: +31.4%
Developing Asia: +22.3%
Latin America: -0.9%
Africa: -21.5%

The Doha Round (started 2001): Development Round?
- After Seattle (1999), danger for DCs: multilateralism supplanted by regionalism et bilateralism + protectionism (in the US especially)
- Launch of a new Round (Doha Round) supposed to be more favorable to DCs
But new failure in Cancun (sept 2003): already late
Three main disagreements:
- Singapore subjects
- Access to drugs
- agriculture

Trade Negotiations are very difficult (next week Honk-Kong)
- Consensus required
- Sign on everything (no choice “à la carte”)
- emergence of DCs as powerful actors: G22 has become key with EU and US (Nord-South divide)
- Heterogeneity of South (G22 versus G90). Difficult coalitions
The main groups at WTO: source Fontagné et Jean (2003)

North-South conflict and Southern heterogeneity

Average tariff (in %) weighed on Quad markets (2001)

<table>
<thead>
<tr>
<th>Exporter</th>
<th>Agriculture</th>
<th>clothing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>North DC</td>
<td>LDC</td>
</tr>
<tr>
<td><strong>EU</strong></td>
<td>12,6 12 0,3</td>
<td>11 7,9 0</td>
</tr>
<tr>
<td><strong>USA</strong></td>
<td>9,9 8,6 20,8</td>
<td>12,4 13,7 15,3</td>
</tr>
</tbody>
</table>

Source: Bouet et alii (2004)

- 2 sectors where tariffs are still high
- LDCs have less interest to multilateral liberalization because of “preference erosion”

Gains of elimination of highest tariffs (> 15%) : % increase in exports

<table>
<thead>
<tr>
<th>Exporter</th>
<th>Elimination on all DCs</th>
<th>on LDCs only</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LDC other DC</td>
<td>LDC</td>
</tr>
<tr>
<td><strong>EU</strong></td>
<td>0,9 18,5</td>
<td>37,5</td>
</tr>
<tr>
<td><strong>USA</strong></td>
<td>20,5 20,4</td>
<td>29,2</td>
</tr>
</tbody>
</table>

1) Singapore topics:
- investment, transparency of public procurement markets, trade facilitation (at the border)
Subjects that were put on the table by a few countries jets (EU, Japan, S. Korea): rejected by LDCs

2) Access to drugs (consequence of the Uruguay Round)
- Under the pressure of developing countries (S. Africa and Brazil) NGOs (MSF) commitment (in 2003) to let developing countries to produce and import generics for diseases such as Aids, TB and malaria
- Difficult negotiations between developing countries and EU+US on the list of diseases

Until Dec 2005, problem was:
- countries could only break patents for drugs produced by domestic manufacturers to serve the home market (India, S. Af. have this capacity not very poor countries).
- Difficult for countries to get waiver to import generics. But unclear that workable: waiver to the rules are difficult to get for poor countries also because producer countries need to change their patent laws
- two economic issues: patents are good for R&D + problem of re-exports to industrialized countries

Economic analysis of generics and international trade
- True that patents (monopoly rights) are required to give incentive to do R&D (huge fixed cost) but argument makes sense when market exists at high price (developed countries) not for LDCs (at the cost of non generics market does not exist any way)
- Problem for labs : transparency on the price difference between generics and non generics (1 to 10)
- to see this analysis of monopoly (patent) facing two markets (demands) from rich and poor
**Unsolved problem for Hong-Kong meeting (tomorrow!)**

**Agriculture:**

2 main reasons for disagreement in Cancun: a) tariffs (market access), b) export subsidies

- a) market access of DCs made difficult by very high tariffs (> 100% as for dairy products or for meat): EU proposal to reduce max. tariffs but not those effectively applied
- b) export subsidies remain very high (90% : for EU; 2% for US but more if credit programs for exports are included): proposal of US and EU to eliminate them gradually too timid for G22. Cotton prices are for example very low because of production and export subsidies in US
Importance of the form of subsidies: issue of decoupling

Subsidies take the form of guaranteed prices, production subsidies, export subsidies and lump sum subsidies not linked to present production. These “decoupled” subsidies create less distortions in particular on international trade

- France refused to renegotiate CAP bef. 2006, and no effective change before 2012: EU cannot make concessions to DCs if no reform of CAP (and will not get concessions on services and manufacturing by emerging countries)

Guaranteed prices, subsidies, exports and lumpsum subsidies

What do farmers receive? Surplus increases by : ABCD

Problem: guaranteed price (as subsidy) creates distortion: surplus of production

Other solution (European Commission): lump sum subsidy (not linked to production but may be to environmental conditions etc…) to all farmers. Then \( P = \) equilibrium price; produces at \( C \)

Resistance from farmers: in part because transfer (on average around 1000 €/farmer but very unequally distributed as 15% get 60% of all subsidies) become very transparent politically (political economy reason behind protectionism)
Perspectives on trade negotiations:
- DCs have become key players (one country=one vote): role of G90 and even more G22
- Seattle and Cancun debacles have allowed clarification
- Danger for DCs: more bilateral and regional liberalization that would further marginalize the poorest (Africa)
- Without a compromise on agriculture emerging markets will refuse to open on manufacturing + services
Hong-Kong meetings do not look promising: either big failure if no agreement (what is the use of WTO and multilateralism will be next question?) or small agreement which will let developing countries frustrated (where is the “development” in the development round?)

Important topic too: South-South protectionism

Empirical evidence on trade and growth
- Do more open country grow faster? If such positive relation exists, what is the sense of causality? How do you measure openness?
- Typical growth equation tested on 30 years+100 countries
  \[ g_t = \beta_0 + \beta_1INV + \beta_2PIB_0 + \beta_3H + \beta_4POP + \beta_5COM + \epsilon_t \]
  - \( g_t \): average growth rate on period; \( INV \): average investment rate; \( PIB_0 \): initial GDPcap; \( H \): investment in human capital; \( POP \): growth rate population
  - COM: effect of trade on growth

Sachs-Warner (95): COM: index 0 - 1 closed - open
Closed if one the following:
- Average tariff > 40%
- Quantitative restrictions apply to more than 40% of imports
- Socialist economic system
- State monopoly on main exports
- Black market premium on currency >20%
Find very large and significant effect: countries with no criteria above grow 2.5% faster: criteria identify Latin America + Africa
Other measures of openness:

- \((\text{Exports} + \text{Imports})/\text{PIB}\)

Again (controlling for other usual determinants of growth) positive effect on growth

- Problem of «reverse causality »

\[
\begin{align*}
\text{growth of GDP/cap} \\
\uparrow \\
? \\
\downarrow \\
(\text{Exports} + \text{Imports})/\text{PIB}
\end{align*}
\]

Use what we know from gravity equations:
geography – surface; access to see; distance - (not caused by GDP/cap) causes trade

Instrumental variables strategy: Frankel et Romer (1999), 150 countries, 1985

Estimated trade is caused by geography then used in the income equation

An increase of 1% in \((\text{imports}+\text{exports})/\text{GDP}\) due to geography causes to a 2% increase in GDP/cap. Large!

Result suggestive of the positive role of trade but not definitive on the role of trade policies that open countries to trade