

Lecture 24
International Trade: EEP/Economics C181
The US and Global Framework for Trade Policy

I. Gains from Regional Trade Agreements other than pure economic welfare gains

What are other gains from these unions (aside from the above welfare gains)

- (1) Increased competition for those in the union.
- (2) Increased benefits from a large market: economies of scale
- (3) Lower transaction costs (ie border controls, transport costs)
- (4) More negotiating power vis-vis third parties
- (5) Terms of trade gains
- (6) Joint projects like communications
- (7) Greater product diversity

Implications for Business Strategy

- (1) If you are outside the regional agreement, need to make sure you will not be shut out when internal tariffs fall and make your goods artificially more expensive (ie trade diversion). In that case, it may make sense to move in via foreign investment (joint venture or subsidiary) if the region constitutes a large share of your export market.
- (2) If you are already inside, you could still lose from the additional competition. You may need to restructure to face the additional competition.
- (3) As an outsider to the bloc (Japan, the developing countries vis-a-vis NAFTA and the EEC) it makes sense to try to keep blocs from growing or to form your own bloc in "retaliation".

II. The US Trade Policy Apparatus
Players

US trade representative (USTR)

Negotiates international trade agreements for the US

US Department of Commerce

It determines whether a foreign trade practice is unfair (examples: Dumping, subsidies). And assesses antidumping and countervailing duties

US International Trade Commission (USITC)

It determines whether import competition has injured domestic firms

US Congress

Constitutional right to "regulate commerce with foreign nationals and Between several states"

Ratifies into law trade agreements negotiated by USTR, can pass other trade legislation.

Important provisions of the Legal framework of the US Trade Policy:

US Industries can seek special protection from imports through various channels:

Escape Clause

- Provides temporary protection to US industries hurt by import competition (injury to domestic industry must be serious, imports must be the most important cause of injury)
- Foreign trade practices do not have to be unfair
- USITC rules and recommends the protection to the president, the measure must be ratified by congressional legislation

Anti-dumping duties and countervailing duties

- Import-competing firms file a complaint to the Commerce Department and USITC
- Material injury and foreign dumping or subsidies must be proven

- Commerce department ascertains the existence of foreign dumping or subsidy, US ITC rules on the injury.

Section 301 of Trade Act

- Covers actions of foreign governments—exporters can complain that foreign markets are closed and get USTR and the president to impose retaliatory duties.

Fast Trade authority:

US president has a right to negotiate trade agreements and then ask Congress to pass the necessary legislation without amendment within 90 working days

Why does it matter?

III. The World Trading Environment.

Some Terms you should know:

General Agreement on Tariffs and Trade (GATT) Originally negotiated in 1947 - 48 to promote expanded trade among its members and avoid the protectionism which exacerbated the prewar depression years.

The Uruguay Round The latest round of trade negotiations conducted by the GATT. Began in 1986 and was ratified by the US in 1994. Went into effect on January 1, 1995. The Uruguay round established the WTO (defined below) as the new body which would implement the multilateral trade agreements adhered to by all members. The WTO currently more than 140 members.

[NOTE: for the latest info on members go to the WTO web site at www.wto.org]

World Trade Organization (WTO) Established by the Uruguay round to police the trade and investment practices of its members. Creates the ITO that never was. It formalizes the rules and procedures of the GATT and extends them to the new agreements on services and intellectual property rights. The WTO's dispute settlement body (DSB) is supposed to have the final say on any international trade disputes arising between members.

Most Favored Nation (MFN) principle means that any tariff reduction agreed to by any two members of the WTO must be conferred on all other members of the organization.

Question: Suppose you import vinyl dolls from China. Why should its MFN status matter to you?

IV. What did the Uruguay Round Accomplish?

The Uruguay Round went into effect on January 1, 1995. What were its principle achievements? How does it change world trade?

- Changes in Tariffs
- Agriculture.
- Textiles and Clothing: elimination of Multi-Fibre Agreement (MFA) on January 1, 2005.
- TRIMS (Trade related investment measures)
- TRIPS (Trade-related Intellectual Property Rights).
- Services. The GATS (General Agreement on Trade in Services)
- Anti-dumping and countervailing duties.

V. The new (failed) round: The Doha Round

A Ministerial conference in Seattle in November 1999 was supposed to launch the next round of trade negotiations, the Millennium Round. But massive protests from anti-globalization forces cut it short. The round was finally launched in Doha in November 2001. It was supposed to address agricultural trade and export subsidies. Another big focus was on opening up DC markets to emerging markets exports. Poorest country exports account for only 1/2 of 1 percent of world trade. So this was supposed to be the "Development Round". The Round "failed" because countries could not agree on cutting agricultural subsidies, during July of 2008.