

## ECN330 – OUTLINE OF LECTURE SESSIONS FOR MODULE 2

### Sessions 2-5. WTO Rules and Commitments on Trade in Goods: Analyzing Market Access

#### 1. MA Restrictions: Trade in Goods - Imports

##### 1.1 GATT: rules/disciplines on MA restrictions

- 1.1.1 Trade policies that restrict trade
- 1.1.2 Instruments with equivalent effect
- 1.1.3 Objectives of MA restrictions
- 1.1.4 Profile of tariffs and trade taxes

##### 1.2 Obligations, rules and disciplines

- 1.2.1 Most Favoured Nation (MFN)
- 1.2.2 National treatment
- 1.2.3 Predictability
- 1.2.4 Transparency
- 1.2.5 Reciprocity
- 1.2.6 Safeguards and exemptions

##### 1.3 Tariffs preferred to quotas / quotas are prohibited (with exceptions)

Structure of the World Trade Organization			
Goods	Services	Intellectual Property	Trade disputes
GATT	GATS	TRIPS	DSM
Agreements and annexes	Annexes		
Schedule of commitments	Schedule of commitments		

#### 2. Economics of the rules on MA restrictions

##### 2.1 Economic meaning of non-discrimination

- 2.1.1 MFN-consistency of a trade policy measure (tariff)
- 2.1.2 National treatment consistency of a domestic regulation (e.g., domestic excise tax)

##### 2.2 Rules on the use of MA instruments: tariffs (specific or *ad valorem*) and quotas

- 2.2.1 Use of tariffs rather than quotas – rules and theoretical underpinnings
- 2.2.2 Equivalence of tariffs and quotas: economic, trade and welfare effects
- 2.2.3 Non-equivalence of import tariffs (*ad valorem* and specific) and quotas
  - [1] Dynamic non-equivalence: changes in excess supply or demand
  - [2] Non-equivalence under risk and uncertainty: price/market instability
  - [3] Non-equivalence under heterogeneous goods – **Module 2 exercise**
    - [a] Trade and welfare effects of specific tariffs and volume quotas
    - [b] Trade and welfare effects of *ad valorem* tariffs and value quotas
  - [4] Non-equivalence under imperfect competition – Module 4

##### 2.3 General exceptions: GATT Article XX

#### 3. Market Access Commitments on Goods: Industrial and Agriculture

##### 3.1 MA commitments under WTO structure

- 3.1.1 MA rules/disciplines are applied the same to all (with exceptions)
- 3.1.2 Commitments are country specific based on what each country negotiated

##### 3.2 UR-GATT commitments: bindings, tariffication and reductions

- 3.2.1 Industrial goods: bound rates and reduction commitments
- 3.2.2 Agricultural goods: bound rates on 1986-88, tariffication and reduction commitments
  - [1] Scheduled MA commitments illustrated: Norway, Albania (WTO acceding country)
  - [2] Tariffication: conversion of a quota into a tariff

##### 3.3 Assessing compliance and degree of liberalization: profiling MA regimes of selected countries

- 3.3.1 Bound vs applied tariff rates, general
- 3.3.2 Profiles of MA regimes
  - [1] Bound vs applied rates, non-*ad valorem* rates, tariff bindings, TRQs and SSGs in DCs
  - [2] Distribution of tariff rates for agriculture and industrial goods – developed countries
  - [3] Average tariffs in high-income countries and effect on developing countries
  - [4] Distribution of tariff rates for agriculture and industrial goods – developing countries
  - [5] Norway's tariff schedule and imports by HS product category

##### 3.4 MA issues in agriculture: rates of protection; mega tariffs and tariff escalation

##### 3.5 Tariff-rate quotas (TRQs)

- 3.4.1 Illustration of the mechanics of a TRQ: in-quota rate, MFN rate and MA quota
- 3.4.2 TRQ application by member countries, by product
- 3.4.3 TRQ application methods
- 3.4.4 TRQ performance: case of meat, Norway

#### 4. GATT Rules on Exports (Restrictions) and Economics of the Rules

##### 4.1 General obligations and trade disciplines on the export regime

4.1.1 Export policies that increase exports (e.g., subsidies) are subject to stricter disciplines

4.1.2 Export policies that restrict exports are less strict

[1] No bound ceiling on use of export taxes – they are temporary measures

[2] Fewer limits on the use of domestic regulations that restrict exports

##### 4.2 Types of export restrictions and objectives

[1] TOT and revenue implications

[2] Decrease dependence on commodity trade – industrialization

[3] Food security – access to food for poor

##### 4.3 Economics of export restrictions

##### 4.3.1 Export tax and quota equivalence / non-equivalence

[1] Equivalence

[a] Ad valorem and specific export tax in blue

[b] Export quota in red

[c] Economic, trade, and welfare effects same

[2] Dynamic non-equivalence (instability in ED)

##### 4.3.2 Why WTO members care about export restrictions?

[1] Terms of trade implications – large-country case

[2] Implications for related domestic sectors

[3] Restrictions based on national security/industrial policy

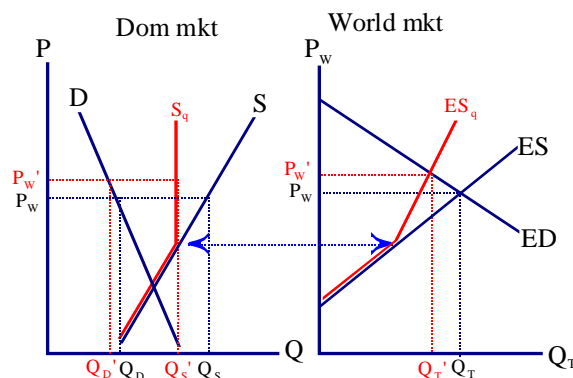
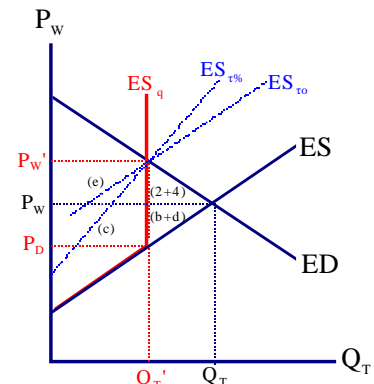
##### 4.4 Symmetry of export and import quotas and use in practice

4.4.1 Export quota and import quotas have similar effect

4.4.2 Import quotas are political and usually applied as export quotas

##### 4.5 Non-equivalence of a production quota (domestic regulation) and export quota

[production quota shown below as a limit on production at  $Q_S'$ , kinked supply,  $S_q$ ]



#### 5. Localization Programs and WTO Government Procurement Agreement

##### 5.1 Buy local programs/policies: localization restriction

5.1.1 Buy local: soft approach (not regulated) or hard approach (regulated)

5.1.2 Justification for buy local rules

##### 5.2 WTO Government Procurement Agreement

5.2.1 Plurilateral agreement on bidding/contracting practices consistent with WTO principles

5.2.2 Problems with weak enforcement of GPA

##### 5.3 Boycotts, sanctions, embargoes: economic nationalism, national security and industrial policy

#### 6. Trade-Related Investment Measures (TRIMs)

##### 6.1 Background on foreign direct investment (FDI) and cross-border capital flows

6.1.1 WTO treatment of investment flows is incoherent under GATT, GATS and TRIPS

6.1.2 Limitations of the theory: relation between FDI and trade is unclear

6.1.3 Distortion of FDI distorts trade in goods: restricting and attracting FDI

##### 6.2 Trends in FDI and regs on FDI

6.2.1 Trends and investment regs

6.2.2 Illustrative list of TRIMs

6.2.3 Violation of WTO disciplines, principles or rules

##### 6.3 Modelling the MA effect of a local content requirements vs tariff/quota or closed market

## **7. WTO Agreements on Sanitary and Phytosanitary Measures and Technical Barriers to Trade**

### **7.1. SPS Agreement: concerns and issues for the WTO**

#### **7.1.1 SPS objectives: human, animal and plant health and protection; and environment**

#### **7.1.2 Concerns and issues for the WTO**

- [1] Free trade vs safety restrictions; standards vs national sovereignty
- [2] "Harmonization" vs "principle of mutual recognition"
- [3] Rules-based trade and scientific evidence; risk assessment
- [4] WTO consistency: non-discrimination, predictability and transparency

### **7.2 Objectives of the TBT Agreement, TBT concerns and issues for the WTO**

#### **7.2.1 Objectives: product safety, packaging, labelling, pharmaceutical regulations**

#### **7.2.2 TBT concerns and issues for the WTO**

- [1] Technical regulations: product characteristics, process/production methods
- [2] Conformity assessment: sampling procedures, testing, inspection, evaluation, verification, assurance, grading, standardization; registration, accreditation, approval
- [3] WTO consistency: mandatory (non-discriminating) compliance; predictability and transparency
- [4] "Harmonization" of international practices vs "principle of mutual recognition"

### **7.3 Differentiating between SPS and TBT concerns**

#### **7.3.1 Description of regulatory action**

#### **7.3.2 Objective**

### **7.4 Importance of the WTO SPS and TBT Agreements**

#### **7.4.1 Trends in agribusiness and food and value-added trade**

#### **7.4.2 Absence of a multilateral agreement**

#### **7.4.3 International standards: EU *aquis communautaire*,**

#### **7.4.3 Codex Alimentarius, and CITES: conditions for trade bans**

### **7.5 SPS and TBT: theory and practice – need for regs against trade protection**

#### **7.5.1 Market failure and price signals**

#### **7.5.2 No asymmetric information on buyer's side**

#### **7.5.3 Identical production functions and homogeneous product**

#### **7.5.4 Risks preferences assumed to be identical or risk preference ignored**

#### **7.5.5 No externalities related to environment or safety**

### **7.6 Trade disputes involving SPS and TBT**

#### **7.6.1 Case of US-/Can-EU hormones in beef dispute**

#### **7.6.2 Case of the EU – Peruvian sardine dispute**

#### **7.6.3 Case of the US – Malaysia shrimp dispute**

#### **7.6.4 Concluding comments about international standards and national sovereignty**

## **8. Doha Round Negotiations and Bali Agreement**

### **8.1. Modalities on agriculture: Doha and Bali**

#### **8.1.1. Tariff cuts on agricultural lines**

#### **8.1.2. TRQs, tariff escalation, preferential MA, flexibilities**

#### **8.1.3. Right to designate sensitive products**

### **8.2. Modalities on non-agricultural goods**

### **8.3. Concluding comments on MA from Doha / Bali talks**

## **9. Concluding Comments on MA**

### **9.1 Is there theoretical consistency of the WTO rules and disciplines?**

### **9.2 Were the MA commitments taken/proposed appropriate for stability of the multilateral system?**

### **9.3 How do MA restrictions affect/relate to the trends in international supply chains?**

## Review Questions: Module 2

**Sections 1-4.** What are the WTO basic principles? Are the basic principles based on sound economic theory? How do the WTO principles relate to the rules governing a country's import/export regime? How do the WTO principles relate to the commitments and obligations of a member country? What are the different types of trade policies that restrict imports? What are the objectives of different policy measures that affect imports? What is the difference between trade policy and domestic regulations? How do domestic regulations have equivalent effect to market access restrictions? What are the objectives of domestic regulations, and how are such measures treated under the rules of the WTO? What are the economic implications of various market access restrictions? Are market access restrictions consistent with the basic principles? What are the conditions for tariff-quota equivalence and non-equivalence? Why are *ad valorem* tariffs preferred to specific tariffs? What are measures with equivalent effect to export restrictions, what are their objectives and how are such measures treated under the rules of the WTO? Why should member countries care whether another member decides to limit the volume of its exports? Why are quotas not preferred by economists in theory? Is this consistent with the principle of non-discrimination? How much flexibility or policy space do the WTO principles give countries in terms of their ability to use trade policy to meet specific social policy objectives? What is and how important is GATT Article XX? What are the different types of trade policies that restrict exports? What are the objectives of different policy measures that affect exports? Should the rules on imports be treated different (in their application/implementation of commitments) than rules on exports? Have WTO rules and commitments implied a liberalization of countries' MA regime and fostered policy reform?

**Section 5.** What is the theoretical relationship between FDI and trade? What are trade-related investment measures (TRIMs)? How do TRIMs distort trade? How do TRIMs distort FDI? Can TRIMs be considered as domestic regulations with equivalent effect to a tariff or quota? Which GATT principles or WTO rules are violated when investment measures are inappropriately applied? Why does the WTO TRIMs Agreement apply to trade in goods but excludes trade in services?

**Section 6.** How do regulations related to SPS or TBT objectives differ and why are the differences significant? How do the WTO principles relate to regulatory objectives under SPS/TBT? Do SPS and TBT regulations serve as potential obstacles to trade or do they facilitate trade? What limitations from economic theory apply to the reality of the need to use domestic regulations? How do domestic regulations differ from the use of trade policy to achieve specific objectives? What are the trade policy equivalent of SPS and TBT measures? What is the difference between harmonizing regulations across countries rather than applying the principle of mutual recognition? Where are SPS regulations harmonized? Are countries obliged to adopt international regulations on SPS or TBT? How do SPS/TBT regulations correct/address a legitimate problem or do they substitute for trade policy? How might SPS/TBT regulations fill in a theoretical gap left by simplistic assumptions under trade models?

**Sections 7-8.** How has the WTO Agreement on Agriculture transformed international trade in agricultural products? How do WTO rules, principles and commitments apply to trade in agricultural products? What are market access restrictions under agriculture? Why are tariff-rate quotas allowable under the rules? How is a TRQ supposed to work? Does the method of administration of TRQs matter for the fill rates of the quota? Are quota rents from a TRQ a matter for the WTO? How serious have member states taken their MA commitments in industrial goods and agricultural products? Was the UR-GATT commitments a good first step? How has agricultural trade become more liberalized through the reforms requiring greater market access under the agreements and rules of the WTO? What would the implications be of a Doha round conclusion? What does Bali imply?