

EC246-2-AU – Lecture 7
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WTO Multilateral Trade Agreements

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Plan of talk

- **Introduction**

- 1. Agreed rules**

1. Trade in goods (GATT)
2. Sector-specific multilateral agreements
3. Trade in services (GATS)
4. Protection of intellectual property (TRIPs)

- 2. Holes and loopholes**

1. Safeguards and exceptions
2. Regional integration
3. Plurilateral agreements

- **Wrap-up**

Aim and learning outcomes

- **Aim:** understand the *rules agreed* and the *exceptions allowed* under GATT, GATS and TRIPs
- **Learning outcomes**
 - distinguish WTO *components*: GATT, GATS, TRIPs
 - understand how the above *multilateral* agreements differ from the *plurilateral* agreements annexed to WTO
 - discuss the specificity of trade in *services* and *intellectual property*
 - clarify the conditions under which *regionalism* is legally allowed within WTO *multilateralism* of trade relations

WTO: trade in *goods* (GATT)

- Governments pursue **trade policies** for various *reasons*
 - as a means to *raise revenue*
 - to *protect specific industries* (infant, senile or other)
 - to *shift ToT* (if industry/economy big relative to the world market)
 - to *attain* certain *foreign policy or security goals*
 - to *restrict consumption of specific goods*
- GATT **regulates** the use of trade policy by WTO members, encouraging the *least distorting* and *most transparent* measures
- 3 broad *categories* of trade policy **instruments**:
 1. measures that affect **quantities**, restricting volume or value
 2. measures that affect **prices**, such as monetary fees (taxes)
 3. measures that *indirectly* affect **quantities or prices**

WTO and *tariff* barriers

- **Tariffs:** the *only* instrument of protection **allowed**
 - preference for tariffs is consistent with *economic theory*: tariffs are (i) transparent, (ii) linking automatically domestic and foreign price levels, (iii) government revenue generating, (iv) reducing lobbying incentives, (v) unambiguous in measuring (a) nondiscrimination and (b) NRP or ERP
 - 2 basic *rules*: must be (i) nondiscriminatory and (ii) binding
 - *tariff bindings*: members commit to not imposing a tariff higher than the *bound rate* for a product (*tariff line*) => publish *tariff schedules*
- **Para-tariffs:** (i) taxes on foreign exchange transactions, (ii) internal taxes on imports, (iii) service fees affecting importers, (iv) special import surcharges – **should not be used**
- **Tariff escalation:** if duty rates on *raw materials* and *intermediate* products are *lower* than those on *processed* commodities that embody the relevant inputs => *uniform* tariff

WTO and *nontariff* barriers

- **QRs** and related *import licensing*: prohibited in principle, **exceptions** allowed for agriculture and BoP purposes
 - **Customs-clearance provisions**: *valuation, classification* and *determining origin* of goods to levy taxes or collect statistics **may become NTBs** if officials do them *incorrectly* =>
 - Agreement on Implementation of Art. VII of GATT: customs valuation
 - World Customs Organisation (WCO), Brussels: Harmonised Commodity Description and Coding System (HS): classification
 - Kyoto Convention (1974, revised 1998): rules of origin
 - **Subsidies** and **CVDs**: WTO *Agreement on Subsidies and Countervailing Measures* distinguishes (i) *nonactionable*: for R&D or disadvantaged regions (ii) *prohibited* and (iii) *actionable*: permitted but may, if adverse effects, give rise to consultation, DSB or CVMs
 - **Technical regulations, product standards, certification systems, sanitary and phytosanitary measures**: **should not discriminate**
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WTO and TRIMs

- The value of sales by **foreign affiliates of multinational firms** exceeds global exports of goods and services
- Most countries encourage **FDIs**: 1600 bilateral investment treaties negotiated as of 1999 (UNCTAD)
- Yet many countries subject multinationals to *performance requirements* such as **trade-related investment measures (TRIMs)**: **prohibited** in a *list* by Uruguay Round and WTO
 - local content (of inputs): most applied but *inefficient* (act as tariffs)
 - domestic sales
 - technology transfer
- TRIMs are justified from an economic point of view only in the case of *domestic distortions* or *externalities* from FDI: in the absence of such market failures, optimal policy is **laissez faire**

WTO and *sector-specific* MTAs

- Recall from earlier lectures why and how governments granted *special treatment to special sectors* => *reintegration* of these sectors within WTO
 - **agriculture**
 - *Agreement on Agriculture* with 4 main parts, (i) market access (recall summary of results at the end of Lecture 5), (ii) domestic support, (iii) export competition, (iv) sanitary and phytosanitary measures
 - *agricultural protection remains high in high-income countries*: Hertel et al. (2000) estimate that farm policies of OECD economies (even after taking into account the reforms under Uruguay Round) cause annual welfare losses for developing countries of some USD 40 bln, which is 4 times higher than in textiles and clothing
 - **textiles and clothing**
 - *Agreement on Textiles and Clothing*: essentially stipulates MFA to be phased out in 10 years (recall summary of results at the end of Lecture 5)
 - supervision of the implementation entrusted to *Textiles Monitoring Body*
- *Information Technology Agreement*: another type, “zero-for-zero”, deal (1997) eliminating tariffs among 39 signatories (90% of world IT trade) over 3 years

WTO: trade in *services* - issues

- 1980s: countries began undertaking *regulatory reforms* to increase the **contestability** (\Rightarrow efficiency) of service markets
- Services were long believed to be (and many, in fact, remain) **nontradable**, since they also definitely are
 - **intangible**: “you cannot drop a service on your foot” (*The Economist*)
 - **nonstorable**: cannot be stored in inventory
 - **heterogeneous**: nonstandardised and tailored (differentiated)
 - **subject to “joint production”**: produced and consumed at the same time
- **Poor statistics** on services
- Unlike tariffs on goods, barriers take the form of prohibitions, QRs and **government regulation**: novel *indirect measures* of “revealed” openness (Francois and Hoekman, 2000) have found average tariff equivalents higher than those for goods

WTO: trade in *services* - GATS

- **4 elements** (of GATS)
 1. general principles: MFN
 2. *specific* commitments: apply to sectors *listed* in schedule
 3. understanding that periodic negotiations will be undertaken to further liberalise
 4. annexes on sector-specific disciplines and implementation
 - **4 modes of supply** in the exchange of services (under GATS)
 1. cross-border supply: e.g., transportation (similar to trade in goods)
 2. movement of the consumer: e.g., tourism
 3. commercial presence of an entity of the supplier: e.g., a foreign affiliate
 4. temporary movement of natural persons
 - **2 sector-specific agreements** (under GATS)
 1. financial services
 2. telecommunications
 - **E-commerce:** *mix* of telecommunications, information, financial, express delivery services => affected by GATT, GATS, TRIPs
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WTO: *intellectual property* (TRIPs)

- Multilateral cooperation in **intellectual property rights (IPRs)** dates back more than a century, e.g., dealing with trade in *counterfeit goods*
- But rules became *enforceable* only after WTO creation: **Annex 1C**
- **Intellectual property** \equiv *information* that has economic value *when* put into use in the marketplace (Maskus, 2000)
 - *knowledge goods*: result of *R&D* or *creative expression*
 - **industrial property rights**: protect *inventions* through *patents*
 - **copyrights**: protect *literary* and *artistic* works
 - *other goods*: allow *product differentiation* through *brands*
 - **trademarks**: e.g., *Coca-Cola* soft drink or *Levy's* jeans
 - **marks/certificates of origin**: e.g., *noix de coquille de Saint-Jacques* case
- **Knowledge as a public good** with *zero marginal cost* \Rightarrow **trade-off** b/n zero price (*free access* to knowledge) and permitting a *temporary monopoly* to provide incentives for innovation/arts

WTO: holes and loopholes

- In principle, any international trade agreement contains
 - **exceptions:** *permanent* waiver from some aspect(s) of the general obligations
 - **safeguard provisions:** *temporarily* cease to apply normal obligations under specified (i.e., predefined) circumstances and in order to protect certain overriding interests
 - *safety valve* function: renege on commitments should the need arise
 - *insurance* function: without such safeguards, governments may refrain from signing international (trade) agreements
- WTO makes use of **both** types of safeguard clauses

WTO: (permanent) *exceptions*

- **Measures limited to an *industry*** that are *nondiscriminatory* and are *not* a “disguised restriction on trade” **to safeguard**
 - (i) public morals, (ii) health, (iii) laws, (iv) natural resources
- ***Economy-wide measures***: only 3 cases, **to safeguard**
 - (i) national security, (ii) BoP, (iii) general exceptions
- **Renegotiation of concessions**: allows a country to raise tariffs above previously *bound* rates but affected exporting countries should be *compensated*
 - *open season*: every 3 years following a binding
 - *special circumstances*: when *approved* by GATT/WTO
 - *reserved right*: any time within 3 years following a binding if *notification*

WTO: (temporary) *safeguards*

- **Waiver:** from one or more *other obligations* – US 1955 waiver
- **Emergency protection** and **VERs**: if serious damage to domestic industry *but* affected exporting countries should be *compensated*
- **Antidumping (AD) actions**: in response to *dumped* imports (dumping)
- **Countervailing measures (CVMs)**: in response to *subsidised* imports
- **Trade restrictions for BoP purposes**: if *BoP* or *currency* crisis
- **Infant industry protection**: to establish an industry in a *developing* country

WTO (multilateralism) and *regional integration agreements (RIAs)*

- A fundamental principle of WTO is nondiscrimination, yet both GATT and GATS allow for **regionalism** within the MTS but impose *conditions* and *surveillance*
- GATT Art. XXIV: *preferential trade agreements*, if:
 1. trade barriers for “outsiders” do not rise on average
 2. tariffs among “insiders” are fully and quickly removed
 3. WTO is notified about the formation of the FTA / customs union
- GATS Art. V: *economic integration*, if:
 1. substantial sectoral coverage: in terms of (i) the number of sectors, (ii) volume of services trade and (iii) modes of supply affected
 2. elimination of all measures violating national treatment *in sectors where* specific commitments have been made under GATS
 3. no higher trade barriers against “outsiders”

WTO: *plurilateral* agreements

- GATT 1947: a treaty that functioned on the basis of **consensus** among CPs
=> difficult to amend or expand
- **Codes of conduct**: negotiated in non-GATT areas by groups of like-minded countries in the 1960-1970s to bind only signatories
- Most such codes were mapped into WTO during the Uruguay Round, but 4 (all from the Tokyo Round) were not multilateralised => **WTO Annex 4**
 - 2 of these 4, the *International Bovine Meat Agreement* and the *International Dairy Agreement*, were dissolved in September 1997
 - the remaining 2 still apply, as **conditional MFN** agreements: members are free to discriminate against nonsignatories
 1. *Government Procurement Agreement (GPA)*: government agencies procure goods and services as inputs into the production of public goods (defence, education, health, infrastructure, utilities) => MFN and transparency extended to *tendering procedures* of selected government entities
 2. *Agreement on Trade in Civil Aircraft* (+ USSR/Russia, by exception): disputes b/n Boeing and McDonnell Douglass (now merged) vs. Airbus

Concluding wrap-up

- **What have we learnt?**
 - what the rules agreed under WTO encompass
 - in what sense trade in services differs from trade in goods
 - how intellectual property rights are protected
 - under what conditions regionalism is allowed for within the multilateral spirit of WTO
 - in what sense *multi*- (MFN) and *pluri*- (*conditional* MFN) *lateral* agreements coexist and apply under WTO
- **Where we go next:** to some empirical and practical aspects of trade flows, policies and negotiations