

# INTERNATIONAL ECONOMICS

**Lecture 10 — January 17, 2023**

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## Last week (and before)

- So far: determinants of international trade
- Now: behavior of governments: Trade policy
  - Partial equilibrium within sectors
- Trade policy: subsidies and tariffs, NTBs

**W T O**

# History of the WTO

- General Agreement on Tariffs and Trade (GATT, 1948)
- Uruguay round (1986-1994) leads to WTO in 1995
- GATT only goods trade, WTO encompasses GATS (services) and TRIPS (intellectual property)

# History of the WTO

<i>Year</i>	<i>Name (location)</i>	<i>Subjects covered</i>	<i>Number of countries</i>
1947	Geneva	Tariffs	23
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960–61	Dillon Round (Geneva)	Tariffs	26
1964–67	Kennedy Round (Geneva)	Tariffs and antidumping measures	62
1973–79	Tokyo Round (Geneva)	Tariffs, nontariff measures, “framework” agreements	102
1986–94	Uruguay Round (Geneva)	Tariffs, nontariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO, and so on	128
2001–present	Doha Round	To be determined	To be determined

Source: WTO website, “The GATT Years: From Havana to Marrakesh” ([www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/fact4\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm)).

# Principles of the WTO

“ The trading system should be

- **without discrimination** — a country should not discriminate between its trading partners [...]; and it should not discriminate between its own and foreign products, services or nationals;
- **freer** — barriers coming down through negotiation;
- **predictable** — foreign companies, investors and governments should be confident that trade barriers [...] should not be raised arbitrarily; tariff rates and market-opening commitments are “bound” in the WTO;
- **more competitive** — discouraging “unfair” practices such as export subsidies and dumping products at below cost to gain market share;
- **more beneficial for less developed countries** — giving them more time to adjust, greater flexibility, and special privileges.”

# Principles of the WTO

## Most-favoured-nation principle (MFN)

- Tariff reductions for *one* partner have to be granted for *all* WTO members
- Exceptions: regional trade agreements, special conditions for developing countries

## National treatment

- Foreign and domestic companies have to be treated equally once goods have crossed the border

# Principles of the WTO

## Free trade

- prior and future negotiations should lead to freer trade

## Predictability and transparency through binding and enforceable commitments

- rules-based system of the WTO should create environment where firms can export and invest with predictable trade barriers
- WTO members required to publish trade regulations and relevant barriers



# Principles of the WTO

## Fair competition

- competition should be fair, allows for dispute settlement and countervailing duties/subsidies

## Development principle

- rules should contribute to development of the poorest nations
- low development countries are given special treatment in accession process

# TARIFFS & SUBSIDIES

# Tariffs & subsidies

- Raise competitiveness of domestic firms
- Protection of inefficient but “important” or “infant” industries
- Domestic workers gain, consumers lose

# GATT / WTO

- GATT/WTO: reduction/abolition of tariffs and subsidies
  - GATT article XIX allows for exceptions: "safeguards"
  - temporarily withdraw concessions due to
    - "unforeseen developments"...
    - "negotiated concessions"...
- ... which result in sharply increase imports and therefore "cause or threaten serious injury to domestic producers."

# Example USA: Safeguards

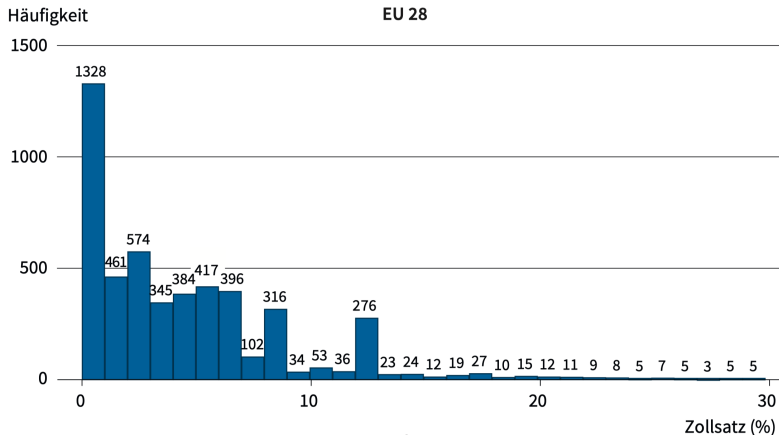
- Article XIX in national law in the US: Section 201, Trade Act (1974)
  - 1980 – 2011: 31 applications for “escape clause” protection, only 9 successful
- Section 421 eases requirements in response to Chinese accession to WTO in 2001

# Example USA: Safeguards

- Dumping: Foreign company sells same product cheaper abroad than domestically, or below average costs
  - more than 1200 cases between 1980 and 2011, 548 successful
- in more than 150 cases agreement of both parties and no anti-dumping measures introduced

# Example USA-EU: Tariffs

Histogramm der Außenzölle von der EU und den USA (2016)



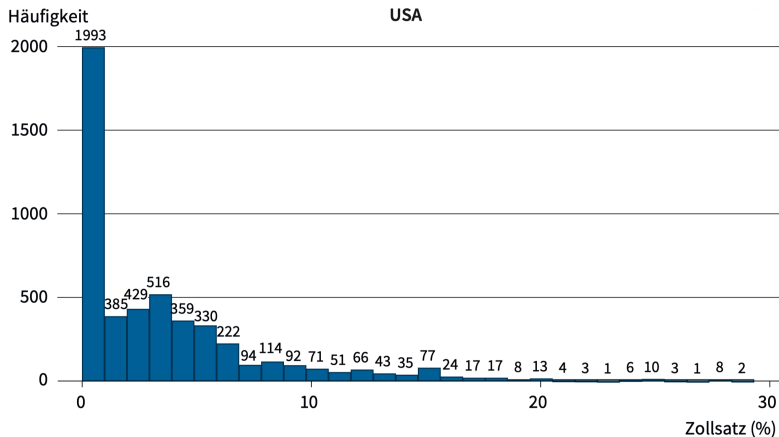
Die Balken messen die Anzahl der Produkte (HS92, 6-Steller), die zwischen  $x$  und  $x + 1$  Prozentpunkten liegen, wobei  $x$  eine ganze Zahl zwischen 0 und 30 ist. Zwecks besserer Übersichtlichkeit sind keine Spitzenzölle dargestellt.

Quelle: ifo Zolldatenbank; Darstellung des ifo Instituts.

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# Example USA-EU: Tariffs

## EU- versus US-Außenzölle in breiten Warenkategorien

	Anzahl der Produkte	EU		USA	
		Mittelwert	Median	Mittelwert	Median
1 Beförderungsmittel	132	4,0	2,7	3,0	1,0
2 Chemische Industrie	759	4,7	5,5	2,9	3,4
3 Fette & Öle	52	9,5	5,7	3,4	2,6
4 Holz	79	2,4	1,0	1,5	0,0
5 Kunstgegenstd. & Antiquitäten	7	0,0	0,0	0,0	0,0
6 Kunststoffe	189	4,7	6,1	3,6	3,7
7 Lebende Tiere	194	19,8	12,0	3,1	0,0
8 Lebensmittel, Getränke & Tabak	181	18,3	16,4	8,3	4,0
9 Leder	74	2,2	2,0	3,4	2,5
10 Mechanische Geräte & Elektrotech.	762	1,9	1,7	1,5	0,9
11 Mineralische Stoffe	151	0,3	0,0	0,3	0,0
12 Optische Instrumente	230	2,3	2,4	4,6	1,9
13 Papier & Pappe	149	0,2	0,0	0,1	0,0
14 Schmuck	52	0,6	0,0	2,2	0,0
15 Schuhe	55	7,3	4,7	8,0	5,9
16 Spinnstoffe & Bekleidung	809	7,9	8,0	9,0	8,6
17 Steine & Glas	138	3,4	3,0	3,5	2,9
18 Unedle Metalle	587	2,1	1,7	2,0	1,3
19 Verschiedene Waren	131	2,5	2,7	2,8	1,5
20 Waffen & Munition.	17	2,5	2,7	1,3	1,1
21 Waren pflanz. Ursprungs	270	11,5	5,7	2,7	0,9
Alle 6-Steller Produkte	5018	5,2	3,3	3,5	2,3

Die Produktkategorien entsprechen den HS-Sektionen.

Quelle: ifo Zolldatenbank, Darstellung des ifo Instituts.

## Example USA-EU: Tariffs

- Tariffs generally very low
- Focus on NTBs (e.g. in TTIP, CETA, ...)

**M O D E L**

# Assumptions

- Homogeneous goods
- Perfect competition
- Trade in a single industry
- Trade policy from point of view of domestic government
  - no strategic component

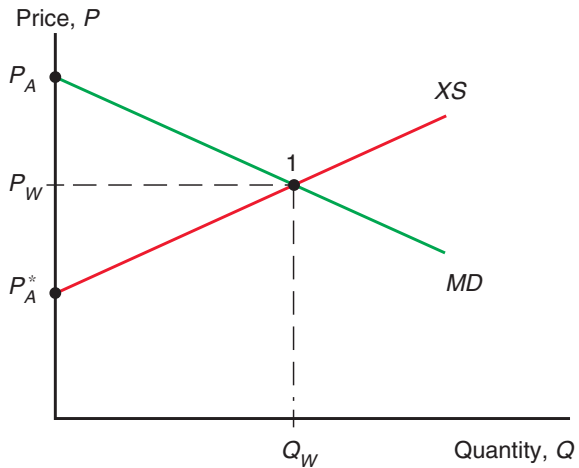
# Domestic market — Excess demand



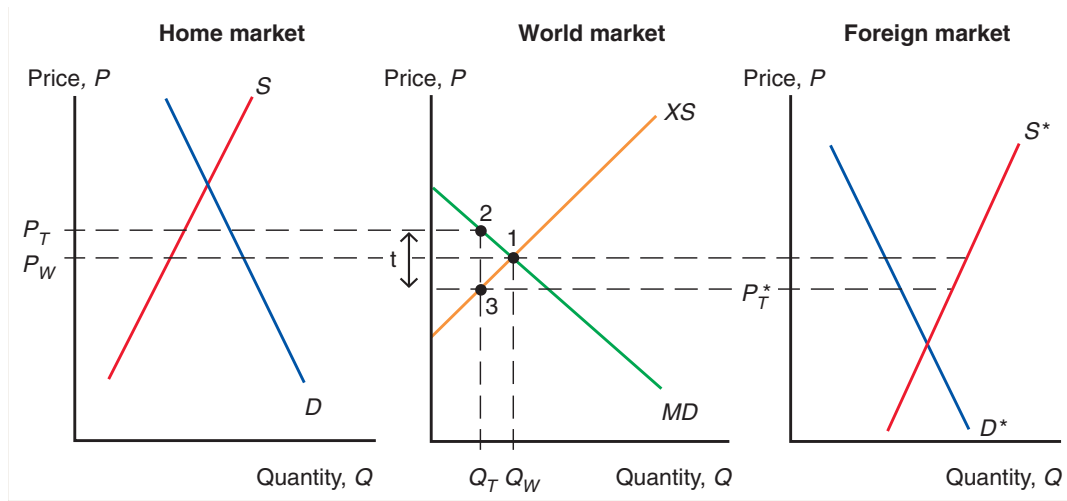
## Foreign market — Excess supply



# Equilibrium

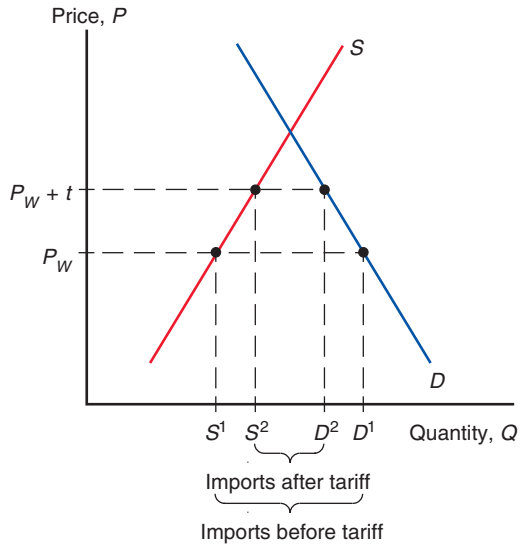


# Introduction of tariff





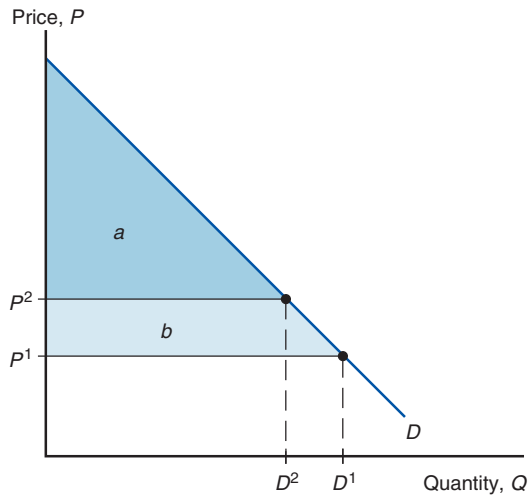
# Small economy



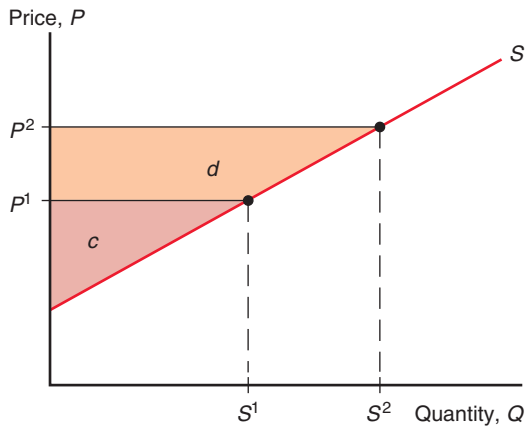
# Welfare

- Consumer surplus: Difference between willingness to pay and price
- Producer surplus: Difference between price and costs
- Government income: Imported quantity  $\times$  tariff

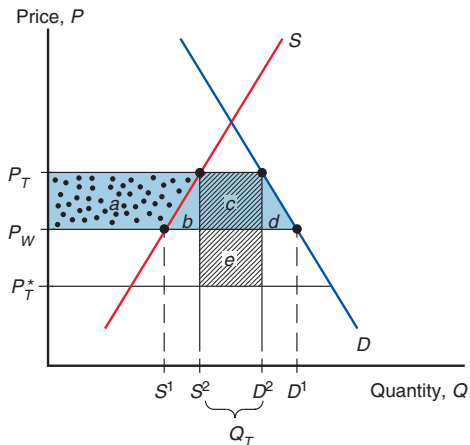
# Consumer surplus






# Producer surplus

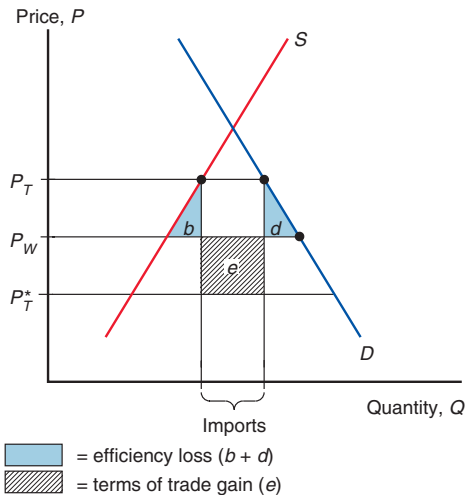


# Welfare with and without tariff



-  = consumer loss ( $a + b + c + d$ )
-  = producer gain ( $a$ )
-  = government revenue gain ( $c + e$ )

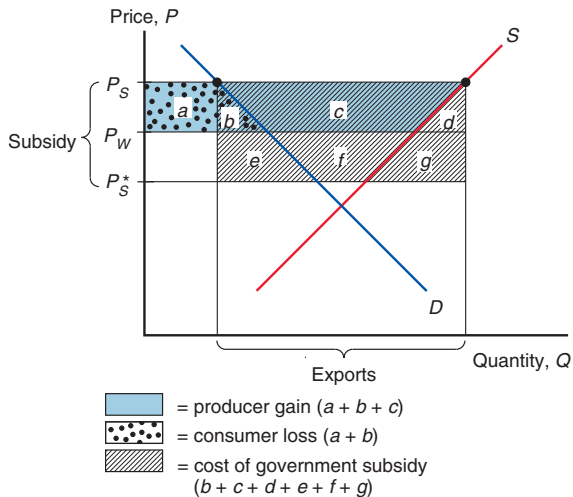
# Welfare with and without tariff



# Export subsidy

- export subsidy: Payment to company that exports abroad
  - ad valorem or fixed sum per unit
- price per unit increases domestically, effective price abroad decreases
  - increase in competitiveness of domestic firms

# Welfare effect of export subsidy






# Export subsidy

- Prices at home rise to level of effective prices abroad
- Prices abroad decrease if firms have market power
  - increases necessary subsidy
  - welfare effect negative in any case

# Tariffs in the news

 **REUTERS**



BusinessMarketsWorldPoliticsTVMore

**BUSINESS NEWS** MAY 17, 2019 / 2:34 PM / A YEAR AGO


## Trump declares some auto imports pose national security threat

David Shepandson

6 MIN READ

WASHINGTON (Reuters) - U.S. President Donald Trump on Friday declared that some imported vehicles and parts pose a national security threat but delayed a decision for as long as six months on whether to impose tariffs to allow for more time for trade talks with the European Union and Japan.



- in reality WTO restrictions disregarded
- further motives: special interest groups and elections

The unprecedented designation of foreign vehicles imported to the United States from some of its closest allies sparked anger from automakers, dealers and foreign

# Tariffs in the news

The New York Times

## *With Higher Tariffs, China Retaliates Against the U.S.*



The Yangshan Deep Water Port in Shanghai, China. The Chinese government said on Monday that it would raise tariffs on goods from the United States as of June 1, giving negotiators from the two countries time to strike a deal. *Ally Song/Reuters*

By Keith Bradsher

May 13, 2019

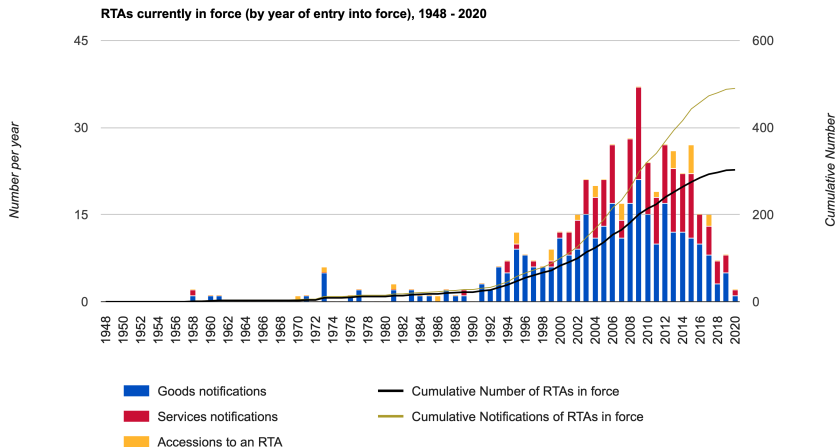


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- usually: retaliation by target country  
→ strategic problem

# REGIONAL TRADE AGREEMENTS

# Regional Trade Agreements



Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. The cumulative lines show the number of RTAs/notifications currently in force.

Source: WTO Secretariat - June 14, 2020

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# Single European Act — European Common Market

- European Community has customs union since 1968
- in 1992: common market
  - "Single European Act"
  - (almost) no non-tariff barriers like border checks or national regulation and standards
- welfare gains through large common market: scale economies
  - but: markets have remained remarkably separated

# Other important regional trade agreements

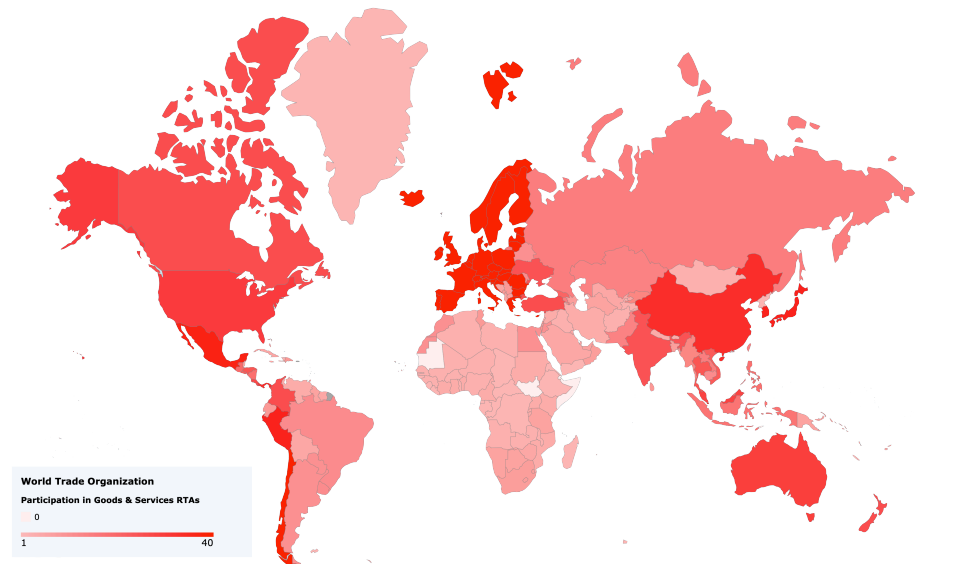
- NAFTA: founded in 1989 by USA, Mexico and Canada
- Mercosur: founded in 1991 by Argentina, Brazil, Paraguay and Uruguay
  - since then a number of accessions
- ASEAN: Asian/Pacific countries recently implemented RCEP
  - not including India and USA

## Currently: EU-Japan, TTP, TTIP

- JEFTA: FTA between EU and Japan (2016)
  - CETA: FTA between EU and Kanada (2017)
  - TTIP: FTA between EU and USA (2016, negotiations paused)
  - TTP: FTA between USA and Pacific countries (2017, now without US CPTPP)
  - Brexit: Negotiations over status of UK (with EU and towards third countries)
- generally already low tariffs, focus on NTBs



# Map of regional FTAs



# Conclusion

- Tariffs: Welfare losses for small countries, ambiguous for large country
- In reality: Anti-dumping more important than industry protection
- further motives: Internalizing externalities, e.g. environmental and labor protections
- “recent developments”: Regional trade agreements between WTO members