



WORLD TRADE
ORGANIZATION



Asia-Pacific
Economic Cooperation



Chapter 10

International Cooperation Among Nations

Learning Objectives

At the end of this chapter, you should be able to:

10.1 Explain the importance of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) to international businesses

10.2 Contrast the different forms of economic integration among cooperating countries

10.3 Analyze the opportunities for international businesses created by completion of the European Union's internal market

10.4 Describe the other major trading blocs in today's world economy.

Introduction

- Previous chapter - explored ways in which governments intervene in international trade and investment
- Adapting restrictions - benefit some of producers and workers
- Retaliate with similar or other restrictions
- Restrictions increased - international trade affected - decline end up all losing
- Start realizing better to cooperate

The General Agreement on Tariffs and Trade and the World Trade Organization (GATT & WTO)

- To ensure that post World War II international peace not threatened by trade wars, representatives of leading trading nations met in Havana, Cuba, in 1947 to create the International Trade Organization (ITO) mission was to promote trade - **Never came into being**
- Next General Agreement on Tariffs and Trade (GATT) took over ITO's mission - agreement between nations
 - From 1947 - 1994 signatories fought to reduce barriers create policies and overcoming problems to promote trade
- In January 1995 - GATT replaced by WTO
 - **Adopted GATT's mission**

The Role of the GATT

- Promote Free and Competitive International Trading Environment
- Sponsoring multilateral negotiations to reduce tariffs, quotas, and other nontariff barriers - 8 negotiating rounds

- Tariffs imposed by developed countries fell from an average of more than 40% in 1948 to approximately 3% in 2005

Table 10.1 GATT Negotiating Rounds

Round	Dates	Number of Participants	Average Tariff Cut (%)
Geneva	1947	23	35
Annecy	1949	13	NA
Torquay	1950–1951	38	25
Geneva	1956	26	NA
Dillon	1960–1962	45	NA
Kennedy	1964–1967	62	35
Tokyo	1973–1979	99	33
Uruguay	1986–1994	117	36

The Role of the GATT

- Most Favored Nation (MFN) Principle - to ensure non-discriminatory - any preferential treatment granted to one country must extend to all countries - all countries must use
- **2 exceptions**
 - Generalized System of Preferences (GSP) - reduced tariff rates offered to developing countries
 - Comprehensive trade agreements promoting economic Integration - EU, NAFTA

GATT

- Domestic pressure forced countries to retreat from pure free trade policies
- GATT allowed countries to protect - restricted to using tariffs only
- Loopholes - countries using quotas and NTBs - example US quotas restricting imports of peanuts, sugar given temporary waiver from GATT rules in 1955 still in effect
- Uruguay Round agreement took effect 1995 - cut tariff imports from 4.7 to 3 % - but countries saw NTBs more important - impediment to trade - convert quotes to tariff rate quota
- Uruguay Round participants - create World Trade Organization (WTO)

The WTO (1 of 3)

- Established: January 1, 1995
- Headquarter: Geneva, Switzerland
- Memberships: 164 Countries and 23 observers
- Members required to open markets to international trade follow and WTO rules

3 Primary Goals:

1. **Promote trade** flows by encouraging nations to adopt nondiscriminatory, predictable trade policies.
2. **Reduce** remaining **trade barriers** through multilateral negotiations
3. Establish impartial procedures for **resolving trade disputes** among members

WTO

- First few years WTO negotiations focused specific sectors -
 - 1996 Info Tech Agreement - eliminate tariffs on computers, software, fax machines, etc
 - 1997 - Financial Services and Telecommunications Agreement signed
- 2001- initiated Doha Rounds - deadlocked - most contentious issue freeing trade in agricultural goods same in GATT. export subsidies, import restrictions,
- **CAIRNS group** - major agricultural exporters Australia, Argentina, Brazil, Canada , Thailand, pressured WTO members reduces trade barriers but unable to satisfy structure terms satisfying China, India, Japan, and many other countries

The WTO (2 of 3)

Figure 10.1 The WTO's Principles of the Trading System

WTO's TRADING SYSTEM PRINCIPLES



Source: Based on “About the WTO.” www.wto.org

The WTO (3 of 3)

- WTO differs from GATT in two dimensions:
 - **Broader Mandate - not only goods**, (includes trade in services, international intellectual property protection, and trade-related investment)
 - **Stronger enforcement powers**

The WTO: Additional Challenges

- **The General Agreement on Trade in Services (GATS)**

- Agreement on Trade-Related Aspects of Intellectual Property Rights
- Trade-Related Aspects of Intellectual Property Rights
- Enforcement of Intellectual Property Rights

Liberalization of services - key part of stalled Doha Round negotiations

- Challenge in reducing barriers to trade in services

- Government controls on service trade should be non-discriminatory = national treatment approach - a country treats a foreign firm same way as domestic firms

- Deadweight Loss of Protection
 - Opponent of Protection
- In 2013 - a group of 23 WTO members account for 70% global trade in services - negotiated multisector, plurilateral Trade in Services Agreement - **TiSA** - only signatories not subjected to WTO's MFN principle

The WTO: Additional Challenges

- The General Agreement on Trade in Services (GATS)
- **Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)**
 - Entrepreneurs, artists, and inventors hurt by inadequate enforcement by many countries of laws prohibiting illegal usage, copying, or counterfeiting of intellectual property
- Trade-Related Intellectual Property Agreement (TRIPS)
- Enforcement of WTO Agreements
- Deadlock over the Uruguay Round
- Opposition to WTO Actions

- Problems particularly widespread in the music, filmed entertainment, and computer software industries.

Many owners of IP believe IP theft more blatant and widespread - lax of enforcement by governments unwilling to Uruguay Round's agreement

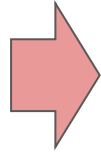
The WTO: Additional Challenges

- The General Agreement on Trade in Services (GATS)
- Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)
- **Trade-Related Investment Measures Agreement (TRIM)**
- Enforcement of WTO Decisions
- Deadlock over the Doha Round Negotiations
- Opposition to WTO Actions

- The trade-related investment measures (TRIMS) agreement in the Uruguay Round is modest start toward eliminating national regulations on FDI that may distort or restrict trade

The WTO: Additional Challenges

● Enforcement of WTO Decisions



● Deadlock over the Doha Round Negotiations



- Failure of WTO to break deadlock over Doha Round raised some concerns about future reductions in trade barriers and the future effectiveness of the WTO.

- Enforcement power very weak.
- If a country fail to live up to the agreement may have complaint filed against it. If WTO finds in violation of the rules, will ask to eliminate the trade barrier
- If refuses, WTO will allow the complaining country to impose trade barriers on the offending country equal to the damage caused by the trade barrier.
- And, offending country not allowed to counter-retaliate by imposing new trade barriers against the complainant.

The WTO: Additional Challenges

Example:

Environmentalists and human rights activists believe that WTO needs to incorporate more sensitivity to environmental and human needs in its decision making.

Labor unions and workers' groups fear that WTO's decisions weaken their bargaining power and threaten their members' job security



- The General Agreement on Trade and Tariffs (GATT)

- Agreement on Trade-Related Intellectual Property Rights (TRIPS)

- Trade-Related Investment Measures (TRIMs)

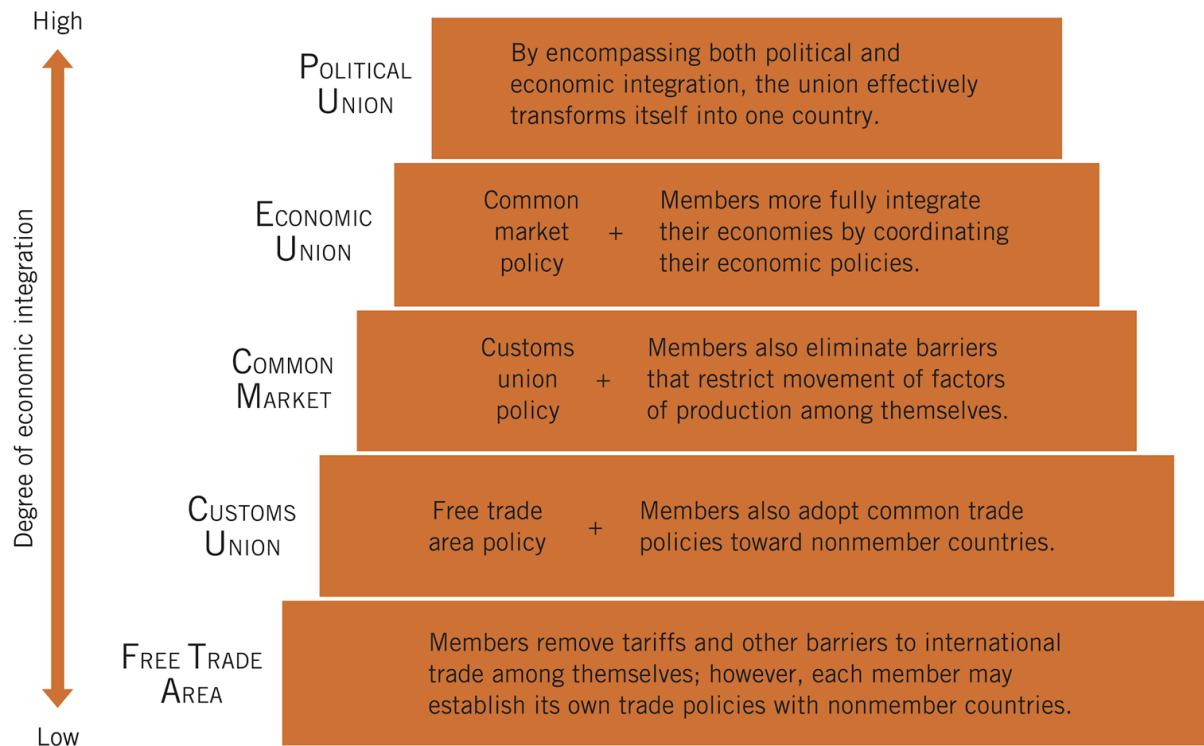
- Enforcement of WTO Agreements

- Deadlock over the Doha Development Agenda

- **Opposition**

Regional Economic Integration

Figure 10.2 Forms of Economic Integration



Forms of Economic Integration: **Free Trade Area**

- Eliminates trade barriers among its members
- Each member establishes its own trade policies against nonmembers
- Trade deflection problem - non-members re-route (deflect) exports to member countries with low barriers
- **Rules of Origin** - prevent trade deflection - example: under NAFTA, to be considered North American product only if undergo substantial processing or assembly in Mexico, Canada, or US.

Forms of Economic Integration:

Customs Union

- Combines elimination of internal trade barriers among its members, and;
 - Adopts common external trade policies toward nonmembers
-
- Avoids trade deflection problem
 - Example: Mercusor Accord: Agreement initially signed between Argentina, Brazil, Paraguay and Uruguay

Forms of Economic Integration: **Common Market**

- Third step along total economic integration
 - Eliminates internal trade barriers among members
 - Adopts a common external trade policy toward nonmembers
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- Eliminates barriers that inhibit the movement of factors of production among members
 - Workers move from one homeland to another - e.g. European Economic Area

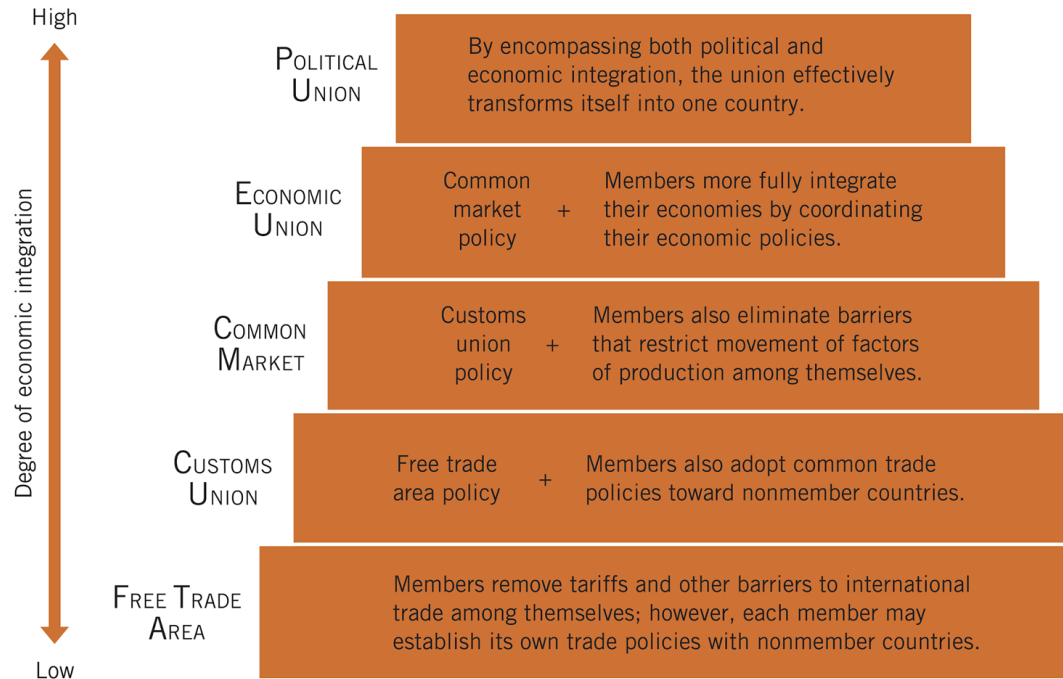
Forms of Economic Integration: **Economic Union**

- Represents full integration of the economies of two or more countries
- Eliminate internal trade barriers
- Adopt common external trade policies
- Abolish restrictions on the mobility of factors of production among members
- Requires its members to coordinate their economic policies (monetary policy, fiscal policy, taxation, social welfare program)

Forms of Economic Integration:

Political Union

- Complete political and economic integration of two or more countries



Impact of Economic Integration on Firms

What are the pros for integration?

- 1.
- 2.
- 3.
- 4.

What are the Cons for integration?

- 1.
- 2.
- 3.
- 4.