

POLITICS OF WORLD TRADE

Thursday 10, April

SESSION 1

GLOBAL TRADE AND MULTILATERAL TRADING SYSTEM

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OBJECTIVE OF THE COURSE or WHAT I WANT YOU TO GET FROM IT

- This is what I wrote in the syllabus:
 - “Today, there is much talk about TPP, or Trans Pacific Partnership agreement negotiation among Japan and 11 other nations around the rim of the Pacific. This negotiation and the counterpart negotiation between the US and the EU, or the T-TIP, Trans-Atlantic Trade and Investment Partnership agreement, are the major movers of global trade and investment liberalization.
 - “Why is this so? What has happened to the WTO, which is the primary institution representing the rules-based multilateral trading system, which worked well since the inception of the GATT, WTO’s predecessor institution, established in 1947?
 - “This course will study the world trading system since the establishment of the GATT, and its evolution. It will try to understand why in recent years multilateral trade liberalization negotiations, namely the so-called Doha Development Agenda, launched by the WTO members in 2001 have stalled, why FTAs have been proliferating around the world, in obvious cross-purposes with the WTO efforts, and why today TPP has become the major focus in the Asia-Pacific region.”
- Read the following FT article By Shawn Donnan in London (dated April 2, 2014, retrieved April 3)
 - <http://www.ft.com/cms/s/0/2553838a-ba6b-11e3-8b15-00144feabdc0.html>
- **“China craves invitation to join global trade club”**
 - To understand the geopolitics of trade these days just look at the contrasting visits by Barack Obama and Xi Jinping to Europe over the...
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- By the end of this course, I would hope you will be able to appreciate the political dynamic this article is writing about.

SOURCES OF INFORMATION

★ REQUIRED READING:

- Hoekman, Bernard M., & Kostecki, Michel M.: *The Political Economy of the World Trading System – The WTO and Beyond (Third Edition)*; Oxford
- Acemogul, Daron & Robinson, James: *Why Nations Fail*; Crown Publishing 2013
- Ikenberry, G. John: *After Victory*; Princeton (at least **Chapter 6**)

★ Reference Materials:

- Blustein, Paul: *Misadventures of the Most Favored Nations: Clashing Egos, Inflated Ambitions, and the Great Shambles of the World Trade System* ; Public Affairs 2009
- Jackson, John H.: *The World Trading System (Second Edition)*; MIT Press
- Baldwin, Richard, and Low, Patrick (edited): *Multilateralizing Regionalism, Challenges for the Global Trading System*; Cambridge
- Munakata, Naoko: *Transforming East Asia; The Evolution or Regional Economic Integration*; Brookings/RIETI
- OTHER SOURCES
 - NATIONAL GOVERNMENT AGENCIES' HP
 - TARIFF SCHEDULE ← CUSTOMS AGENCIES
 - WTO HP
 - Trade Policy Review COUNTRY REPORTS
 - OTHER IO's (IMF, WB OECD, APEC, ASEAN etc)

ORGANIZATION OF WORK

- SESSION 1 TODAY and SESSION 2 NEXT WEEK (on the 17th) WILL BE “INTRODUCTORY” SESSIONS.
- AFTER the 2nd SESSION, TAKING INTO ACCOUNT STUDENTS’ PREFERENCES, EACH WILL BE ASSIGNED A COUNTRY/ENTITY OUT OF THE FOLLOWING LIST, TO REPRESENT THROUGHOUT THE COURSE.
- AUSTRALIA* BANGLADESH BRAZIL CHINA EU INDIA
- INDONESIA JAPAN* KOREA MEXICO* RUSSIA SINGAPORE* US*
- AFTER THE GOLDEN WEEK HOLIDAYS (NO Class on April 24, May 1), CLASS WILL RESUME on MAY 8
- DURING THE HOLIDAYS, STUDENTS SHOULD READ REQUIRED AND REFERENCE MATERIALS, AND PREPARE FOR THE ORAL REPORTS.
- PART TWO SESSION 3 (May 8) & SESSION 4 (May 15) WILL BE DEVOTED TO
- ROUND OF REPORTS (max 10 min each country team) FROM 13 COUNTRIES
- INTRODUCING TRADE STRUCTURE, TRADE POLICY ORIENTATION, TRADE POLICY FORMULATION STRUCTURE OF ASSIGNED COUNTRY

ORGANIZATION OF WORK (cont.)

- THEN PART THREE (from May 22) THREE SESSIONS WILL BE ALLOTTED FOR “TRADE SYSTEM ISSUES”
 - EACH SESSION WILL HAVE 4or5 REPORTS OF MAX 15 MINUTES EACH.
- FOR THE LATTER HALF OF THE COURSE, PART FOUR (June 12, 19, 26) ANOTHER ROUND OF MORE DETAILED COUNTRY REPORTS
- PART FIVE (July 3, 10, 17, 24) WILL ENGAGE IN GENERAL DISCUSSIONS AS WELL AS MOCK TRADE REPRESENTATIVES NEGOTIATION

REAL LIFE SITUATIONS

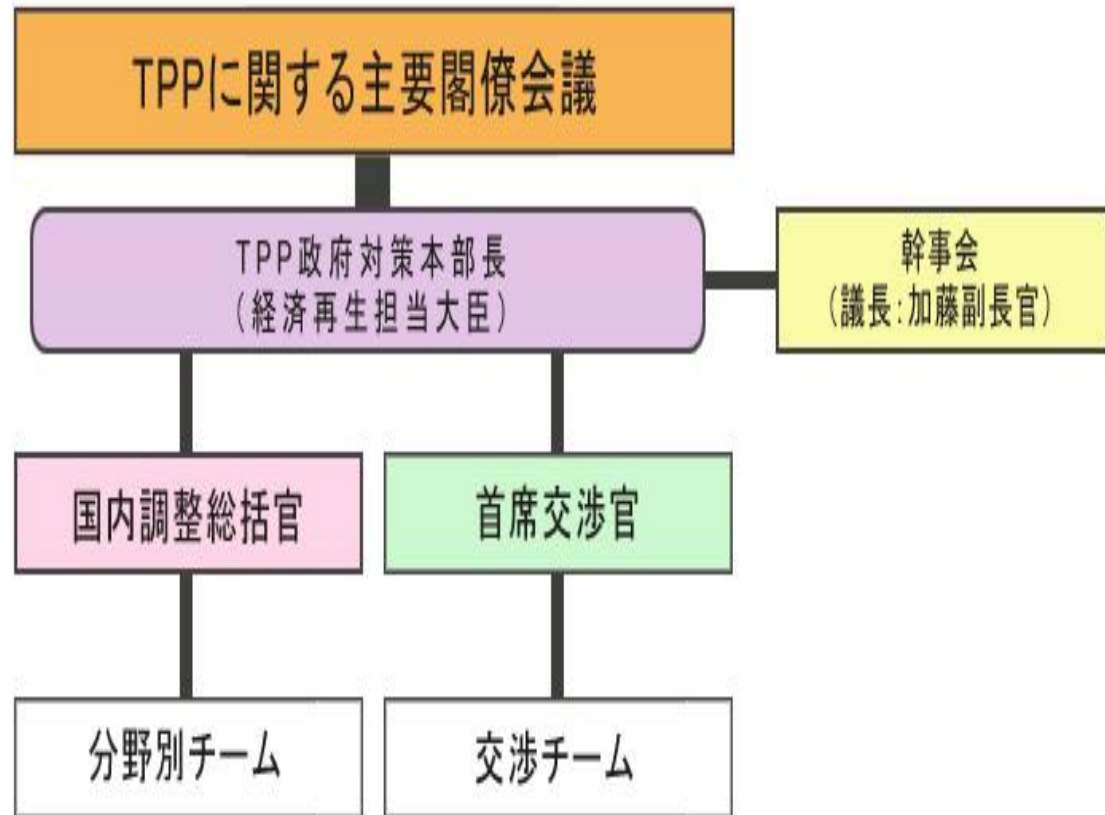
- THE OBJECTIVE IS TO LEARN WHAT “REAL LIFE SITUATIONS” in the WORLDS OF TRADE ARE LIKE.
- PERSPECTIVES AND PERCEPTIVENESS ARE KEY
- NEED TO TAKE
 - E.T.’s PERSPECTIVE
 - OF YOUR COUNTERPARTS’ SITUATIONS
 - and OBJECTIVELY APPRECIATE YOUR OWN
- PERCEPTIVENESS
 - ABOUT WHAT MAKES OTHERS TICK
 - UNDERSTAND THE INTERNAL POLICY FORMULATING PROCESS / STRUCTURE of OTHERS as well as YOURS

METHODOLOGY

- ROLE PLAYING: BE “CHIEF TRADE NEGOTIATOR / TRADE REPRESENTATIVE”
 - FOR YOUR BENEFIT, TO UNDERSTAND ANOTHER PERSPECTIVE BY IMMERSION, PUT YOURSELF IN OTHERS SHOES
 - FOR CLASS’ BENEFIT, TO LEARN FROM OTHERS ABOUT OTHER NATIONAL SYSTEMS,
 - MULTIPLE PERSPECTIVES INVOLVED, ALL INTER-RELATED IN ACTION-REACTION DYNAMICS
- MUST UNDERSTAND “TWO LEVEL GAME” NATURE OF TRADE NEGOTIATIONS
 - EXTERNAL AND DOMESTIC
 - Cf. H&K p37

N.B. GOJ 's TPP NEGOTIATIONS STRUCURE

- Ministerial Conference
- TPP Gov't HQ (Minister for Economic Revitalization)
 - Deputies' Conference
- **CHIEF DOMESTIC COORDINATOR**
 - Sector teams
- **CHIEF NEGOTIATOR**
 - Negotiating teams



YOUR TASK

AS CHIEF TRADE NEGOTIATOR/TRADE REPRESENTATIVE

- WHAT IS YOUR NATIONAL INTEREST? HOW DO YOU PURSUE IT?
SEE H&K p29 -32“WHY DO COUNTRIES USE TRADE POLICY?”
 - REVENUE;
 - TERMS OF TRADE;
 - MERCANTILIST;
 - AG&INDUSTRY DEVELOPMENT;
 - RENTS FOR SPECIFIC GROUPS
- INFORM OTHER MEMBERS OF THE “GREEN ROOM” about YOUR COUNTRY’S ECONOMIC AND INDUSTRIAL STRUCTURE RELATED TO TRADE
 - EXPORTS AND IMPORT COMPETITION
 - YOUR GOV’T’s TRADE POLICY ORIENTATION
- ALSO INFORM OTHERS YOUR DOMESTIC POLITICAL STRUCTURE RELATED TO TRADE
 - ROLE OF THE EXECUTIVE BRANCH
 - POLITICS OF TRADE → ROLE OF PARLIAMENT
 - INTEREST GROUPS

METHODOLOGY (cont.)

- MULTI- OR PLURI-LATERAL, BOTH INVOLVE MORE THAN ONE “THE OTHER PARTY”, MULTIPLICITY OF PARTIES, AND ISSUES
- → COMPLEXITY INCREASE EXPONENTIALLY
- SHIBUYA ZEBRA CROSSING IMAGE!
 - <https://www.youtube.com/user/docomoOfficial>
- MOCK-NEGOTIATIONS
 - (“GREEN ROOM” TYPE NEGOTIATIONS)



WORLD TRADE SCENE: DRAMATIS PERSONAE

- TRADE POLITICIANS and BUREAUCRATS
 - TRADE POLICY FORMULATORS
 - TRADE NEGOTIATORS
 - TRADE MEASURES ADMINISTRATORS
- TRADE RELATED ECONOMIC ACTORS
 - PRODUCERS, SERVICE PROVIDERS
 - WORKERS, FARMERS
 - CONSUMERS
- TRADE LAWYERS
 - DRAFTERS OF DOMESTIC TRADE RELATED LAWS AND REGULATIONS
 - TRADE REMEDY MEASURES (ADVICE & LITIGATIONS)
 - TRADE RULES DRAFTERS (PUTTING NEGOTIATED AGREEMENTS into LEGAL TEXTS)
 - INTERNATIONAL TRADE DISPUTE SETTLEMENTS (e.g. WTO DS)

REFERENCES

- INTERNATIONAL POLITICAL STRUCTURE: POST-1945 WORLD ORDER
 - Ikenberry, ***After Victory***: Chapter Six, The Settlement of 1945
- INTERNATIONAL ECONOMIC SYSTEM: MULTILATERAL TRADING SYSTEM (GATT/WTO & FTAs)
 - Bernard M. Hoekman & Michel M. Kostecky,
 - **The Political Economy of the World Trading System: The WTO and Beyond (Third Edition)**
 - FOR TODAY, ITS INTRODUCTION & CHAPTER 1
 - SEE THE PDF VERSION
- POLITICAL INSTITUTIONS AND ECONOMIC DEVELOPMENT
 - Acemogul, Daron & Robinson, James: ***Why Nations Fail***; Crown Publishing

INTRODUCTION TO “MTS”

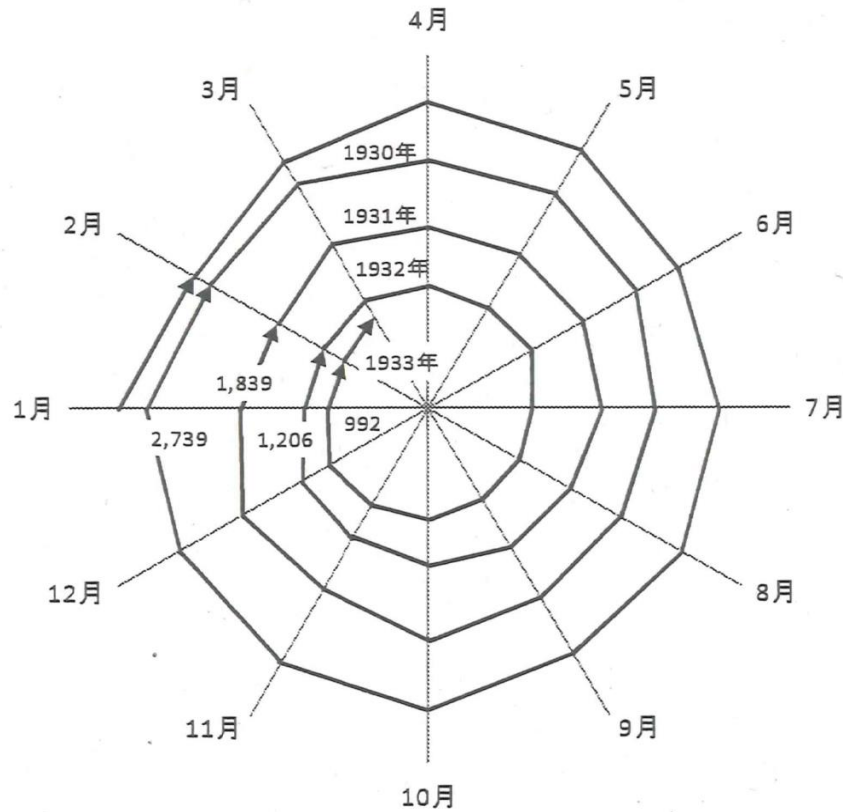
- RULES BASED MULTILATERAL TRADING SYSTEM
- RULES BASED
 - H&K p41 “The rules and principles of the WTO constrain the freedom of governments to use specific trade policy instruments, and are largely motivated by a desire to constrain the ability of signatories to re-impose protection through the ‘back door’.”
 - “Judicial Review” by DSB (Panel, Appellate Body)
 - Marrakesh Agreement Establishing the World Trade Organization
 - Article XVI Miscellaneous Provisions
 - 4. Each Member shall ensure the conformity of its laws, regulations and administrative procedures with its obligations as provided in the annexed Agreements.
- MULTILATERAL
- TRADE
- SYSTEM

POST 1945 INTERNATIONAL ECONOMIC SYSTEM:
MULTILATERAL TRADING SYSTEM (GATT/WTO)

- POST 1945 WORLD STRUCTURE:
INTERNATIONAL ECONOMIC COMPONENT
- RULES BASED INSTITUTIONAL SYSTEM
- INTERNATIONAL MONETARY AND FINANCIAL
SYSTEM => IMF/WORLD BANK
- MULTILATERAL TRADING SYSTEM
- => ITO (FAILED) => GATT

CONTRACTION OF WORLD TRADE 1929 ~33, USD MILLION

図1 世界貿易の縮小（1929～1933年）（単位：100万ドル）



(資料) Charles P. Kindleberger *THE WORLD IN DEPRESSION 1929-1939*
Revised and Enlarged Edition 1986 p.170.

LESSONS FROM THE 1930'S

- THE GREAT DEPRESSION
- PROTECTIONISM
 - COMPETITIVE CURRENCY DEVALUATION
 - IMPORT RESTRICTION BY INCREASED TARIFFS AND QUOTAS
- THE COLLAPSE IN TRADE
 - WHETHER A RESULT OF DEPRESSION OR THE CAUSE, IT CERTAINLY DID CONTRIBUTE
- CREATION OF BLOCS, AND SPHERES OF INTEREST
 - MILITARY ACTION TO PROTECT “LIFE LINES”, CREATE SPHERES OF INTEREST (LEBENSRAUM) THEN WAR

LOGIC BEHIND THE POST 1945 INTERNATIONAL ECONOMIC SYSTEM

“The (1945) settlement among Western countries”

- The American thinking against the protectionist response to the great depression in the 1930 and based on the notion of open and nondiscriminatory world economic system.
 - This notion was already included in the Atlantic Charter of 1941 between the US and the UK =>that future international economic order is liberal and multilateral.
- The American side, particularly under Secretary of State Hull pushed for free trade open economy as the post war international economic system which was resisted by the British, concern with maintaining the imperial system of their own trading sphere.
- At the Bretton Woods conference in 1944 for the post war economic cooperation among the allies, there was agreement to establish monetary cooperation to allow economies in imbalance to be assisted and recover without resort to debilitating deflationary policies.

Cf. H&K p26-27

- “After the First World War, restrictive trade policies became the norm. [..]
- “As the US economy moved from recession to depression following the 1929 stock market crash and subsequent monetary policies, the US Congress adopted the infamous Smoot-Hawley Tariff Act, raising average US tariffs on dutiable imports from 38 to 52 per cent. This led US trading partners to impose retaliatory trade restrictions and engage in rounds of competitive devaluation of their currencies. A domino effect resulted, [...] and thus leading to higher trade barriers.
- “At the end of the Second World War, statesmen[...] particularly, Cordell Hull, the US Secretary of State, were deeply influenced by the lessons of the post-First World War period. [...] The negative consequences of the beggar-thy-neighbor policies of the early 1930s were still very vivid in 1945. They inspired the US willingness to pursue the type of international cooperation[...] and actively support multilateral liberalization efforts, including efforts to negotiate the International Trade Organization (ITO) and the GATT. [...] An important element in this vision was the establishment of a stable world economy that would provide all trading nations with nondiscriminatory access to markets, supplies and investment opportunities. [...] In the US, the Reciprocal Trade Agreements Act of 1934 had already initiated a shift to a more liberal trade policy stance through the adoption of the unconditional MFN principle, albeit firmly grounded in the principle of reciprocity. This policy was extended after the Second World War and incorporated into the draft charter of the ITO and the GATT.”

LESSONS FROM THE 1930'S CONT.

- MOST IMPORTANT LESSON:
- **“FALLACY OF COMPOSITION”**

- PROTECTION OF DOMESTIC ECONOMIC ACTIVITIES THRU BARRIERS TO IMPORTS CAN NOT WORK IF ALL NATIONS PURSUE THE SAME PATH
- GLOBALLY, IT IS AXIOMATIC THAT THERE BE A BALANCE BETWEEN GLOBAL IMPORTS AND GLOBAL EXPORTS

- **THE (INTERNATIONAL) SYSTEM**
 - IMF: TO PROVIDE FINANCING FOR B/P SHORT TERM IMBALANCES
 - WB: TO PROVIDE LONGTERM FINANCING TO INVEST
 - OECD: TO LIBERALIZE DIRECT INVESTMENT
 - GATT: TO PROVIDE RULES FOR INTERNATIONAL FREE TRADE THRU RECIPROCAL CONCESSIONS IN INCREASED MARKET ACCESS OPPORTUNITIES

 - PREFERENTIAL TREATMENT ONLY EXCEPTIONS (EEC)

RULES BASED MULTILATERAL TRADING SYSTEM

GATT (now WTO)

- RECIPROCITY (SEE H&K P38)
 - RECIPROCAL REDUCTION IN TARIFFS, INCREASE IN MARKET ACCESS OPPORTUNITIES
- BASIC RULE: NON DISCRIMINATION
 - MOST FAVORED NATION TREATMENT (GATT Art. I)
 - NO DISCRIMINATION BETWEEN DIFFERENT COUNTRIES AS SOURCES OF IMPORTS
 - NATIONAL TREATMENT(Art. III)
 - NO DISCRIMINATION BETWEEN DOMESTIC PRODUCTS AND IMPORTS
 - Article III 2. “The products of the territory of any contracting party imported into the territory of any other contracting party shall not be subject, directly or indirectly, to internal taxes or other internal charges of any kind in excess of those applied, directly or indirectly, to **like domestic products**. Moreover, no contracting party shall otherwise apply internal taxes or other internal charges to imported or domestic products in a manner contrary to the principles set forth in paragraph 1.* ”
 - *Note to Article III Paragraph 2: “A tax conforming to the requirements of the first sentence of paragraph 2 would be considered to be inconsistent with the provisions of the second sentence only in cases where competition was involved between, on the one hand, the taxed product and, on the other hand, **a directly competitive or substitutable product** which was not similarly taxed.”
- FREER TRADE, EFFICIENCY THRU COMPETITION, GREATER WELFARE
 - IN FACT WORLD TRADE GREW BY LEAPS AND BOUNDS
 - SUCCESSIVE MULTILATERAL TARIFF NEGOTIATIONS

JAPAN – ALCOHOLIC BEVERAGES II (DS8, 10, 11)

Circulation of AB Report 4 October 1996 Adoption 1 November 1996

http://www.wto.org/english/tratop_e/dispu_e/cases_e/1pagesum_e/ds11sum_e.pdf retrieved April 3, 2014

- 1. MEASURE AND PRODUCT AT ISSUE
 - Measure at issue: Japanese Liquor Tax Law that established a system of internal taxes applicable to all liquors at different tax rates depending on which category they fell within. The tax law at issue taxed shochu at a lower rate than the other products.
 - Product at issue: Vodka and other alcoholic beverages such as liqueurs, gin, genever, rum, whisky and brandy, and domestic shochu.

- 2. SUMMARY OF KEY PANEL/AB FINDINGS
 - GATT Art. III:2 (national treatment – taxes and charges), first sentence (like products): The Appellate Body upheld the Panel's finding that vodka was taxed in excess of shochu, in violation of Art. III:2, first sentence, accepting the Panel's interpretation that Art. III:2, first sentence requires an examination of the conformity of an internal tax measures by determining two elements: (i) *whether the taxed imported and domestic products are like*; and (ii) whether the taxes applied to the imported products are in excess of those applied to the like domestic products.

 - GATT Art. III:2 (national treatment – taxes and charge), second sentence (directly competitive or substitutable products): The Appellate Body upheld the Panel's finding that shochu and whisky, brandy, rum, gin, genever, and liqueurs were not similarly taxed so as to afford protection to domestic production, in violation of Art. III:2, second sentence. Modifying some of the Panel's reasoning, the Appellate Body clarified three separate issues that must be addressed to determine whether a certain measure is inconsistent with Art. III:2, second sentence: (i) *whether imported and domestic products are directly competitive or substitutable products*; (ii) whether the directly competitive or substitutable imported and domestic products are not similarly taxed; and (iii) whether the dissimilar taxation of the directly competitive or substitutable imported and domestic products is applied so as to afford protection to domestic production.

 - GATT Art. III:1 (national treatment – general principles): The Appellate Body agreed with the Panel that Art. III:1, as a provision containing general principles, informs the rest of Art. III, and further elaborated that, because of the textual differences in the two sentences, Art. III:1 informs the first and second sentences of Art. III:2 in different ways.

“A CODE OF CONDUCT FOR TRADE POLICY”

H&K p40~46

- NON-DISCRIMINATION
 - MFN Article I
 - NT Article III
- TRANSPARENCY Article X
- ACCOUNTIBILITY
 - “ENFORCEABLE COMMITMENTS”
 - “Binding of tariff rates” Article II: Schedules of Concessions
- FLEXIBILITY
 - SAFETY VALVES
 - Article VI: Anti-dumping and Countervailing Duties
 - Article XIX: Emergency Action on Imports of Particular Products
 - Article XX: General Exceptions

Japan's Tariff Schedule as of April 1 2014
http://www.customs.go.jp/english/tariff/2014_4/index.htm

SECTION I LIVE ANIMALS; ANIMAL PRODUCTS

2014.04

Chapter 2 Meat and edible meat offal

Statistical code		Description	Tariff rate					Tariff rate (EPA)												Unit		
H.S. code	General		Temporary	WTO	GSP	LDC	Singapore	Mexico	Malaysia	Chile	Thailand	Indonesia	Brunei	ASEAN	Philippines	Switzerland	Viet Nam	India	Peru	I	II	
02.01		Meat of bovine animals, fresh or chilled																				
0201.10	000	Carcasses and half-carcasses	(50%)	38.5%	(50%)		Free															KG
0201.20	000	Other cuts with bone in	(50%)	38.5%	(50%)		Free															KG
								For the Pooled Quota (excluding quarter) 34.6%														
0201.30		Boneless	(50%)	38.5%	(50%)		Free															
	010	- Loin																				KG
	020	- Chuck, Obd and Round																				KG
	030	- Brisket and plate																				KG
	090	- Other																				KG

RULES BASED, AND ENFORCEMENT: DSU

- DSU: “Understanding on Rules and Procedures Governing the Settlement of Disputes”
- Article 3: General Provisions
 - 1. Members affirm their adherence to the principles for the management of disputes heretofore applied under Articles XXII and XXIII of GATT 1947, and the rules and procedures as further elaborated and modified herein.
 - 2. The dispute settlement system of the WTO is a central element in providing **security and predictability** to the multilateral trading system.
- Article 17: Appellate Review
 - 14. (Adoption of Appellate Body Reports) An Appellate Body report ***shall be adopted by the DSB*** and unconditionally accepted by the parties to the dispute ***unless the DSB decides by consensus not to adopt the Appellate Body report*** within 30 days following its circulation to the Members....

TRADE LIBERALIZATION NEGOTIATIONS (ROUNDS)

SEE TABLE 1.2 CHRONOLOGY H&K p49~50

- GATT → effective 1.1.1948
 - TARIFF NEGOTIATIONS AMONG 23 FOUNDING PARTIES COMMENCE IN 1947
- SERIES OF ROUNDS NEAR GENEVA -> 50's
- KENEDY ROUND -> 1964 ~ 67
- TOKYO ROUND -> 1973 ~ 79
- URUGUAY ROUND -> 1986 ~ 93 -> CREATED WTO
- WTO → INAUGURATED 1.1. 1995
- DOHA ROUND (DDA) -> 2001 ~ ?
 - December 2013 Bali Ministerial (agreements on TF etc.)
 - JULY (2004) PACKAGE (see “Wrapping The July (2004) Package” in *MANAGING MULTILATERAL TRADE NEGOTIATIONS: THE ROLE OF THE WTO CHAIRMAN*, by Robert Kanitz, Cameron May, London, 2011