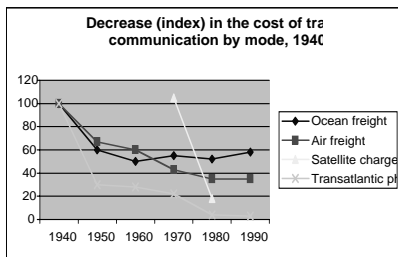


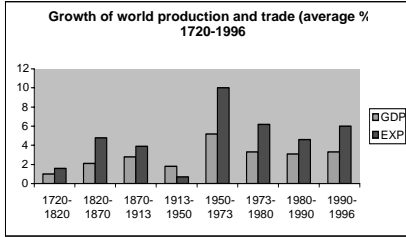
Trade Policy Part I

Trade Policy

- Historically primarily national policies.
- Compound responsibility:
 - President: Negotiate international agreements.
 - Congress: Regulate international trade.
 - Interest groups: Influence negotiations and ratification.
- Policy questions
 - What policy best serves national economic interest?
 - What policy best serves my group's economic interest?
- Competing Rationales
- Growing internationalization



(source: W. Molle, *Global Economic Institutions* London: Routledge 2003)



(source: W. Molle, *Global Economic Institutions* London: Routledge 2003)

Context for policy development:
 globalization-- a process of increasing interconnectedness

- Financial:
- Economic
 - Trade:
 - Production:
- Organizational:
- Environmental:
- Cultural:
- Technological:
- Educational:
- Media/Entertainment :
- Political :

Theories of trade (1)

- “Nations import certain goods because it is cheaper to do so than it is to produce those goods at home. For example, Iceland could produce bananas if Icelanders wished to do so. Banana trees could be grown in domed enclosures, which would be kept warm and moist and would be supplied year-round with just the right amounts of fertilizer and artificial ultraviolet light. The problem is that the cost would be enormous. It would be a lot cheaper for Iceland to run extra fishing expeditions each year, sell the extra fish as exports, and use the money earned to buy bananas grown in some tropical country.” (Steven Marks “The U.S. Sugar Program” July/August 1997)
http://www.facsnet.org/tools/nbgs/p_thru_%20z/uv/ussugar.php3
http://www.facsnet.org/tools/nbgs/p_thru_%20z/uv/ussugar.php3)

Theories of trade (2)

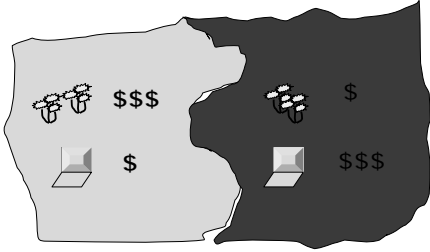
- “...While the ASA supports the goal of free trade, we have serious concerns about past agreements and about the structure of future multilateral or regional trade agreements...”
- “The ASA has long endorsed the goal of global free trade because U.S. sugar and corn sweetener producers are efficient by world standards and would welcome the opportunity to compete on a genuine level playing field. While the ASA supports the goal of free trade, we have serious concerns about past agreements and about the structure of future multilateral or regional trade agreements.” (The American Sugar Alliance <http://www.sugaralliance.org/>)

Theories of trade (2)

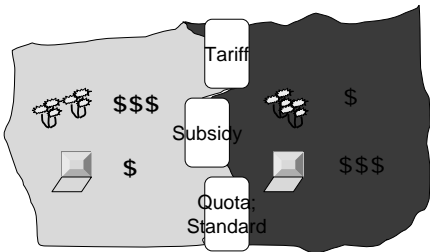
“U.S. Sugar Policy Makes Sense”

- **“American Economy Benefits From U.S. Sugar Policy**
 - Responds to foreign predatory trade practices.
 - Adds \$21.1 billion annually to the U.S. economy.
 - Low, stable sugar prices for consumers”
- **“Taxpayers Benefit From U.S. Sugar Policy**
 - Operates at no cost to taxpayers.”
- **“Consumers Benefit From U.S. Sugar Policy**
 - Provides an essential high-quality food ingredient at low, stable, and competitive prices”
- **“American Workers Benefit From U.S. Sugar Policy**
 - Creates 372,000 direct and indirect jobs in 42 states” (U.S. Sugar Alliance <http://www.sugaralliance.org/>)

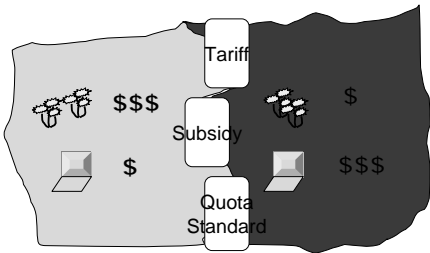
What would you do to protect yourself?



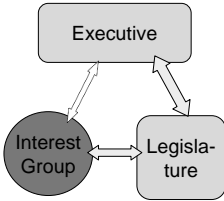
What would you do to protect yourself?



Is (unilateral) change possible?
Desirable?

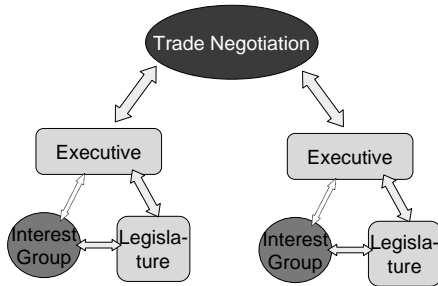


What makes these policies stable?

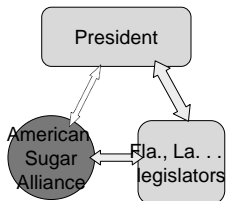


- Distribution of costs and benefits
- Exercise of influence
- Institutional rules
- Transition problems
- Demands of two level game

Trade Negotiation:
a two level game



An example: sugar in the U.S.



- Quotas set annually by USDA based on forecasts of supply & demand
- Higher and more stable sugar prices
- Broad geographic support from cane growers, sugars beets growers, and corn farmers
- Import quotas provide benefits to selected partners

Why would this policy persist?

(source M.Moore "Farming subsidies no help to peasants." Guardian 8/5/02)

- U.S. sugar production
- Quotas restrict imports.
- 42% benefits to 1% farms
- Estimated cost to consumers \$1.9B
- Why would it persist?
- ?
- ?
- ?
- ?

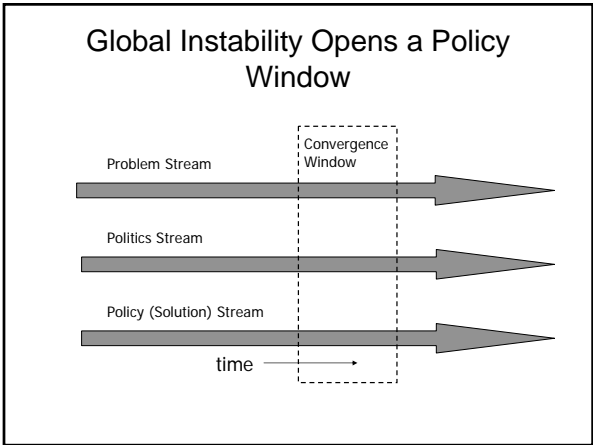
Why is this policy stable?

- Concentrated benefits and widely distributed costs
- Unevenly distributed organizational costs
- Rational ignorance
- Concentrated costs outside the system
- Channels of influence (\$, information)
- Broad base and logrolling in Congress
- Some trading partners benefit
- Good story: favor fair trade; uneven playing field makes "unilateral disarmament" unwise. Point to evidence in EU subsidies and Japanese quotas

Another example U.S. cotton production

(source M.Moore "Farming subsidies no help to peasants." Guardian 8/5/02)

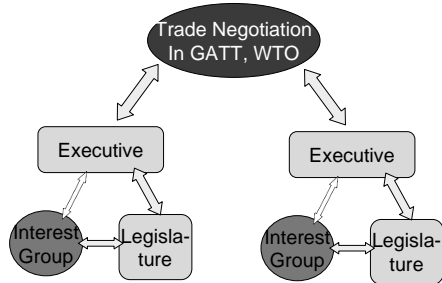
- Cotton production in U.S. subsidized: \$3.4B
- Keeps U.S. production inflated, prices low.
- Glut of cotton on international market
- Falling prices(66% since 1995).
- Developing growers (e.g. Mali) cannot benefit from comparative advantage
- Lose money despite record harvest.
- Supports sustain U.S. production, pressure of over supply felt elsewhere.



A new set of global institutions to promote security and prosperity

- International Bank for Reconstruction and Redevelopment (World Bank) loans for post war redevelopment
- International Monetary Fund (IMF): short term loans for currency stability
- International Trade Organization not organized: General Agreement on Tariff and Trades (a treaty) serves instead to focus on trade

Strategy: Institutionalize 2nd level; focus on reducing barriers.



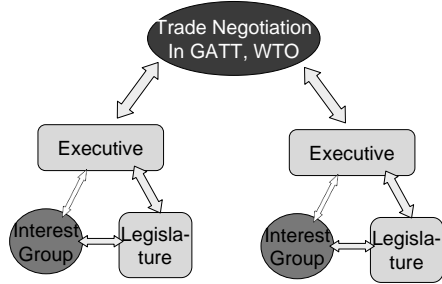
Key features of GATT, WTO

- Three “disciplines”
 - MFN
 - National treatment (nondiscrimination)
 - Prohibition on quotas
- Three part structure:
 - Plenary body for negotiation of trade agreements
 - Dispute settlement body: identify and reduce trade barriers through resolution of nation to nation disputes (becomes binding with WTO)
 - Secretariat

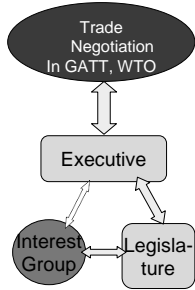
Develops through rounds of multilateral negotiations

- | | |
|-----------------------------------|--|
| • Geneva I 1947
23 members | • Dillon 1960-61
39 members |
| • Annency 1949
29 members | • Kennedy 1963-67
74 members |
| • Torquay 1950-51
32 members | • Tokyo 1973-79
99 members |
| • Geneva II 1955-56
33 members | • Uruguay 1986-94
103 members
Produces WTO |

Multilateral negotiations extend the logic of 2 level game

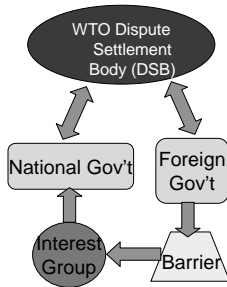


Domestic Implementation



- President negotiates
- Congress approves implementing legislation
- “Fast track” requires up or down vote

Dispute settlement (WTO)



- Initiated by firm, interest group, or government
- National government must file complaint
- Appeal to DSB: binding decision, can approve sanctions, create sense of rule of law

WTO and national policy

- Why the fuss?
- Treaty or world government?
- Economic policy vs. other policy goals?
- Changing stage for policy development.
