How US Trade Policy is Made

• Article 1 of the Constitution gives Congress the authority to approve trade policies
• Congress has delegated some of its policy making rights to the President
  • Office of the Special Trade Representative
  • Fast Track Authority
  • Emergencies (national defense, Section 301 to counter unfair trading practices)
Historical Background: Evolution of international trade policy

- Since 1850, tariff rates in the USA have declined dramatically.
- The exception was the decade from 1922 to 1932. We learned our lessons from the Great Depression.
# U.S. tariff history: average tariff rates

<table>
<thead>
<tr>
<th>Tariff Laws and Dates</th>
<th>Average Tariff Rate* (%)</th>
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<tbody>
<tr>
<td>McKinley Law, 1890</td>
<td>48.4</td>
</tr>
<tr>
<td>Wilson Law, 1894</td>
<td>41.3</td>
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<td>Dingley Law, 1897</td>
<td>46.5</td>
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<tr>
<td>Payne-Aldrich Law, 1909</td>
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<tr>
<td>Underwood Law, 1913</td>
<td>27.0</td>
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<tr>
<td>Fordney-McCumber Law, 1922</td>
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<tr>
<td>Smoot-Hawley Law, 1930</td>
<td>53.0</td>
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<tr>
<td>1930–1949</td>
<td>33.9</td>
</tr>
<tr>
<td>1950–1969</td>
<td>11.9</td>
</tr>
<tr>
<td>1970–1989</td>
<td>6.4</td>
</tr>
<tr>
<td>1990–1999</td>
<td>5.2</td>
</tr>
<tr>
<td>2008</td>
<td>3.5</td>
</tr>
</tbody>
</table>

*Simple average.*
Smoot-Hawley Act

- Smoot-Hawley Act, 1930
- Average tariffs of 53%
- Retaliation by 25 trading partners of the U.S.
- Breakdown of the international trading system
- By 1932, US exports had dropped by almost 2/3
The figure shows the pattern of world trade from 1929 to 1933. Following the Smoot-Hawley Tariff Act of 1930, which raised U.S. tariffs to an average level of 53 percent, other nations retaliated by increasing their own import restrictions, and the volume of world trade decreased as the global economy fell into the Great Depression.
Reciprocal Trade Agreements Act 1934

- Transferred authority from the Congress to the President
- Generally favored domestic import-competing producers
- Lower tariffs and a wave of trade liberalization
Formats for Trade Negotiations

• Bilateral deals are easier to comprehend (and perhaps enforce)
• Multilateral policies start with bilateral deals that are extended to a region or world as a whole
• Although rules are established, they are enforced by “gentlemen’s” agreements not by police or armies
Multilateral Trade Policy Institutions

- **GATT (General Agreement on Trade and Tariffs)** - 1947 Agreement among the member nations to decrease trade barriers and to place all nations on an equal footing in trading relations
  - Never intended to become an organization
  - Superseded by WTO (World Trade Organization) on January 1, 1995
  - WTO is a membership organization that governs the trade relations among its member countries
What is the World Trade Organization?

153 nations, 97% of world trade

- International organization, headquartered in Geneva, Switzerland
- Multilateral trading system
  - Covers trade in physical merchandise, services, intellectual property, and investment
- Administers a unified package of agreements (including those agreed to under the GATT) to which all members are committed
## GATT negotiating rounds

<table>
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<th>Negotiating Round and Coverage</th>
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<th>Number of Participants</th>
<th>Tariff Cut Achieved (percent)</th>
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<tr>
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<tr>
<td>Geneva</td>
<td>1947</td>
<td>23</td>
<td>21</td>
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<tr>
<td>Annecy</td>
<td>1949</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>Torquay</td>
<td>1951</td>
<td>38</td>
<td>3</td>
</tr>
<tr>
<td>Geneva</td>
<td>1956</td>
<td>26</td>
<td>4</td>
</tr>
<tr>
<td>Dillon Round</td>
<td>1960–1961</td>
<td>26</td>
<td>2</td>
</tr>
<tr>
<td>Kennedy Round</td>
<td>1964–1967</td>
<td>62</td>
<td>35</td>
</tr>
<tr>
<td>Addressed tariff and nontariff barriers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tokyo Round</td>
<td>1973–79</td>
<td>99</td>
<td>33</td>
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<tr>
<td>Uruguay Round</td>
<td>1986–93</td>
<td>125</td>
<td>34</td>
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<tr>
<td>Doha Round</td>
<td>2002–</td>
<td>149</td>
<td>—</td>
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</tbody>
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GATT (and WTO) Principles

- Trade without discrimination
  - MFN principle (normal trade relations)
  - Promote freer trade
  - Improve the dispute-resolution process
- Use tariffs rather than quotas
- Binding and transparent agreements
- Multilateral (rather than bilateral) trade negotiations (or at least implementation practices)
WTO goes beyond merchandise trade

- **GATS** – General Agreement on Trade in Services
  - Tourism, persons who provide services, auxiliary services for foreign direct investors
- **TRIPS** – Trade-Related Aspects of Intellectual Property Rights
  - Copyrights, patents (including prescription drugs), trademarks, designs
- Environmental standards (working group)
From Doha To Hong Kong: Failed Trade Negotiations

• 1999, Seattle, Washington
  • Disagreements among developing nations and industrial nations

• Doha Round, Doha, Qatar
  • “Doha development agenda”
  • Poor developing countries
    • Disowned major portions of the agenda – especially as related to trade in primary products (given price supports in developed nations like the US and the EU)
  • Little interest in compromise
Along comes Donald Trump
Will the WTO survive?

The plan to save the WTO
Which system or tactics will win out?

- The current (sometimes slow) multilateral WTO system with some adjustments (appointing new judges to the WTO arbitration panel). If a country breaks the rules, allies (not just one country) can retaliate but only to the level of harm.
- OR the pre 1945 system of bilateral bargaining is a greater threat of possible adversities from enhanced protectionism.
One possible “relief valve”:

- Trade adjustment assistance helps domestic workers displaced by foreign trade and increased imports
  - Extended income support beyond normal unemployment insurance benefits
  - Job training
  - Allowances for job search and relocation
Trade adjustment assistance also helps businesses and communities
- Technical aid in moving into new lines of production
- Market research assistance
- Low-interest loans
Other kinds of trade policies

- Quotas (not permitted under WTO rules)
- Industrial policies (and related subsidies)
- Cartels (e.g. OPEC) – only successful if most if not all members cooperate to withhold exports of the major commodity
- Trade sanctions (and boycotts) – most effective when major importing nations enforce
Industrial Policies of Japan: One Reason for the US unwillingness to Accept TPP?

• What is the role of Japan’s Ministry of Economy, Trade and Industry (METI)?
  • Facilitate the shifting of resources into high-tech industries
  • Targets specific industries for support
  • Assisted by consultants from leading corporations, trade unions, banks, and universities
  • Goal: Increase domestic R&D, investment, and production in selected industrial sectors
Industrial Policies of Japan

- METI’s policy tools:
  - Trade protection
  - Allocations of foreign exchange
  - R&D subsidies
  - Loans at below market interest rates
    - Loans must be repaid only if a firm becomes profitable
  - Favorable tax treatment
  - Joint government-industry research projects to develop promising technologies
Key Players in Asian Industrial Policies: Keiretsu and Chaebols

• Much of Japan’s international trade takes place through conglomerates (keiretsu) who benefit from government subsidies and loans from banks within the groups.

• Examples: Mitsubishi, Mitsui, Sumitomo, Hitachi, Sony

• Similar system in South Korea (chaebols) –

• Examples: Samsung, Hyundai, LG
Economic Sanctions

• Government-mandated limitations placed on customary trade or financial relations with selected nations to:
  • Protect the domestic economy in the imposing nation
  • Reduce nuclear proliferation
  • Set compensation for property expropriated by foreign governments
  • Combat international terrorism
  • Preserve national security
  • Protect human rights
Economic Sanctions

- **Trade sanctions**
  - Boycotts on imposing-nation exports
  - Quotas on imposing-nation imports from the target nation
- **Financial sanctions**
  - Limitations on official lending or aid
### Some selected economic sanctions of the U.S.

<table>
<thead>
<tr>
<th>Year</th>
<th>Target Country</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>Iran</td>
<td>Discourage nuclear proliferation</td>
</tr>
<tr>
<td>1998</td>
<td>Pakistan and India</td>
<td>Discourage nuclear proliferation</td>
</tr>
<tr>
<td>1993</td>
<td>Haiti</td>
<td>Improve human rights</td>
</tr>
<tr>
<td>1992</td>
<td>Serbia</td>
<td>Terminate civil war in Bosnia-Herzegovina</td>
</tr>
<tr>
<td>1990</td>
<td>Iraq</td>
<td>Terminate Iraq’s military takeover of Kuwait</td>
</tr>
<tr>
<td>1985</td>
<td>South Africa</td>
<td>Improve human rights</td>
</tr>
<tr>
<td>1981</td>
<td>Soviet Union</td>
<td>Terminate martial law in Poland</td>
</tr>
<tr>
<td>1979</td>
<td>Iran</td>
<td>Release U.S. hostages; settle expropriation claims</td>
</tr>
<tr>
<td>1961</td>
<td>Cuba</td>
<td>Improve national security</td>
</tr>
</tbody>
</table>
More recent sanctions

- Russia – for annexation of Ukraine
- Iran – lifting some sanctions for implementing nuclear weapons reduction program (even though the US withdrew)
- North Korea – for nuclearization
Economic Sanctions

- What is the potential impact of economic sanctions on a “target” nation?
  - Increase amount of unused production capacity
  - Create economic inefficiencies
  - Cause hardship on the population and government
  - Reduce growth rate
What are some factors that might influence the success of sanctions?

- Number of nations imposing sanctions
- Levels at which the target nation has had previous trade and financial relationships with the imposing nation(s)
- Strength of viable political opposition groups in the target nation
Ultimately, will globalists or nationalists have the upper hand?

• Non zero sum or zero sum gains? (Improvement through win-win global complementarity or “struggle” due to personal economic and/or cultural losses?)

• Inclusivist or exclusivist? Work together or exclude the “different?” (Do other cultures add uniqueness and variety or are they threats to an individual’s cultural status quo?) It’s not “all economics.”
Political and Legal Concepts

- Country risk indicators
- Common versus code law versus theocratic law (e.g. Islamic shariah law)
- International treaty law vs. national contract law vs. UN contact “law”
- Extraterritoriality
Global Pharmaceutical Industry case

- How do political and legal systems of countries affect the industry? What types of country risk does it face?
- What are the roles of national governments, branded pharmaceutical firms and generic drug producers in addressing drug costs for the poor?
- What are the latest TRIPS provisions to protect drug makers? Enforcement?