

## ***-Trade Negotiations Module-***

### ***I. Multilateral Trade Negotiations***

- 1. GATT/ WTO: Principles, Structure, Economics
- 2. The Doha Round: what place for Development?

### ***II. Regional Trade Negotiations***

- 3. Multilateralism vs regionalism? Trends and key features
- 4. The EPA negotiations between EU and ACP countries

### ***III. Trade Negotiations and Development***

- 5. Aid for Trade ?

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Integration

*Trade Negotiations Module*  
*Multilateral Trade Negotiations*

GATT/ WTO: Principles, Structure, Economics

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# Outline

- **I. A picture**
- **II. Principles**
- **III. Negotiations**
- **IV. Structure**
- **V. Economics**

## *The World Trade Regime: a picture*

- **Institutional set-up**
  - From 1948 until 1995, no international organisation, “provisional”
  - GATT Secretariat, practical
  - 1995, World Trade Organization... Increasing number of members...today 150
- ***Once upon a time***
  - Planning of post-war period during WWII by US and Great-Britain with web of multilateral organisation (UN, IMF, World Bank, ...)
  - Idea: free trade will eventually create peace (commercial liberalism)
  - Embedded liberalism – free trade + welfare state...among key negotiators: Keynes (UK)
- **International Trade Organisation**
  - Conference on Trade and Employment in Havana, Cuba in 1947
  - Havana Charter: rules on trade employment, commodity agreements, restrictive business practices, international investment, and services.
  - Too ambitious, never brought to vote in US congress

## General Agreement on Tariffs and Trade (GATT)

- from December 1945 onwards, negotiations to (reduce and) bind customs tariffs
  - ↳ strict reciprocity
- tariff bindings + General Clauses in Protocol of Provisional Application of the GATT
- Latin-American countries refused to join, they would have joined the ITO
  - ↳ development !!!
- Quantitative restrictions (QR) for balance-of-payments reasons until beginning 1960s.
  - ↳ post-war reconstruction
  - ↳ contrary to rule to abolish QR (less transparent than tariffs)
- Exceptions for agriculture
  - ↳ war and post-war experience, fear for shortages
- Exceptions for textiles (since 1961)
- First real amendment for developing countries (1954/55)
  - ↳ article XVIII: (A) infant industry; (B) BoP; (C) and, economic development.

# World trade regime

- Regime = structure, provides common guidelines for behaviour and shared expectations
- Issue-area = trade (in 1947, goods; since 1995, goods + services + TRIPS + TRIMS)
- Purposively established =
  - General Agreement on Tariffs and Trade* (1947)
  - Treaty establishing the World Trade Organization (1995)
- Regime aim: trade  $\Rightarrow$  wealth  $\Rightarrow$  peace
- Regime – objective:
  - 1947: gradual liberalisation of trade in goods
  - 1995: gradual liberalisation of trade in goods and services

Regime norms:

## **-Market access**

- tariffs + non-tariff barriers
- $\hookrightarrow$  non-tariff barriers = subsidies, dumping, laws and regulation (e.g. product standards, health and safety standards, environmental standards,..), ...

**-Predictability:** Rule-based system; Trade Policy Review Mechanism (since 1995); Dispute Settlement Procedure (since 1947, revised 1995)

## **-Non-discrimination**

**-Reciprocity** (Trading concessions)



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# 'Sources' of WTO principles

- Legal texts (GATT and subsequent)
- Dispute settlement reports
- Acts of WTO organs
- Agreements in WTO context
- Customary international law
- General principles of law
- Other agreements



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# Substantive WTO Principles

- Principles of non-discrimination
- Principles of market access
- Principles relating to 'unfair' trade
- Principles relating to conflicts between trade liberalisation and other societal values/interests



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# Principles of non-discrimination

- NATIONAL TREATMENT = Imported and locally-produced goods/services should be treated equally — at least after the foreign goods have entered the market
- MOST-FAVOURLED NATION (MFN) treatment = countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products)-have to do the same for all other WTO members(Art. I GATT and Art. II GATS)

# Principles of Market Access

- Customs duties: Allowed if not above tariff binding in Schedule
- Tariff negotiations (Art. XXVIII bis GATT)
- Tariff bindings (Art. II GATT)
- Other duties and charges: Allowed if recorded in Schedule
- Quantitative restrictions on trade in goods: prohibited (Art. XI GATT)
- Non-discriminatory administration (Art. XIII GATT)



## Other non-tariff barriers to trade in goods

- Technical regulations, standards, ... (*TBT Agreement*)
  - Sanitary & phytosanitary measures (*SPS Agreement*)
  - Lack of transparency
  - Unfair or arbitrary application of trade regulation
  - Customs procedures and formalities
- NB: services MA is positive list approach (request/offer)

## Principles relating to 'Unfair' Trade

- Rules on dumping
  - Condemned but not prohibited
  - Right to impose anti-dumping duties to offset dumping
  - *Anti-dumping Agreement*
- Rules on subsidies and subsidized trade
  - Actionable subsidies
  - Prohibited subsidies
  - Right to impose countervailing duties to offset subsidy  
*Subsidies and Countervailing Measures (SCM) Agreement*

# Principles relating to Conflicts

- General exceptions
  - Public health, environment, public morals, ...
- Security exceptions
- Economic emergency exceptions
  - Art. XIX GATT and *Agreement on Safeguards*
- Regional integration exceptions
  - Customs unions, free trade areas, economic integration agreements
  - Art. XXIV GATT and Art. V GATS
- Balance of payments exceptions
  - Art. XII & XVIII:B GATT and Art. XII GATS
- Economic development exceptions
  - S&D treatment provisions throughout *WTO Agreement*
  - Enabling Clause, GATT

# Procedural WTO Principles

- Decision-making
  - Consensus [and voting]
  - Confidentiality
- Dispute settlement
  - Compulsory jurisdiction
  - Binding rulings
  - Short timeframes
  - Appellate review
  - Implementation and enforcement

## Negotiations as way to achieve the regime-objective

- Multilateral Trade Negotiations or MTN, *not unilateral liberalisation*
- *Objective = free trade - **through** tariff reduction/rules on NTB -Tariff reductions **through** negotiations*
- *Regime-principles and –norms guide negotiations (case of tariffs: bound at certain level, then reduced)*

### ↪ the mechanics (1)

- main supplier of a product starts bilateral negotiations on tariff reductions
- reciprocity in bilateral negotiations
- MFN, concessions for all Parties to the Agreement/WTO members

= strict reciprocity =

- problem:
  - Large number of parties
  - unimportant markets (nothing to offer), esp. problem for developing countries

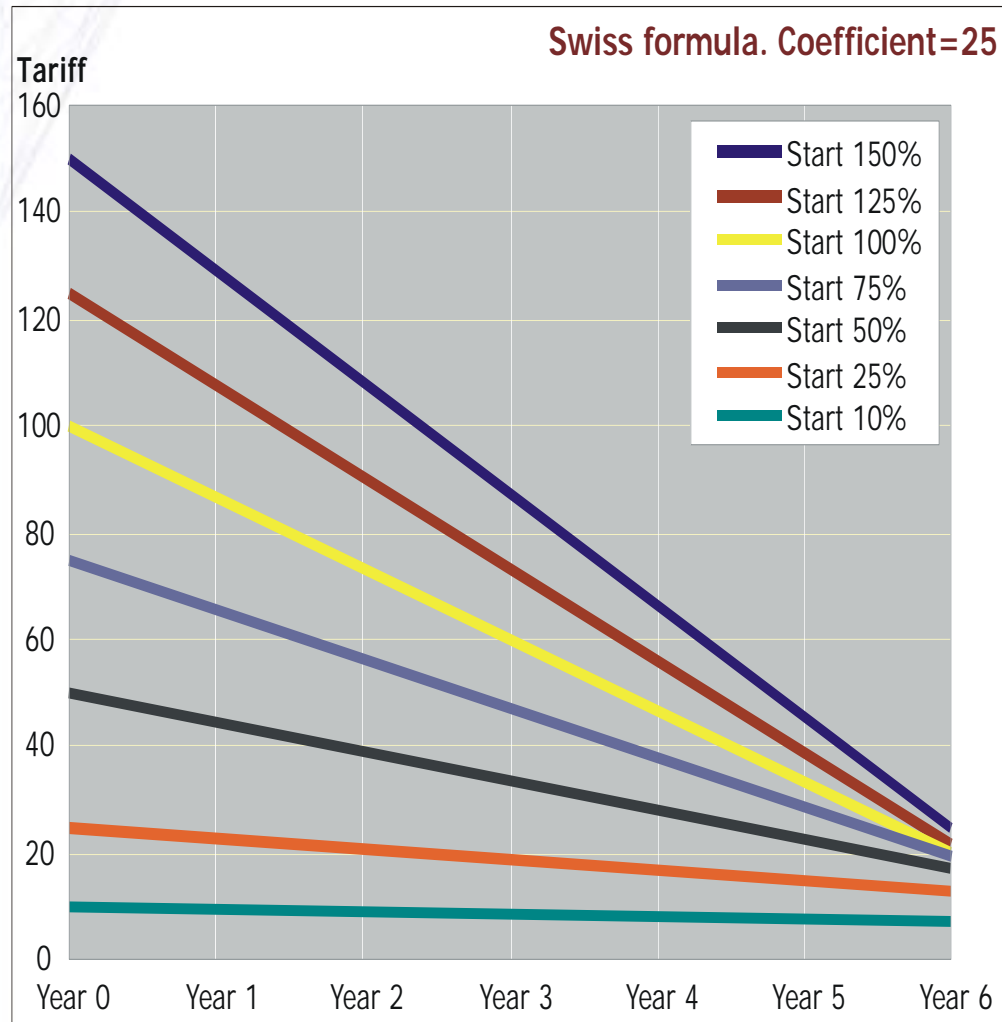
↪ the mechanics (2)

- formula or not
- selecting of a formula
  - single rate = rate of x% (for product or product group)
  - flat-rate percentage reduction = tariff – x% (for product/product group)
  - Harmonizing reductions = steeper cuts on higher tariffs
  - Other methods, e.g. tackling tariff escalation (higher tariffs on processed goods than raw materials)
- applying the formula (often also bilateral negotiations)  
= diffuse reciprocity =

↪ the mechanics (3)

- services
- negotiating rules on trade-related issues

## Swiss formula - harmonizing



$$Z = \frac{AX}{A+X}$$

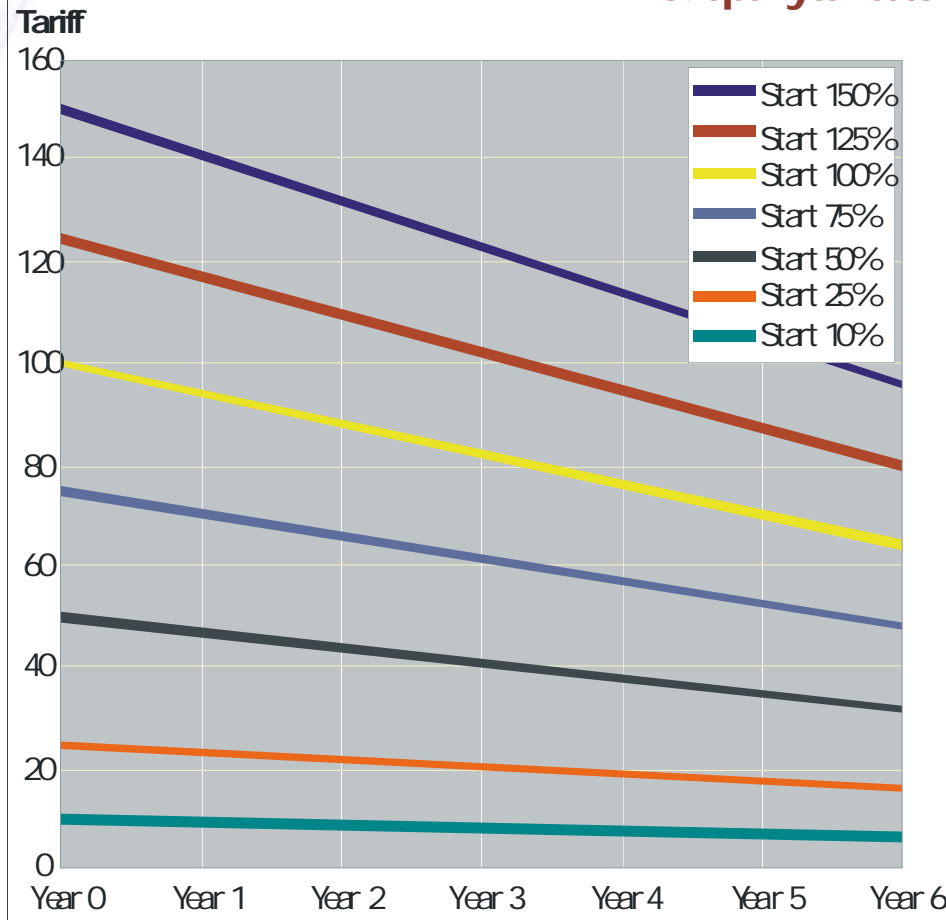
X=initial tariff rate

A=coefficient and maximum final tariff rate

Z=resulting lower tariff rate (end of period)

Swiss formula narrows range of final tariffs from a wide range of initial tariffs, and, a maximum final rate.

### 6% per year cuts



Uruguay round approach - flat-rate

-gentler cuts on high tariffs and broader range of final tariffs

-the combination of average and minimum reduction figures

-the flexibility to vary actual tariff reductions on individual products (some cuts more, some less)

-possible that no single tariff is actually reduced by that amount

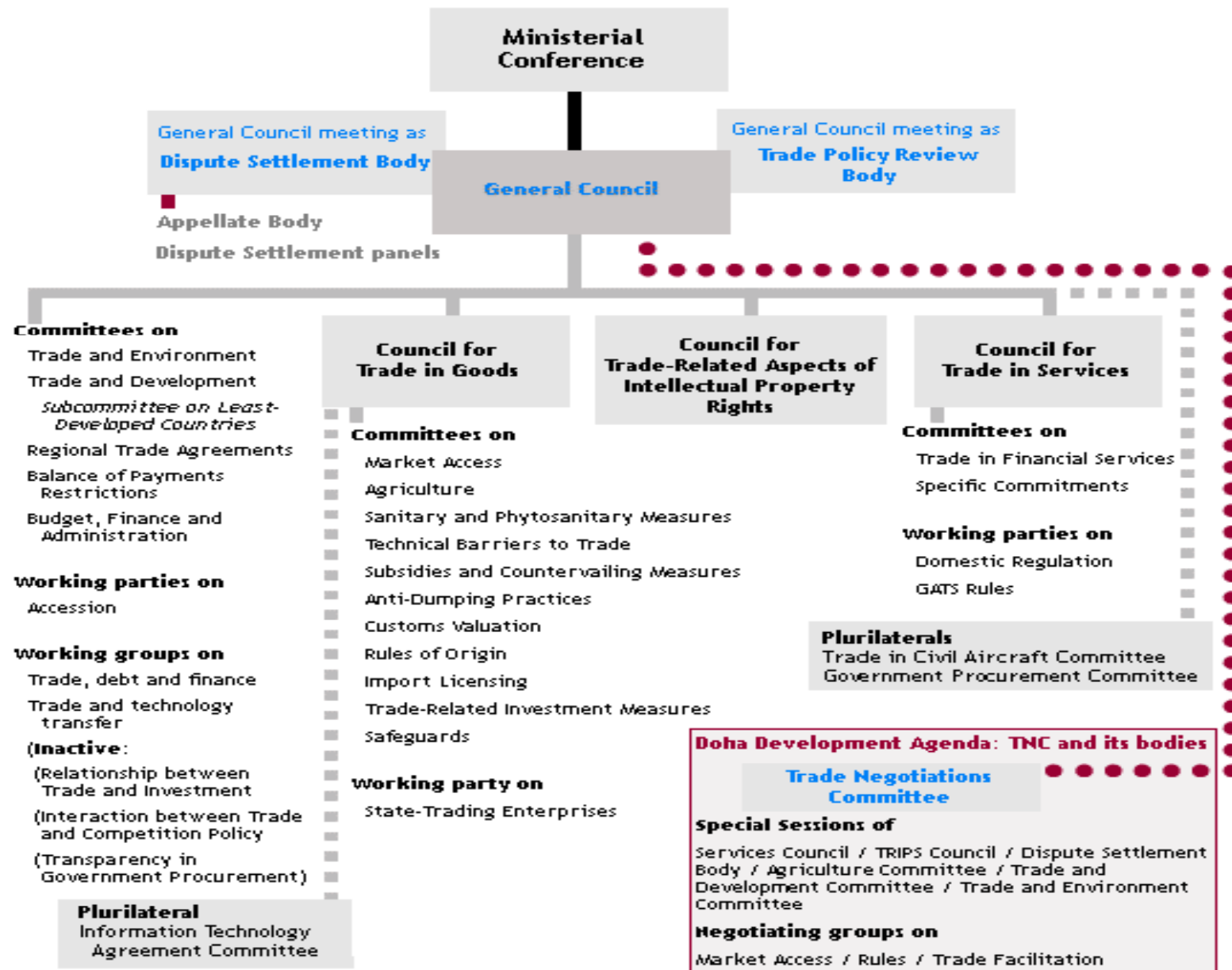
## WTO treaty: basic structure of the WTO agreements

Umbrella	AGREEMENT ESTABLISHING WTO		
	Goods	Services	Intellectual property
Basic principles	GATT	GATS	TRIPS
Additional details	Other goods agreements and annexes	Services annexes	
Market access commitments	Countries' schedules of commitments	Countries' schedules of commitments (and MFN exemptions)	
Dispute settlement	DISPUTE SETTLEMENT		
Transparency	TRADE POLICY REVIEWS		

# Multiple dimensions

- Single Undertaking: the whole package or nothing.
- **WTO**
  - As Regime
    - Norms and rules
  - As ORGANISATION
    - Negotiating forum
    - Implementation of agreements
    - Dispute settlement & Trade Policy Review
    - Member driven

# Organisational chart



**Doha Development Agenda: TNC and its bodies**

- Trade Negotiations Committee**
- Special Sessions of**
  - Services Council / TRIPS Council / Dispute Settlement Body / Agriculture Committee / Trade and Development Committee / Trade and Environment Committee
- Negotiating groups on**
  - Market Access / Rules / Trade Facilitation

# Political Economy rather than Economics...

- For nearly all GATT period it has been a QUAD matter (disputes-bargains), and still is...dominated by political economy
- Strict reciprocity...then became real multilateral negotiations
- WTO is more about Mercantilism than efficiency



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## Trade Theory: Comparative Advantage

- Trade theory still largely dominated by **Comparative Advantage concept and Heckscher-Ohlin model (factor endowments)**
- ...perfect competition, single technology... so Trade is a matter of relative prices / of interindustry trade (natural resources, capital, labour) ...so by reducing distortion of prices (tariffs) specialization brings efficiency and welfare gains
- SO focus on Tariff measures only...basically static effects...import substitution

## **New Trade Theory:** intra-industry trade

- **With New Trade Theory (imperfect competition, economies of scale, technological change, skills) Trade becomes a matter of behind-the-border measures / of intra-industry trade (intermediate goods, home-market effects and large markets abroad)**
- **SO not only tariffs but NTBs and competition rules/research/etc... basically dynamic effects (endowments built up over time...skills, technology!)...government support infrastructure, training, technology investment**
- **Poor countries' trade patterns still based on factor endowments and viceversa...**
- **“Dual” stance by Rich countries: open trade policy for industrial goods; closed for agriculture and textile**

# The push for liberalisation

- (Scientific) Positive justification of normative element (policy) of globalization: Liberalisation brings:**
- **efficiency gains (better allocation of production factors)**
  - **increased competition, lower prices**
  - **transfer of technology and knowledge (human capital spillovers, innovation)**
  - **economies of scale & increased productivity**
  - **investment**
  - **and ultimately higher economic growth...**

# 'Real world'

**BUT market failures, and particularly Asymmetry between partners (capacity and adjustment):**

- **South less prepared to bear costs**
- **winners-losers (safety nets)**
- **enabling conditions (investment climate) and domestic policies**
- **...the theory assumes: perfect substitutability imports, markets responsive to prices, tariffs reduction to prices, tech transfer and welfare distribution...large firms; investment agreements stimulate FDIs?**
- **functioning of markets, flanking measures and democracy; institutions...Rodrik et al 2002**

**For more information (on ACP-EU  
trade relations) please refer to:**

**[fr@ecdpm.org](mailto:fr@ecdpm.org)**

**[www.acp-eu-trade.org](http://www.acp-eu-trade.org)**

**[www.ecdpm.org](http://www.ecdpm.org)**



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