

Has the WTO affected trade?



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International Commerce
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Professor Sheldon
sheldon.1@osu.edu

Evidence on trade and the WTO

- ◆ **Rose (2004) reported rather surprising result: no evidence GATT/WTO increased world trade**
- ◆ **However, Subramanian and Wei (2007) using more disaggregated data found:**
 - **developed country members of GATT/WTO witnessed large increase in trade compared to developing country members**
 - **among developing countries, those joining WTO after completion of Uruguay Round have seen larger increases in trade, e.g., China**
- ◆ **Results confirmed in subsequent empirical work (Chang and Lee, 2011; Eicher and Henn, 2011)**

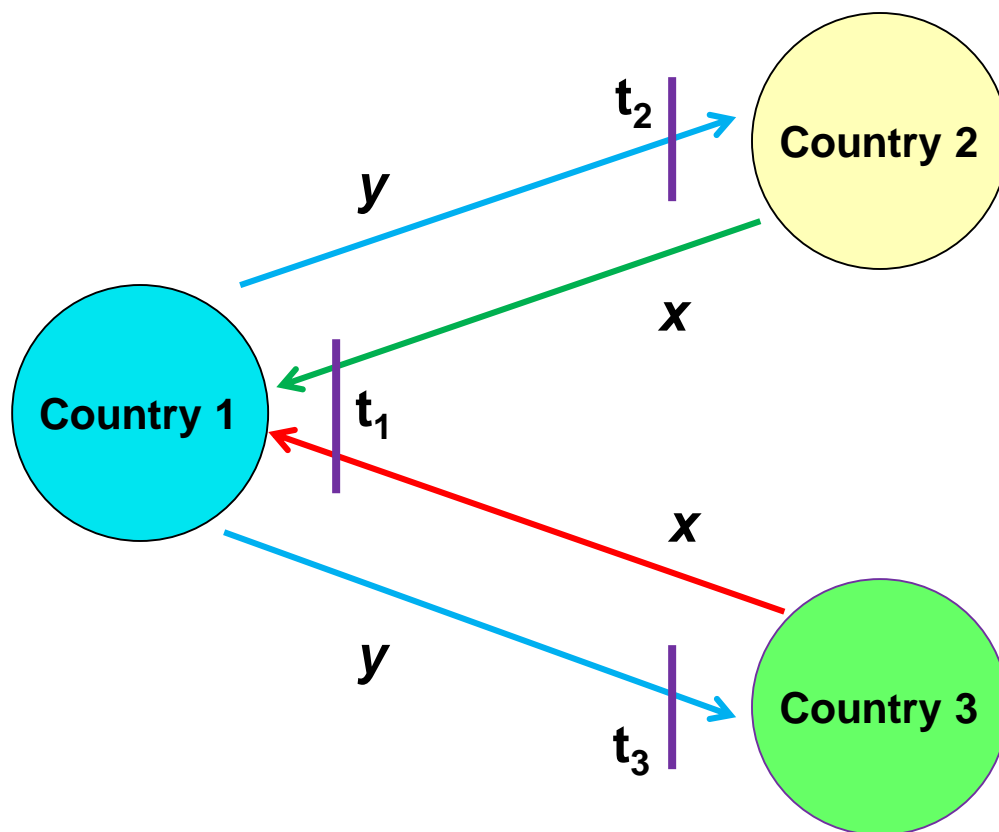
Developing countries and the WTO

- ❖ **Developing countries got “free pass” to tariff cuts negotiated in GATT/WTO under MFN clause but did not have to reciprocate, i.e., *special and differential treatment* (SDT)**
- ❖ **Objective to ensure developing countries gained market access to developed countries**
- ❖ **Despite “free pass” to such tariff reductions, developing countries then lost voice over which sectors to liberalize – i.e., textiles, clothing, and agriculture have seen least trade liberalization**

Why might SDT be a problem?

- ◆ **Imagine 3 countries, $i = 1, 2, 3$ where 1 imports good x from 2 and 3, and 1 exports good y to 2 and 3 (see figure)**
- ◆ **Allow for trade negotiations where:**
 - **1 and 2 reduce their tariffs t_1 and t_2**
 - **3 faces tariff cut on t_1 via MFN, but under SDT, it does not cut its tariff t_3**
- ◆ **Assume there is “balance of concessions” between 1 and 2 (empirical evidence suggests reciprocity has been norm, e.g., Limao, 2006)**

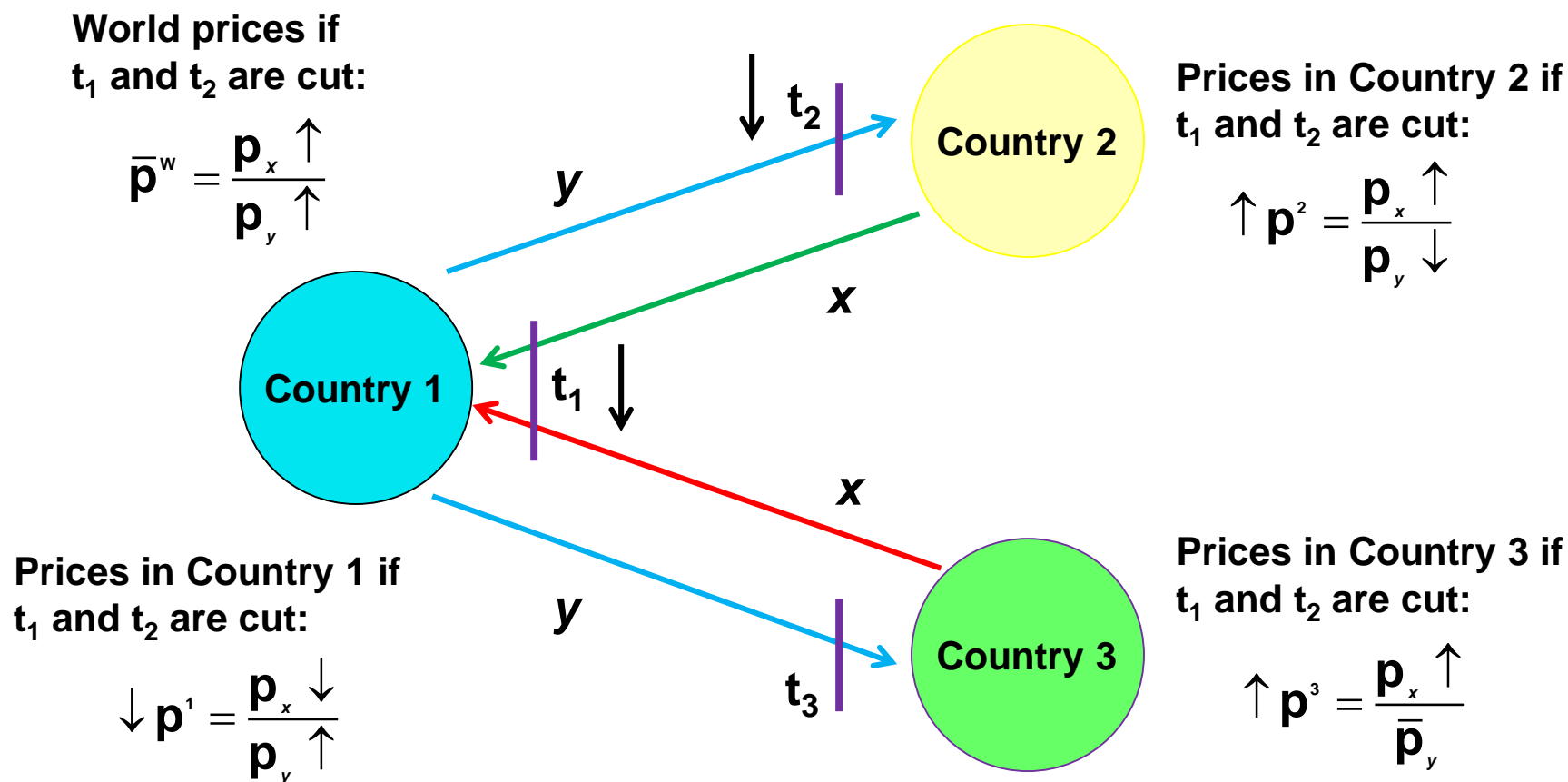
Structure of trade and tariffs



Why might SDT be a problem?

- ◆ 1 cuts tariff on x , local price of x decreases and world price of x increases - consumers in 1 import more x from 2
- ◆ 2 cuts its tariff on y , local price of y decreases and world price of y increases - consumers in 2 import more y from 1
- ◆ Both 1 and 2 gain increased market access for their exports, but terms of trade remain unchanged, i.e., p_x/p_y is constant
- ◆ 3 faces no change in its terms of trade, and its local price of y does not change

Relative prices with tariff-cuts



Why might SDT be a problem?

- ◆ As local price of x falls in 1, its consumers substitute away from y to x , and resources shift to producing and exporting more y (vice-versa in 2)
- ◆ 1's increased demand for x is met by 2, while 2's increased demand for y is met by 1
- ◆ Hopes of 3 for “free pass” under SDT not realized as it cannot compete with 2 in exporting x to 1
- ◆ Maxim in trade negotiations: “what you get is what you give”, i.e., tariff cuts can stimulate exports

The “latecomers” problem

- ❖ **As well as concerns over SDT, the WTO may face a “latecomers” problem, i.e., globalization fatigue**
- ❖ **Reciprocal bargaining among developed countries has gone on for over 50 years – tariffs on manufactures are now very low**
- ❖ **Local price distortions in developed countries have been already eliminated, making it difficult for them to identify new tariff bargains with developing countries**
- ❖ **Question: how can “room be made at the table” for developing countries? (Bagwell and Staiger, 2014)**