

Has the WTO affected trade?



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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)**

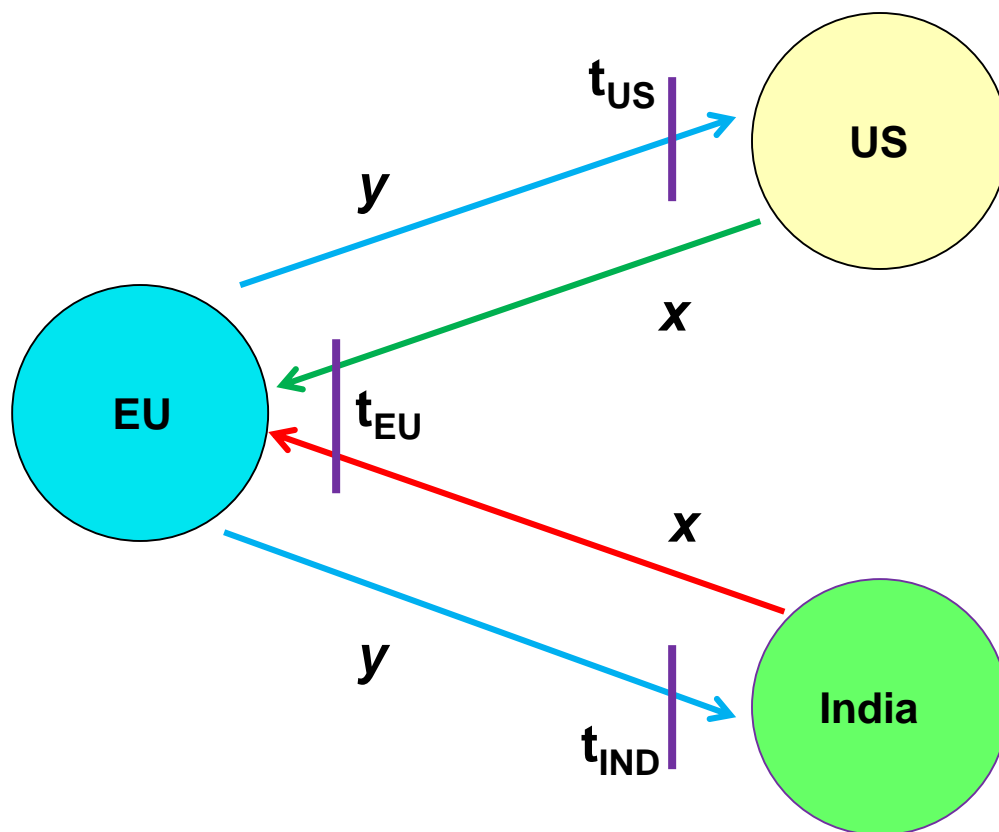
Developing countries and the WTO

- ❖ **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?

- ◇ Suppose EU imports good x from US and India, and exports good y to US and India
- ◇ Allow for trade negotiations where:
 - EU and US reduce their tariffs t_{EU} and t_{US}
 - India faces tariff cut on t_{EU} via MFN, but under SDT, it does not cut its tariff t_{IND}
- ◇ Assume there is “balance of concessions” between EU and US (empirical evidence suggests reciprocity has been norm, e.g., Limao, 2006)

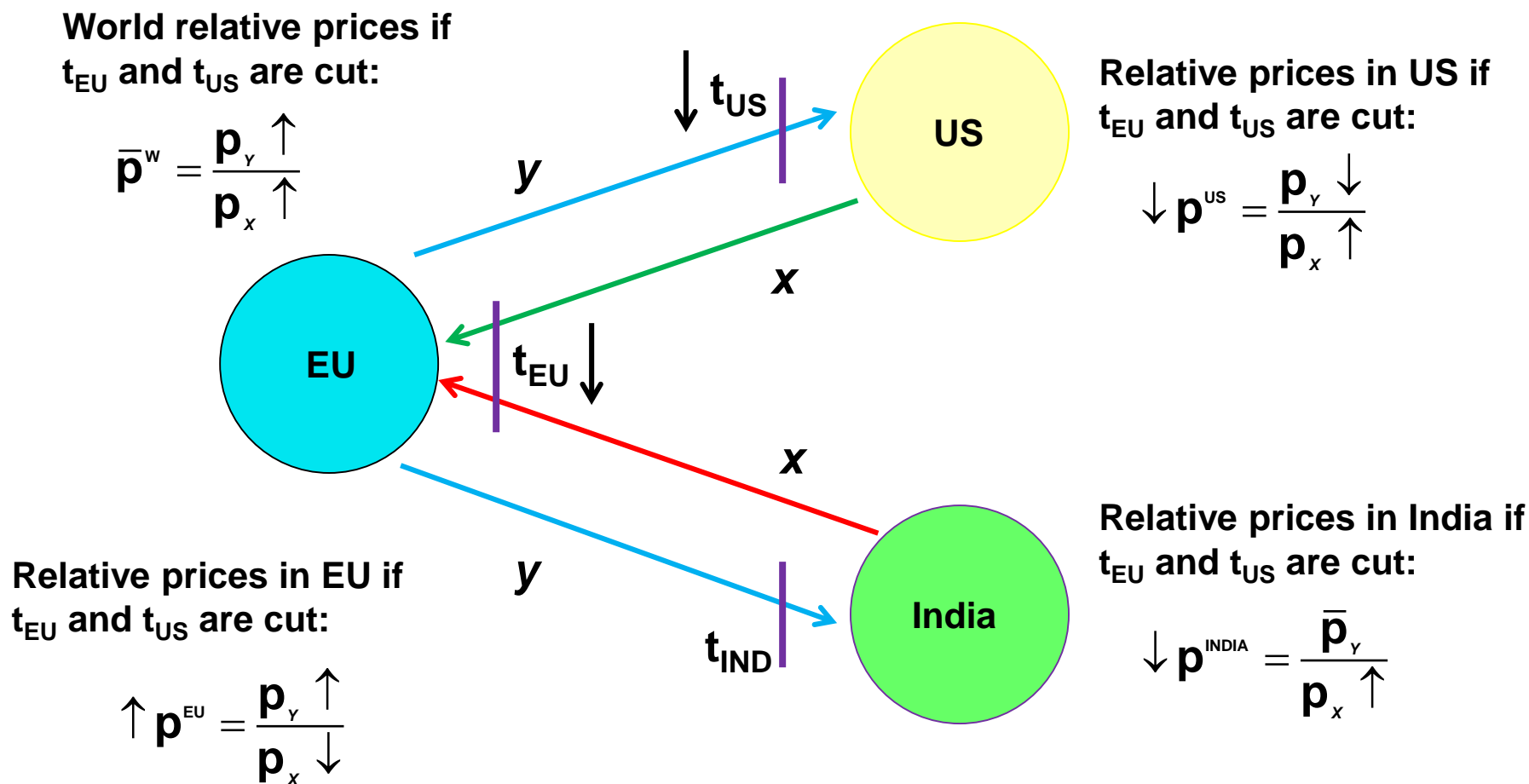
Structure of trade and tariffs



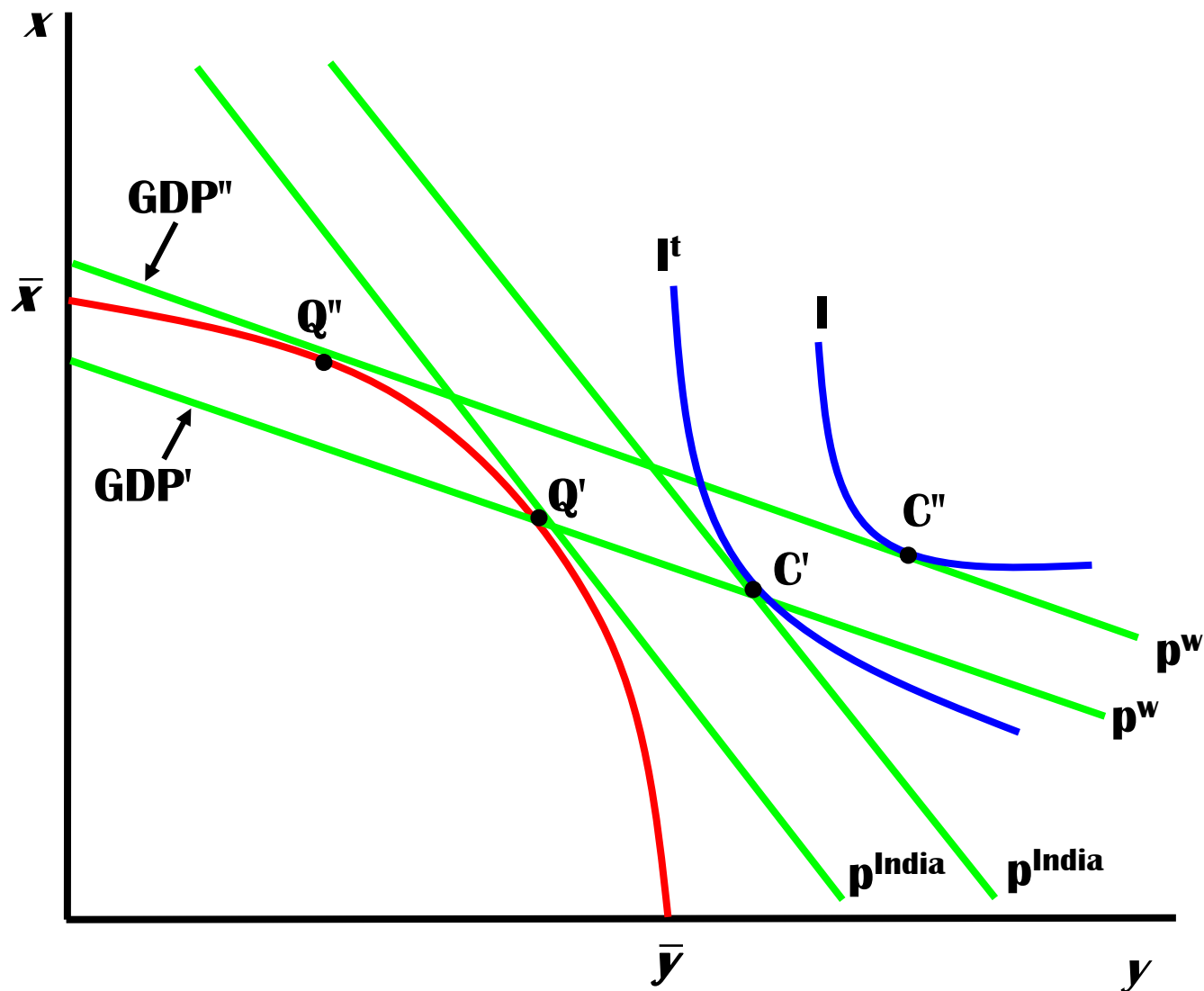
Why might SDT be a problem?

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

Relative prices with tariff-cuts



Impact of tariff changes on India



Why might SDT be a problem?

- ◆ As local price of x falls in EU, its consumers substitute away from y to x , and resources shift to producing and exporting more y (vice-versa in US)
- ◆ EU's increased demand for x is met by US, while US's increased demand for y is met by EU
- ◆ Hopes of India for “free pass” under SDT not realized as it cannot compete with US in exporting x to EU, i.e., tariff on y acts as tax exports of x
- ◆ 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)**