The World Trade Organization

# Starter - Recap Questions

**Instructions:** Test yourself with the below quick question

*What is meant by free trade?*

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Draw a supply and demand diagram to highlight the static gains from trade which can be made when a market goes from a system of ‘autarky’ to being exposed to free trade.

# Presentation 1 – Intro to the WTO

Complete the activities below so as to have a complete set of Notes:

**Definition:** The World Trade Organisation (WTO)

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Governments use the WTO to establish, revise, and enforce trade rules.

**Key Distinction:** WTO terms & WTO rules

 *WTO Terms*

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 *WTO Rules*

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**Key Notes:** Five key principles to trade on *WTO terms*

*Most-Favoured-Nation (MFN):*

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Granting one trade partner a special favour, such as a lower tariff for one of their products, must be done for all other WTO members.

*National Treatment:*

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In other words, if a foreign company needs a licence to operate then the domestic company needs one as well. There is regulation equality between foreign and domestic producers.

*Protectionist Policies are Bound and Transparent:*

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Countries can only raise a tariff above the bound rate after negotiating with the trade partners that would be most concerned, which often requires compensation for the trading partners’ loss of trade.

*Developing Country Exemptions:*

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These include: more time to implement WTO rules, measures to increase trading opportunities, safeguards requiring all WTO member to protect developing nations trade interests, and support when handling trade disputes.

*Dispute resolution:*

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If a dispute arises the WTO’s Dispute Settlement Body (DSB) will investigate the complaint.

If the complaint is upheld the DSB may direct the 'losing’ member to take action to bring itself in line with the WTO agreements.

# Article Task: WTO agrees global trade deal worth $1tn

**Instructions:**

* Read, highlight and annotate the article
* Answer the questions
* Discuss your answers as a class

**Article**

*Ministers from 159 countries have reached a deal intended to boost global trade at a meeting in Bali, Indonesia.*

The World Trade Organization's first comprehensive agreement involves an effort to simplify the procedures for doing business across borders. There will also be improved duty-free access for goods sold by the world's poorest countries.

The deal, which could add about $1tn to world trade, gives developing nations more scope to increase farm subsidies.

"For the first time in our history, the WTO has truly delivered," said WTO chief Roberto Azevedo, as the organisation reached its first comprehensive agreement since it was founded in 1995. "This time the entire membership came together. We have put the 'world' back in World Trade Organization," he said.

Indonesian Trade Minister Gita Wirjawan said the deal would "benefit all WTO members".

UK Prime Minister David Cameron said the "historic" agreement could be a "lifeline" for the world's poorest people, as well as benefiting British businesses to the tune of more than $1bn (£600m).

However, the "Bali package", as the WTO calls the agreement, was criticised by some development campaigners who said it was not going far enough.

Rich and poor

It is worth spelling out what is not covered by this: tariffs or taxes on imported goods. Dealing with them has been the bread and butter of past trade rounds - but not for this deal.

The core of this agreement is what is called trade facilitation. This is about reducing the costs and delays involved in international trade. It is often described as "cutting red tape".

Some analysts suggest the benefits could be large. An influential Washington think tank has put the potential gains to the world economy at close to $1tn and 20m million jobs. It also estimates the cost of administrative barriers as double the cost of tariffs.

The rich countries have agreed to help the poorer WTO members with implementing this agreement.

Another important aspect of the Bali package deals with enabling poor countries to sell their goods more easily. This part is about tariffs, and also quota limits on imports. Rich countries and the more advanced developing countries have agreed to cut tariffs on products from the poorest nations.

EU trade commissioner Karel De Gucht told the BBC that if the poorest nations "have more trading capacity it will also result in more investment in logistics and infrastructure".

But campaigners describe the plan as weak. Nick Dearden of the World Development Movement said: "If the US and EU really wanted to tackle global poverty, they would have made the least-developed-countries package much stronger."

Credibility test

Getting this deal has involved introducing some extra flexibility into the existing WTO rules on farm subsidies. India led the campaign, by insisting that it should be allowed to subsidise grain under its new food security law. There is a strong possibility that India's policy would break WTO rules that limit farm subsidies.

A "peace clause" has been agreed, under which members agree not to initiate WTO disputes against those breaching the subsidy limits as part of a food-security programme. But it only lasts four years and there is criticism from campaigners.

John Hilary of War on Want, a UK-based group, said: "The negotiations have failed to secure permanent protection for countries to safeguard the food rights of their peoples, exposing hundreds of millions to the prospect of hunger and starvation simply in order to satisfy the dogma of free trade."

The Bali meeting was an important one for the WTO's credibility. The deal includes a rather small part of the negotiating programme that was launched 12 years ago, known as the Doha Round.

Repeated delays have made the WTO seem irrelevant as a forum for negotiating trade liberalisation agreements. It was one of the main reasons so many countries have sought to make deals bilaterally or among small groups.

The agreement will help repair the WTO's damaged image. Nonetheless, the rest of the Doha Round will be very difficult to conclude.

The deal seeks further reductions in farm subsidies, tariffs on industrial goods, barriers to international trade in services and more. All are very difficult to conclude and are entwined with domestic political factors in many of the WTO's 159 member countries.

So don't hold your breath waiting for the final deal.

**Questions**

1. What form of trade barriers does the latest WTO deal cover, and what does it exclude?

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1. What evidence is there in the extract that this agreement will have a significant impact?

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1. Do you think this agreement will be good for poorer countries? What might the limitations be in terms of how far the deal helps poor countries?

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1. What form of protectionism has India been allowed to maintain? Why do you think this is?

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1. ***Extension:*** What prospects are there for success in future negotiations?

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# Presentation 2 – The Doha Round

Complete the activities below so as to have a complete set of Notes:

**Definition:** The Doha-Round

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It started in November 2001. It had an ambitious agenda that involved negotiations designed to free up trade in agriculture, services and manufactured goods.

The word “development” in its name was there to demonstrate that the round would bring benefits to poor as well as wealthy countries, as opposed to previous rounds of negotiations where the benefits were focussed on the USA and the EU.

**Key Question:** Why did the Doha round break down without achieving much?

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# Extracts Task: WTO, Successful or Not?

**Instructions:**

* Read, highlight and annotate the extracts
* List all the arguments for and against the WTO being successful in promoting growth and development
* Discuss your findings as a class

**Extract One**

*Ten years of Doha Round trade talks have sharpened divisions, not smoothed them*

IT WAS meant to be the beginning of the end. For months, insiders at the World Trade Organisation (WTO) in Geneva have argued that the release of a revised set of negotiating texts in the Doha round of trade talks was a necessary condition for a deal by the end of 2011. Necessary, perhaps, but hardly sufficient. The documents came out on April 21st but in a blunt assessment of the state of affairs, Pascal Lamy, the head of the WTO, pointed to “a clear political gap” which “is not bridgeable”. A deal this year is in “serious doubt”, he suggested.

The last big push to complete the round collapsed in a bout of finger-pointing in July 2008. Optimists argued that differences between rich countries, led by America and the European Union, and emerging ones, led by China, India and Brazil, could be ironed out if only there were enough effort. The arrival of Michael Punke as America’s ambassador to the WTO in March 2010 did cause serious discussion to resume, but rather than hasten convergence it seems to have exposed new areas of discord.

In 2008 disagreement centred on developing countries’ ability to respond to surges in agricultural imports. Now it appears that the real bone of contention is the aim of proposed cuts in tariffs on manufactured goods. America sees the Doha talks as its final opportunity to get fast-growing emerging economies like China and India to slash their duties on imports of such goods, which have been reduced in previous rounds but remain much higher than those in the rich world. It wants something approaching parity, at least in some sectors, because it reckons its own low tariffs leave it with few concessions to offer in future talks. But emerging markets insist that the Doha round was never intended to result in such harmonisation. These positions are fundamentally at odds.

In his note Mr Lamy urged member states to think hard about “the consequences of throwing away ten years of solid multilateral work”. In fact, those ten years may be at the root of the Doha impasse. Over that period the heft of emerging economies has increased dramatically. Less than half of global GDP growth came from outside the rich world between 1998 and 2001, but the IMF reckons that almost 75% of the addition to world GDP between 2011 and 2014 will do so. So rich countries are much more concerned about access to emerging markets than they were when the goals for the Doha round were set.

Emerging markets’ goals have changed, too. Many developing countries are now more bothered about keeping food prices in check than about keeping rich-world subsidies down. In addition, argues Aaditya Mattoo of the World Bank, countries like India and Brazil are now more worried about cheap imports from China than about imports from the rich world. In essence, they might be more willing to open their markets to rich countries if doing so did not simultaneously let in more Chinese goods.

Some in Geneva are floating the idea of salvaging something from the talks by hiving off the least contentious bits in a Doha-lite agreement. Hardly what the world’s leaders had in mind when the round started in 2001. But when nothing is the alternative, it looks more attractive.

**Extract Two:**

*Developing Countries and General Agreement on Tariffs and Trade/World Trade Organization Dispute Settlement*

It has long been observed that developing countries made scant use of dispute settlement under the General Agreement on Tariffs and Trade (GATT). Less clear are the reasons for this. Most observers insist that the various GATT reforms that were intended to help developing countries failed to insulate them from the “power politics” of the system (Kuruvila, 1997). Not surprisingly, many of these same observers predict that the greater “legalism” of the World Trade Organization (WTO), and the Dispute Settlement Understanding (DSU), in particular, will encourage more participation by developing countries. Indeed, some go so far as to suggest that, enticed by a system in which, unlike in the GATT years, “right perseveres over might” (Lacarte-Muro and Gappah, 2000, 401), developing countries will have greater recourse to multilateral dispute settlement. The underlying presumption, of course, is that developing countries were especially ill-served by GATT’s diplomacy, and are better poised to benefit from the WTO’s more legalistic architecture. We argue that this conventional wisdom is wrong on both counts.

In assessing how developing countries have fared in dispute settlement, two questions beg empirical attention. First, have developing countries secured more concessions, by which we mean favourable trade policy outcomes, in WTO versus GATT dispute settlement? And second, what explains any differences in the outcomes realized by developing, as opposed to developed countries?

Our data bears the following conclusions. First, poorer countries have not secured significantly greater concessions under the WTO than under GATT. This is true despite the fact that the DSU has facilitated more favourable outcomes for wealthier complainants (except in the special climate of US–EC disputes). The result is a new and growing gap between rich and poor member states in the performance of the dispute settlement component of the global trade regime. More telling still, our results indicate that the central problem for developing countries is that they are missing out on early settlement, not that they boast a worse record in winning pro-plaintiff rulings from Panels or the AB. Second, and related, we find that this gap is due to a lack of legal capacity, not a lack of market power with which to threaten retaliation. The main implication of this, as we argue elsewhere (Busch and Reinhardt, 2000), is that developing countries need more assistance before litigation commences.

**Table**

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| Arguments that the WTO has **SUCCESSFULLY** promoted growth and development | Arguments that WTO has **FAILED** in promoting growth and development |
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# Presentation 3 – Limitations of the WTO

Complete the activities below so as to have a complete set of Notes:

**Elaborate:** Elaborate on the below limitations of the WTO

*Failing Developing Nations:*The WTO failed to cut agricultural subsidies in rich countries.

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*Complex legal systems:*The WTO pledged to improve access to its expensive and complex legal system, but has failed.

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*Failures to alleviate suffering:*The slow nature of decision making at the WTO has led to sub-optimal responses to economic suffering.

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*Lack of progress:*The Doha Round started in 2001 and still has not resulted in a deal.

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*Reaching decisions:*The need for consensus among the 150+ members can make agreements difficult to reach.

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# Assignment

**Section B style question**

Evaluate whether the WTO has been effective at improving global economic welfare [15]

[Use the previous articles and extracts for application]

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| **Planning Grid: Aim = 5 paragraphs - 2 KAA points (9); 2 Eval points (6)**  |
| **KAA Point 1 = signpost key point** |  |
| Application |  |
| Main concept & diagram |  |
| **Eval Point 1 = relate to your earlier point & re-read the title** |  |
| Context / evidence |  |
| **KAA Point 2 = signpost key point** |  |
| Application |  |
| Main concept & diagram |  |
| **Eval Point 2 = relate to your earlier point & re-read the title** |  |
| Context / evidence |  |