

Global Trade History, Trade Agreements, and US Trade Politics

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Outline

- International Institutions
- Preferential Trade Agreements
- U.S. trade policy and politics
 - Implications of the upcoming election
- Other African trade issues

Historical setting

- Tumultuous first half of 20th century
 - World War 1
 - Great Depression
 - World War 2
- One contributor to Great Depression in Europe was rising trade barriers
- End of colonialism raises European countries' costs of trading with former colonies

New Institutions

- Leaders of “West” created institutions to facilitate economic cooperation
 - IMF, World Bank, OECD
 - No International Trade Organization, but
 - Agreed to General Agreement on Tariffs and Trade (GATT)
- Economic cooperation also seen as way to contain communism
- Technology, stable monetary policy also contribute to economic, trade growth

General Agreement on Tariffs and Trade (GATT)

- Created in 1948
- Agreement, not an institution
- “Most Favoured Nation” principle
 - Tariff applied on exports from “most favoured nation” applies to all members
- Negotiating Rounds:
 - Geneva (1947) 23 countries
 - Annecy (1949) 29 countries
 - Torquay (1950-51) 32 countries
 - Geneva (1955-56) 33 countries
 - Dillon Round (1960-1) 39 countries
 - Kennedy Round (1964-1967) 74 countries
 - Tokyo Round (1973-1979) 99 countries
 - Uruguay Round (1986-1994) 117 countries
 - Doha Round (2001-???) 164 countries now.

African GATT/WTO accession

- Original GATT signatories 1948: South Africa, Zimbabwe (Southern Rhodesia)
- 1957 Ghana
- 1962-1965 Benin, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Congo, Cote D'Ivoire, Gabon, The Gambia, Kenya, Madagascar, Malawi, Mauritania, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Tanzania, Togo, Uganda
- 1970-1971 Egypt, Mauritius, Dem Rep of Congo (Zaire)
- 1982 Zambia
- 1987-1988: Botswana, Lesotho, Morocco
- 1990-1994: Djibouti, Guinea, Guinea Bissau, Mali, Mozambique, Namibia, Swaziland, Tunisia
- Non-member (observers): Algeria, Comoros, Equatorial Guinea, Ethiopia, Libya, Somalia, Sudan, South Sudan

Uruguay Round 1986-1994

- Trade in Goods
 - Reduction in goods tariffs
 - Agriculture included for the first time in a significant way.
 - Phase-out of textile quotas by Jan 1, 2005
- Trade in Services
 - Created General Agreement on Trade in Services (GATS)
 - Countries could commit to allowing international competition in selected service markets
 - National treatment
 - Reciprocity
- Trade-Related Intellectual Property rights
 - Set minimum standards for intellectual property protection
 - controversial, many say standards too strict
- World Trade Organization created
 - Standing body to oversee dispute settlement
 - Monitors and reports on member countries' overall trade policy

Doha Round

- November 2001 declaration in Doha, Qatar kicked off new round of trade negotiations
 - Ambitious goals in Agriculture, Services, non-Ag products
 - Trade Related Aspects of Intellectual Property Rights (TRIPs)
 - Ambitious new goals
 - Trade and Investment
 - Trade and Competition policy
 - Transparency in government procurement
 - Trade facilitation
 - Trade and Environment
-
- After 20 years, no progress...
 - except for Trade Facilitation Agreement

“Special and differential treatment” at the WTO

- Most GATT/WTO agreements contain “special and differential treatment provisions”
 - Allowed higher trade barriers in developing countries
 - Developed economies could provide preferential access to LDCs
 - Exemptions from WTO rules on policies such as export subsidies.
- May have slowed LDC integration into the world economy, slowing growth.
- Argument that SDT should focus on efforts to help poorer countries integrate better (e.g. Aid for trade initiatives)

https://cadmus.eui.eu/bitstream/handle/1814/27294/RSCAS_PP_2013_09.pdf

Dispute Settlement Mechanism

- Part of Uruguay Round
- A system to resolve disputes among WTO members
 - Exporters who see another member violating WTO rules can make a case at the WTO
 - Notable case [Brazil vs U.S.](#) subsidies on cotton (2003-2014)
 - Brazil argued that the world price was depressed by U.S. subsidies to its farmers that were not consistent with US commitments at WTO
 - Case eventually settled by Brazil “won.” US reformed subsidies to cotton.
 - Other beneficiaries, major African cotton exporters: [Benin](#), [Burkina Faso](#), [Chad](#), [Mali](#)
- Recent case: [South Africa vs EU](#) on rules for transporting citrus fruit.
 - EU requires cold transport, says effective against disease and pests.
 - RSA says unscientific.

DSM commentary

- Dispute settlement at WTO used to be one of the most functional aspects of international law.
 - WTO could authorize real punishment, tariffs on the exports of a losing country.
- Still, not ideal
 - Prosecuting a case expensive, not economical for poor countries
 - Small countries don't have much power to punish with tariffs.
 - Example, [Brazil](#) won case against [US](#), not [African cotton exporters](#).
 - Extremely slow process
- US still saw rules as too restrictive
 - Donald Trump hobbled the system by blocking appointments to the “appellate body”
 - No judgements possible without appeals.
 - Joe Biden has maintained this policy as President
 - Appellate body barely functional now, except in terms of moral authority.
- For small countries, a system with rules is better than a system without rules.

Part 2

Preferential Trade Agreements

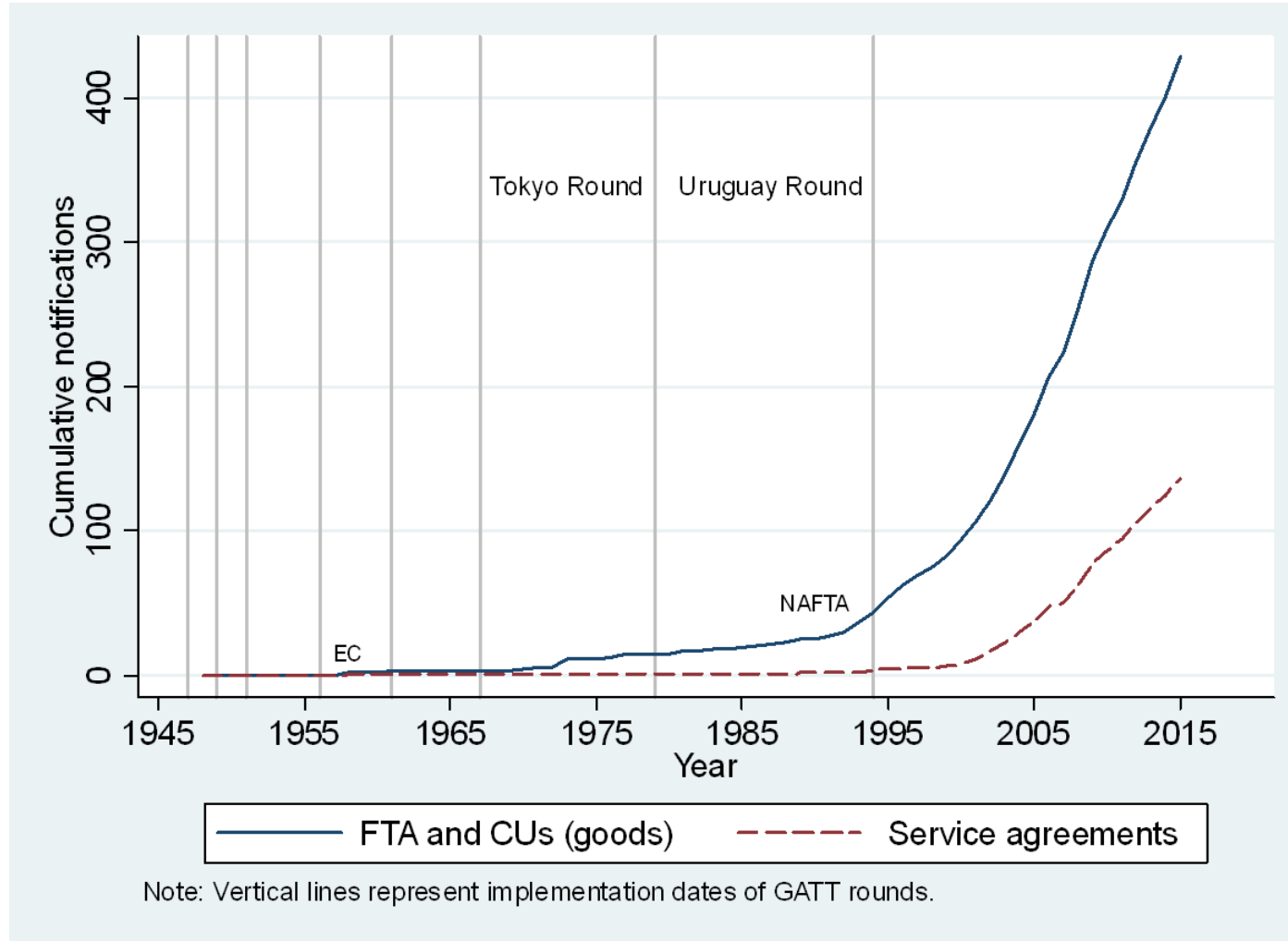
Overview

- Definitions
- Notifications
- Trade diversion vs trade creation
- Big picture arguments
- US policy history regarding PTAs

Definitions

- A preferential trade agreement (PTA) includes a subset of WTO members.
 - Members of the PTA give preferential tariffs to the other members.
 - US tariffs on corn/maize: **WTO members generally** (14%) **PTA partners** (0%)
- Examples of PTAs:
 - **African Continental Free Trade Area**
 - **EU-South Africa FTA.**
- Many economists object to “free trade agreements” because...
 - preferential agreements involve the governments choosing trading partners rather than the market
 - despite WTO rules, the agreements do not always produce “free” trade, even among the members.
- Preferential agreements is most descriptive, but sometimes adjectives such as “bilateral” or “regional” are more useful for making distinctions among them.

Notifications of preferential trade agreements to GATT/WTO



Source data: WTO (2018)

PTAs: trade creation vs trade diversion

- PTAs create trade among the members
- PTAs also divert trade away from non-members, who might otherwise be the low cost suppliers.
- One way to assess the potential benefits of PTS is to ask, “will it create more trade than it diverts?”

Big picture arguments about preferential agreements

- *Arguments for PTAs*

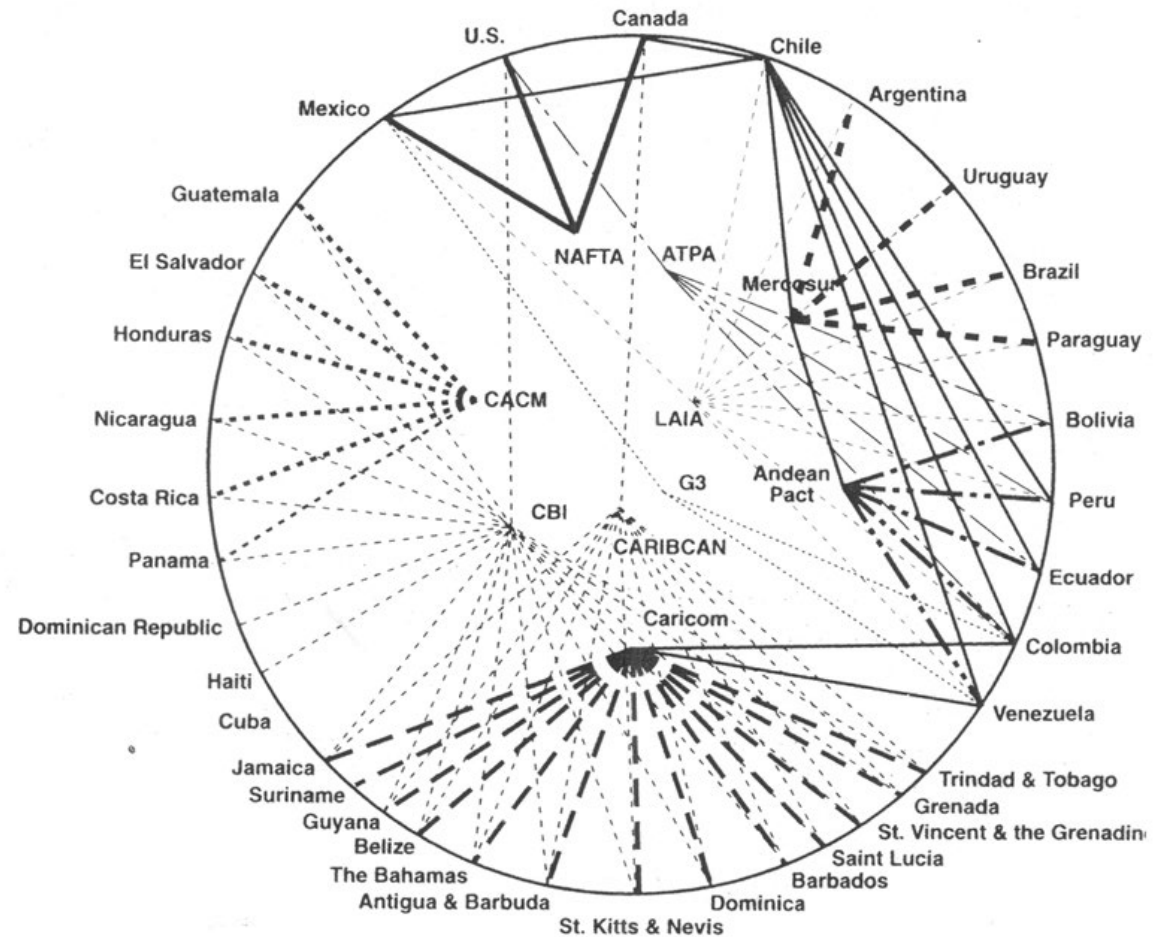
- “Multilateral liberalization is too hard”
 - 164 countries now member of WTO, getting agreement of all members is difficult.
- Growth of non-tariff issues (investment guarantees, liberalization of services markets, customs reform, etc) make agreement among many parties even more difficult.

- *Arguments against*

- Welfare effects are ambiguous: governments determine trade pattern, not comparative advantage
- Rules of origin (ROOs)
- Make trading rules unnecessarily complex

Spaghetti bowl

Figure 1.1 Western Hemisphere trade agreements^a



a. FTAA and some smaller blocs have not been included in this figure. FTAA would include all countries shown except Cuba.

Source: Frankel, Jeffrey, 1997, *Regional Trading Blocks in the World Economic System* Institute for International Economics, Washington D.C.

Part 3: Recent US trade policy history

US policy on Preferential Trade agreements

- 1940s – 1980s: US advocates strict multilateralism
 - Economic reasons
 - Foreign policy reasons
 - Notable PTAs of this period EC (1957), EFTA (1959)
- Early U.S. PTAs
 - 1985 Israel
 - 1988 Canada
 - 1994 NAFTA (Canada+Mexico)
 - Contemporaneous U.S. thinking on regional markets.....
 - But also note near the end of Communism.

US policy on Preferential Trade Agreements

- George W. Bush years
 - Kicked off Doha Round of GATT/WTO negotiations (2002)
 - PTAs initiated under George W. Bush
 - Jordan (2002), Chile (2003), Singapore (2003), Australia (2004), Morocco (2005), Bahrain(2006), Central America + Dominican Republic (2006), Oman (2009), Peru (2009), Colombia (2012), Panama (2012), South Korea (2012)

Obama years

- Completed three Bush-era agreements
 - Colombia (2012), Panama (2012), South Korea (2012)
 - Labor / environmental standards
- Negotiated “mega-regionals”
 - Trans-Pacific Partnership (TPP)
 - Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore
 - Transatlantic Trade and Investment Partnership (TTIP)
 - U.S. + EU

Trump years: early phase

- PTAs
 - Withdrew from TPP
 - 11 other countries agreed to pursue regional deal amongst themselves
 - Open to admitting U.S. in the future
- WTO: undermined dispute settlement mechanism
- “National security” tariffs on steel and aluminum
 - Broad application to most countries in the world, including many U.S. allies
- Section 301 tariffs against China – 4 rounds
 - Importing firms can apply for exemptions
- Retaliation by trading partners. China and EU retaliation affected large trade flows

Trump years: later phase

- Threatened to pull out of NAFTA, but
 - Modest renegotiation instead (USMCA)
 - Incorporated commitments negotiated in TPP
 - Added restrictions on North American Auto trade
- “Light” agreements with Japan, Korea
- “Phase One” agreement with China another “light” agreement
 - But stopped the escalation of the trade war.
- Broad theme: Took expansive view of Presidential powers granted by Congress
 - These powers had been granted under the supposition that they would be used lightly, and with consent from Congress.

Biden Administration

- Some attempt to normalize trading relationships with traditional allies (e.g. EU, JPN)
- Led comprehensive effort to impose economic sanctions on Russia following its invasion of Ukraine
- No effort to reduce tariffs on China
- Industrial policy aimed at
 - “onshoring supply chains”
 - capturing industries such as electric vehicles and memory chips.
- Buy America program in infrastructure spending
 - WTO compliant?
- No apparent effort to negotiate PTAs or other agreements

Next US election: trade policies

- Both want to raise tariffs on imports from China
 - Biden more targeted: high technology goods like Electric Vehicles
 - Trump wants to apply tariffs broadly to China
- Trump also wants to impose tariffs on imports from other countries
- Biden pairs his policies with subsidies to support domestic suppliers of EVS, semiconductors, etc.
 - These subsidies would likely not survive under Trump

Implications for the rest of the world

- Tariffs on China may induce diversion to other countries.
 - Vietnam and Mexico appear to be the main beneficiaries so far.
 - Chinese firms are investing in third countries to access US markets.
- Retaliation against the US is likely.
 - It may be difficult for African countries to replace most US exports to China.
 - Agriculture possibly an exception.
- Trade wars are generally disruptive, especially in the era of international supply chains.
- Other countries' exporters have openings, but it is a very chaotic environment

Other trade issues related to Africa

- Trade Facilitation – making borders work better
- Foreign Direct Investment,
 - mineral deposits, infrastructure, etc.
- Intra-African trade small relative to trade with rest of the world.
 - Small countries not very well integrated.
- Primary commodities a key export.
 - Prices volatile
 - Many commodities subject to trade restrictions
- Infrastructure for intra-African trade

Thank you