QUESTIONs - CHAPTER 12 InternAtionAl trade orGAnizations

Question 12.1

‘If economists ruled the world, there would be no need for a WTO’.

12.1A Do you agree with the statement above? Explain.

12.1B Throughout the book we illustrate the benefits of free trade. Yet international trade negotiations are still steeped in terms such as concessions received and granted. Can you explain why this is so?

12.1C What is a beggar-thy-neighbour policy?

12.1D How is this related to the set-up of international trade organizations after the second World War?

12.1E On which three main principles is the GATT based?

12.1F Two main exceptions are given for the non-discrimination principle. Can you explain why these have been created?

12.1G Why did the successive trade rounds change their negotiating technique at the Kennedy Round?

12.1H Why do international trade negotiations give particular attention to non-tariff barriers?

12.1I What is the new protectionism?

12.1J Which concerns gave rise to the foundation of UNCTAD?

Question 12.2

The world has recently witnessed the rise of a new movement vehemently opposed to international bodies such as the World Bank, the IMF, and the WTO. As described in Box 12.1, this movement consists of many different groups of people, usually opposing different elements of the economic developments in the world. In view of this discontent, which apparently makes people so angry that they are willing to smash city centres, break windows, start fires, and fight with the police, it is good to discuss some of the many issues raised by the protestors. For clarity, we focus the discussion on the WTO as it is the most important trade organization and was the first target of the demonstrators. Give your view on the claims below.

- The WTO is an undemocratic organization.
- The WTO promotes international trade that is bad for the environment.
• The WTO represents exclusively the interests of the developed nations and the multinationals.
• The WTO leads to the development of a monotone global culture that destroys the diversity of other cultures.
• The WTO promotes ‘unfair’ trade.
• The WTO policies increase global inequality.
• The WTO policy of free trade destroys jobs.

Question 12.3

12.3A What are the terms of trade?

12.3B Does the corporate sector favour better (higher) terms of trade? Explain.

12.3C Do consumers favour better (higher) terms of trade? Explain.

The case study in Section 12.5 describes the transition process of Central and Eastern European countries. Figure 12.7 gives an overview of the possible economic systems countries may choose.

12.3D State for each of the countries below in which corner of Figure 12.7 you would place the country.

• Germany
• USA
• China
• Cuba.

Figure 12.8 describes the hypothetical transition of one of the Eastern European countries to capitalism.

12.3E Can you explain why the relative price is different before and after the transition process?

Question 12.4

Nations frequently clash with each other on various trade issues, often charging the other side of 'dumping' practices. On the website of the WTO you can find answers to the following questions.

12.4A What is the definition of ‘dumping”? What is the stance of the WTO towards countries which protect themselves from 'dumping' practices?
12.4B What are anti-dumping measures called in WTO terminology? What measures can you think of that policymakers would implement?

12.4C Which countries/economies have the largest amount of disputes? Can you explain why?

**Question 12.5**

An important and controversial treaty agreed upon at the WTO is the issue of intellectual property rights. The WTO’s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) is the official name of the WTO treaty that handles these rights. Go to the website of the WTO to answer the questions below.

**12.5A** Which broad issues with respect to intellectual property rights are covered by the TRIPs agreement?

**12.5B** Why do intellectual property rights need to be discussed at a global level?

**12.5C** Which special arrangements have been made for developing countries in the TRIPs agreement? Why?

The TRIPs agreement has drawn a lot of criticism. Many people claim that it will be bad for developing nations and good for developed nations.

**12.5D** Can you think of reasons why the TRIPs agreement would be bad for developing countries? And reasons why it would be good?

Pharmaceutical companies have been criticized recently for their hesitation to supply cheap AIDS medicines to developing countries, as well as for their attempts to block the production of cheap copies of such medicines in the developing countries. The TRIPs agreement will have a big impact on this issue.

**12.5E** Why is it beneficial for developing countries to produce the drugs cheaply in their own country? Why can it be detrimental?

**Question 12.6**

The OECD website contains an excellent database of economic statistics, including many interesting for international trade. The Excel file for question 12.6 contains data from the online OECD database, relating to the Czech Republic, Hungary, Poland, and the Slovak Republic.
12.6A Graph the trade to GDP ratios for the abovementioned countries and graph them for the longest possible time period. What do you see and can you explain the trends?

Next, we can take a look at the Herfindahl index of geographical concentration for exports.

12.6B What is the Herfindahl index?

12.6C How does this index develop over time for the five countries we are researching? Can you explain why?

Large FDI inflows have helped to restructure these four economies. Many of the FDI flows relate to investments in car plants, which presumably changed export patterns and generated a comparative advantage in car manufacturing.

12.6D Graph the revealed comparative advantage in automotive manufacturing for these transition countries. What are your findings? Explain.

12.6E Are your findings consistent with the theoretical explanation of transition in section 12.5?