

# International Trade Policy: Institutions (2)

# GATT

- Multilateral trading system signed in 1947
- Set of institutions related developed with it
- Provides a set of rules for the conduct of international trade in goods
- Independent forum for monitoring, discussing and settling trade disputes (no enforcement)
- Sponsor for multilateral negotiations on trade policy (rounds):
  - Non-discrimination
  - Trade liberalization

# Rounds

- Reduction in tariffs to most favored nation (first two rounds)
- Further trade liberalization (next four):
  - Reduction to 7% of average tariff duties
- Seventh round (Tokyo round):
  - Reduce non-tariff barriers
- Eighth round (Uruguay round):
  - Include agriculture, intellectual property rights and trade in services
  - Creation of WTO (1995):
    - WTO is an institution and GATT is an agreement
    - WTO umbrella organization embracing GATT and other agreements

# Doha round

- Main objective was to apply GATT principles to agriculture:
  - Historically, agriculture has been heavily protected:
    - Lobbies
    - Cultural or social foundation for agricultural support
    - Secure supply of food in case of war or natural disaster
  - Opposition mainly from EU
- Implementation:
  - Difficulties from low-income countries to adopt agreements
- Market access:
  - Reduce or eliminate tariffs in (non-agricultural) important industries for low-income countries

# Multilateral trade in the future

- More difficulty to get agreements:
  - Larger size (from 23 to 150 members)
  - Much more dissimilar
- Higher adjustment problems due to different population growth levels:
  - Downwards pressure on low-skilled wages in rich world
  - Gains from trade accrued to workers with skills scarce in poorer countries
- End of wide multilateral agreements and start of smaller scale agreements ?

# Other international institutions

- World bank (1945):
  - Provide financial assistance for the development of economically productive projects
  - Originally financed by member nations
  - Has a commercial bank (IBRD), an investment bank (IFC) an insurance company (MIGA), an arbitrator and a foreign aid agency (IDA)
- IMF (1945):
  - Providing relief for short-run balance of payments problems
  - Set of agreements (maintain convertibility,...)

# Canadian trade policy institutions

- Canada founding member of GATT and WTO, IMF and World Bank
- Trade policy resides mainly in International Trade Canada (ITCan) (department)
- Industry Canada (absorbing Investment Canada) deals with foreign investment

# Canada-US trade relations

- Most important trading partner
- Both included under GATT and WTO
- Debate over free trade agreement:
  - Gains from trade but compromise Canadian sovereignty and/or identity (?)
  - Canada-US auto pact (1965) very successful
- Canada-US free trade agreement (FTA) signed in 1987 and ratified in 1989
- North American Free Trade Agreement (NAFTA) signed in 1992 (into effect in 1994) included Mexico



# NAFTA Objectives

- Eliminate barriers to trade in goods and services (including energy)
- Facilitate conditions of fair competition
- Expand liberalization of conditions for cross-border investments
- Establish effective procedures for the joint administration and the resolution of disputes
- Lay the foundation for further cooperation to expand or enhance the benefits of NAFTA

# Are NAFTA and FTA good for Canada?

- Difficult to measure:
  - Restructuring effect takes some years
- However,
  - Export sector relatively was strong
  - 1990-92 recession affected mostly import-competing industries (of Ontario)
  - Lower employment but higher real wages
- Consensus: FTA had a small positive effect
- NAFTA did not affect much Canada