



United Nations Economic and Social Commission
for Asia and the Pacific

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on Trade Research
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Session 4: Roundtable discussion on WTO and trade related research issues

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Talk about:

- Trade theory
- Trade policy and coherence (W/G consensus)
- Measurement
- WTO

Theory: revisiting the past

□ Trade encompasses:

Goods

- Commodities – homogeneous, world price
 - Products – differentiated (horizontally or vertically); monopolistic competition; duopolies and oligopolies
 - Gains from trade based on comparative advantage
 - difference in relative price; specialization and better use of resources
 - EOS/rationalization and pro-competitive effects
 - increase in efficiency which is consistent with economic growth. However in practice difficult to achieve (particularly external EOS)
- prescription of the **first best policy** being “free” trade FOR ALL
- If liberalization does not apply to ALL but is limited to subset of countries, is it possible that more of free trade is not better? (anecdotal evidence supports the case)
 - Distortions and externalities do not substantially alter this prescription (except for terms of trade externality); **thus is there an infant industry case or export subsidy case?**

Smith on export subsidy

“The trades, it is to be observed, which are carried on by means of bounties [subsidies], are the only ones which can be carried on between two nations for any considerable time together, in such a manner as that one of them shall always and regularly lose, or sell its goods for less than it really costs to send them to market. But if the bounty did not repay to the merchant what he would otherwise lose upon the price of his goods, his own interest would soon oblige him to employ his stock in another way, or to find out a trade in which the price of the goods would replace to him, with the ordinary profit, the capital employment in sending them to market. The effect of bounties, like that of all the other expedients of the mercantile system, can only be to force the trade of a country into a channel much less advantageous than that in which it would naturally run of its own accord.”

Subsidies

- Horizontal (same effect as currency depreciation on export side); what if large country?**
- If sector/product differentiated**
 - why would G has better way of knowing which sector/product
 - Problem is in information flow/financial markets/marketing development etc ; what is the first best policy?
 - (tongue in cheek) what about Lerner symmetry theorem?

– Services

- **Trade-related services (transport, insurance, tourism...)**
 - **Professional services**
 - **Services linked to commercial presences (investment)**
 - **Services linked to presence of natural persons**
- most gains from services come from their role as intermediaries in the production processes**

– Factors of production

- **Labour**
- **Capital**

Factors of production

- ❑ **Movement of capital: is it (FD) investment or not?**
 - Inter-temporal approach (borrowing and lending)- trade over time
 - Foreign direct investment and MNCs
 - Issues of substitutability and complementarity
- ❑ **We are still in search of clear answers to:**
 - What explains the movements (export/import)?
 - What are the gains from movements? And what about distribution?
What if labour/human capital/technology move together with capital?
 - Is it better to have globally free movements or only pockets of free movements or no freedom at all? Does capital flow at all?
 - What is the effect of having GATS and TRIMs, neither of which is providing comprehensive/universal coverage?

Policy

- ❑ Analytical base and practical tools to apply theoretical ideas on
- ❑ Choosing best policy (instrument) – e.g. uniform vs. differentiated tariff? Objective function?
- ❑ But there are other type of questions:
 - do democratic G run “better” trade policies (i.e. associated with stable growth, increase in standard of living, more equitable distribution, increase in HDI)?
 - Are large or small G associated with the above described better trade policies? Is this the same question?
 - What sort of country (democratic/small/vulnerable...?) will seek more exceptions in the “WTO”/preferential club?
 - When will G opt for autonomous liberalization?
- ❑ Policy coherence (WTO-BWs)

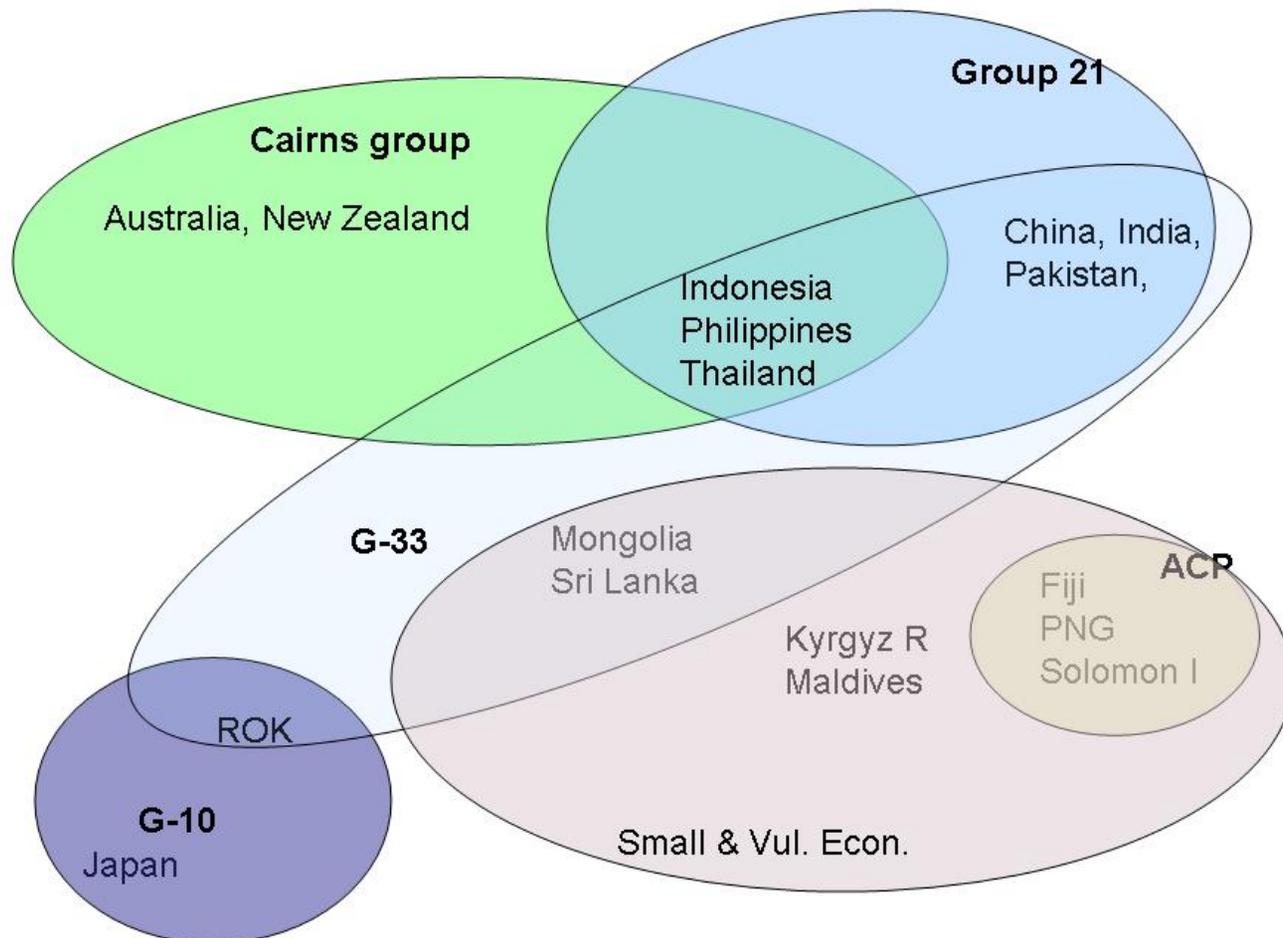
Measurement:

- ❑ If the answer begins with “it depends” the question is an empirical one
- ❑ Quality of empirics depends on both theory and tools of measurement/analysis as well as availability of data
- ❑ More efforts and resources to be put into databanks as well as modelling
- ❑ Streamline measurement into “responsible practice” including index building
- ❑ Much more to learn about effect of belonging to a PTA AND the WTO

WTO – related issues

- ❑ **Autonomous liberalization or protectionism**
 - Zollverein (customs union but motivated more by political reasons)
 - trade wars
 - Rules-based global system – public good: more liberal global trade regime than otherwise would have existed?
- ❑ **GATT/WTO – something old, something new:**
 - Reciprocity (was meant) to extend to all without discrimination (however with all exceptions it is difficult to talk about nondiscrimination as the core principle)
 - National treatment vs. “inherent” preference for domestic good/service
 - liberalization efforts (locking governments in the “free” trade mode)
- ❑ **Do “countries” (G, producers, consumers, importers, exporters, owners of factors) need “WTO”?**
 - Is volume of trade higher and more stable?
 - Do we have less of trade conflicts?
 - Is there faster (more stable) economic growth enjoyed by all?
 - Are losers compensated?
 - Are G less inclined to form preferential trading clubs?
 - Is the system transparent or do we have spaghetti bowl of coalitions?

AG coalitions in the region



When it comes to free trade

“not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it” (Adam Smith)