



**Brandeis University Department of Economics
The Economics of International Trade Disputes
Economics 60B
Kent Jones, Adjunct Professor**

SYLLABUS

Background

Boston Globe, August 12, 2009 (Michael Levi). Climate policy and trade policy are on a collision course. Last week, 10 Democratic senators sent a letter to President Obama demanding that cap-and-trade legislation include tariffs against dirty imports. Precisely such tariffs, aimed at countries that are not doing enough to cut their greenhouse gas emissions, were part of the climate legislation recently passed in the House. Proponents argue that the tariffs are needed to prevent the loss of US jobs and the shift of emissions-generating activities to other countries. Free trade advocates are horrified at the prospect, which they worry could violate global trade rules and spark an economic war.

Financial Times, August 13, 2009 (Daniel Dombey and Andrew Edgecliffe-Johnson). “Beijing loses WTO copyright battle” The Obama administration and Hollywood yesterday hailed a WTO ruling they said would help open up Chinese markets for everything from magazines to blockbuster films as well as curbing rampant intellectual piracy. “Today a WTO panel handed a significant victory to America’s creative industries,” said Ron Kirk, US trade representative. The Recording Industry Association of America said the ruling would “help promote reforms that expand legitimate commerce” in the face of piracy, which it said accounted for 80 per cent of physical sales in its sector in China and 99 per cent of online sales. But the industry’s enthusiasm has been tempered by doubts about the extent to which China will change its behaviour to conform with the ruling. During the case, Beijing argued that its rules for films, books and music reflected their status as “vectors of cultural identity and values” and that such products warranted scrutiny to ensure “a high level of protection of public morals”.

Interview with anonymous trade official from a developing country.(cited in Jawara and Kwa, *Behind the Scenes at the WTO*, London and New York: Zed Books).. “My country has not yet been involved in a [WTO] dispute, because it is a very long and expensive system to get engaged in. Although we do now have the independent ACWL to assist us, it is still much more practical for us to settle out of court. The [EU], for instance, banned all fish exports coming from my country...saying the fish was infected with the cholera bacteria...The WTO formally objected to this notion because there was no scientific proof that our fish were infected. Yet we could not afford to go through the dispute settlement process ... We eventually settled the matter bilaterally with the EU after suffering huge losses in fish exports. Really, the power of enforcement of the rulings ... is based on your capacity to retaliate against a country that has bent the rules. As a small country, however, the impact of retaliating against a big country is virtually nil, though some developing countries have been able to do this with some amount of success.”

The Economist, August 13th, 2009. “Negotiation, not litigation, is the best way to limit the subsidies to Airbus and Boeing—and stop a trade war.” After five years of litigation and almost 100 bound volumes of evidence, the WTO is about to deliver its preliminary ruling on America’s (for which read Boeing’s) complaint against the provision of prohibited subsidies to Europe’s commercial aircraft industry (for which read Airbus). The US alleges that this support was worth \$200 billion over 20 years. Whatever the outcome—and Boeing is confident of victory—this will be only the first stage of a lengthy process. In a few months the WTO will rule on a counter-claim by the European Union that Boeing received about \$24 billion in subsidies over the past two decades as well as large, non-repayable benefits from military and space contracts.

COURSE DESCRIPTION

Economics 60B is designed for undergraduate students (economic majors and non-majors alike) who are interested in analyzing and understanding the economic frictions generated by globalization. The course is structured to provide students with a thorough understanding of the various economic perspectives – special interest, national, and global – of a set of important and evolving issues brought to the forefront of the international trading system by recent events.

The course serves as a lower level elective for the Economics major, as an elective in the Legal Studies program, an elective in the International and Global Studies (IGS) program, or as a related elective in the Peace and Conflict Studies (PAX) program. The prerequisite for the course is successful completion of Economics 8B with a grade of C+ or above or IGS 8A with a grade of B or above.

Before signing up for this course, students who have taken IGS 8A must recognize that much of Econ 60B's economic analysis of trade disputes will draw heavily on the tools developed in Econ 8B. Students may have to learn on their own (in greater depth) material skimmed over briefly in IGS 8A (graphs, equations).

This course will begin with a review of elements of Economics 8B pertaining to the gains from trade, the political economy of trade and motivations for government trade policy. We then apply theory to understand specific frictions in the current trading system that are part of the debate on globalization. Specific applications to a dozen or so different trade disputes and economic frictions include trade and environment (pollution-havens, carbon cap-and-trade); trade and labor standards (sweatshops and minimum standards); trade and intellectual property rights (pharmaceutical patents and HIV/AIDS drugs in developing countries); accusations of “unfair” versus “fair” trading (antidumping or countervailing duties, safeguard protection for the U.S. steel industry); and agricultural trade policy affecting developing countries (cotton subsidies and Africa); and potential new disputes involving emerging economies such as China. While the course focuses primarily on formal GATT/WTO trade disputes, we will also address a number of trade disputes that either were resolved or are being resolved outside of the GATT/WTO institutional framework.

In order to formally understand the nature of these international trade disputes, we also introduce the laws and legal procedures of the WTO and discuss how the WTO interacts with national laws such as U.S. trade laws on antidumping and countervailing duties, safeguard provisions, and Section 301 of the 1974 U.S. Trade Law. Finally, we will take a critical view of WTO rules, identify some of their weaknesses, and examine proposals for systemic reform.

INFORMATION DISSEMINATION

WEB-CT In ECON 60B we will maintain a course website through the University's WebCT system. You will be responsible for checking the website frequently as most of the problem sets, answer keys, etc will be posted on the internet and available for you to download. The website can be accessed from <http://webct.brandeis.edu/>. Most documents from the course website will be found as PDF (portable document format) files. To read such files you will need to have Adobe Acrobat Reader installed on your computer. All computers in the computer labs on campus come equipped with the Reader. If it is not already installed on your personal computer,

you can visit Adobe's website and find that it is available for free download and installation from <http://www.adobe.com/products/acrobat/readstep.html> .

LAPTOP PROTOCOL AND ELECTRONIC DEVICES

Students are expected to maintain appropriate "laptop etiquette" in class, which excludes any disruptive or distracting use of the laptop, extraneous communication, and otherwise, any activity generating a negative classroom externality. Failure to abide by this policy will result in a deduction of points from the "class participation" portion of the course grade.

SPECIAL ACCOMMODATIONS

If you are a student with a documented disability on record at Brandeis University and if you wish to have a reasonable accommodation for this class, please see me immediately. Please keep in mind that reasonable accommodations are not provided retroactively.

ACADEMIC HONESTY

You are expected to be honest in your academic work and to complete your homework assignments and research paper independently, without discussion or assistance from other students. The University policy on academic honesty is distributed annually as section 5 of the Rights and Responsibilities handbook. Instances of alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University. If you have *any* questions about these expectations, please contact me. Academic Dishonesty will not be tolerated and will be rigorously prosecuted.

CONTACT INFORMATION

Adjunct Prof. Kent Jones, Tel: 781-239-4477 (Babson College). Email: kjones@brandeis.edu and kjones@babson.edu . Office: Sachar 205 Office Hours: Mondays and Wednesdays 10-11:15 AM, and by appt. ***Email*** is the most efficient means of communicating with me outside of class or to set up an appointment.

GRADING

- Class discussion and participation (10%)
- Homework Assignments (20%)
- Research Project (20%)
- Midterm Exam (25%) [in class, Monday October 19]
- Final Exam (25%) [Registrar-assigned final exam block]

PROBLEM SETS

While many of you are understandably busy with extra-curricular activities, the course policy is that no late assignments will be accepted. If you have a conflict the day that an assignment is due, turning in an assignment early is the required alternative, since the due dates are established from the outset of the course. Assignments will be available for download *at least* one week before they are due.

PS#1 due Wed., Sept. 9

PS#2 due Wed., Sept. 23

PS#3 due Wed., Oct. 7

PS#4 due Thu, Oct. 28

PS#5 due Wed., Nov. 11

PS#6 due Wed., Apr. 25

RESEARCH PROJECT ON A RECENT WTO TRADE DISPUTE

In addition to the two exams and six problem sets, you will be given the details of an assignment in which you will research the economic aspects of an ongoing WTO dispute that has not been the focus of our classroom analysis. Your assignment will be to develop a basic understanding of the economic and legal issues at stake in the dispute. The research will be undertaken by consulting WTO documents available on-line from their website, as well as national government publications and information disseminated by the media, private companies and even in academic publications. The due date of the project is no later than 3:30PM on Wednesday, Dec. 2, and it certainly is acceptable to turn it in earlier. There will be no extensions. Note that we have organized a mandatory library intensive session with our course's research librarian, Jason Bernard (jbernard@brandeis.edu) to discuss strategies involved with researching trade disputes for on a date and location in early September to be determined.

<u>CALENDAR</u>			
	<u>Mon</u>	<u>Tues</u>	<u>Wed</u>
<u>AUGUST</u>	31		
<u>SEPTEMBER</u>			2
	<i>[7no class]</i>		9*
	14		16
	21		23*
	<i>[28no class]</i>	29 [make-up day]	30
<u>OCTOBER</u>			
	<i>[5no class]</i>		7*
	12		14
	19**		21
	26		28*
<u>NOVEMBER</u>	2		4
	9		11*
	16		18
	23		25*
	30		
<u>DECEMBER</u>			2***

Note: Final Exam to be scheduled during exam week

* Homework Due Dates

** MID-TERM EXAM

Research project outline due

*** Research project due, 3:30 PM

READING MATERIALS

The reading materials for this course can be broken down into five headings:

I. Required Text:

- Irwin, Douglas A. *Free Trade under Fire*. Princeton, NJ: Princeton University Press, 2009 (3e, paperback).

II. Recommended/Supplementary Text. An account of issues that have generated debate over and opposition to the WTO:

- Jones, Kent. *Who's Afraid of the WTO?* New York: Oxford University Press, 2004.

III. Case Packet:

- *Banana Wars: Challenges to the European Union's Banana Regime* [KSG: C14-99-1534.0]
- *Confronting EU Antidumping: the Grey Cotton Case seen from Turkey* [INSEAD: 399-085-1]
- *Standing up for Steel: the US Government Response to Steel Industry and Union Efforts to Win Protection from Imports (1998-2001)* [KSG: C15-02-1651.0]
- *Note on WTO disputes: Five Major Cases* [HBS: 9-703-016]
- *China's Trade Disputes, version A (2/20/2009)* [Ivey 909M18]
- *Note on the Pollution Problem in the Mexico-U.S. Border Region* [IVEY: 9A98H001]
- *Hitting the Wall : Nike and International Labor Practices* [HBS: 9-700-047]
- *India's Intellectual Property Rights Regime and the Pharmaceutical Industry* [HBS: 9-702-039]
- *Brazil's WTO Cotton Case: Negotiation Through Litigation* [Not in the case packet – available through WebCT]

IV. Articles: Additionally, the course WebCT will post articles on-line regarding various disputes that students will download, read in advance, and that we will discuss in class:

- Bown, Chad and Bernard Hoekman (2005), "WTO Dispute Settlement and the Missing Developing Country Cases: Engaging the Private Sector." *Journal of International Economic Law*, vol. 8 (4), pp. 861-891.
- Bown, Chad and Bernard Hoekman (2008). "Developing Countries and Enforcement of Trade Agreements: Why Dispute Settlement is Not Enough." *Journal of World Trade*, vo. 42 (1), pp. 177-203.
- Carbaugh, Robert and John Olienyk (2004), "Boeing-Airbus Subsidy Dispute: A Sequel" *Global Economy Journal*, vol. 4 (2), article 6.
- Crowley, Meredith A. "An Introduction to the WTO and GATT," *Chicago Fed's Economic Perspectives*, Vol.27 No. 4 4th Quarter, 2003.
- Frankel, Jeffrey (2009), "Addressing the Leakage/Competitiveness Issue in Climate Change Policy Proposals," in Lael Brainard (ed.), *Climate Change, Trade and Investment: Is a Collision Inevitable?* Washington, DC: Brookings Institution Press.
- Ganslady, Mattias, Keith E. Maskus and Eina V. Wong (2001) "Developing and Distributing Essential Medicines to Poor Countries: the DEFEND Proposal," *The World Economy*, v24, n6 (June), 779-795.

- Jackson, John (2008), “The Case of the World Trade Organization.” *International Affairs*, vo. 84 (3), pp. 437-54.
- Panagariya, Arvind (2005) “Liberalizing Agriculture,” *Foreign Affairs- WTO Special Edition*, December.
- Staiger, Robert W. (2006) “What Can Developing Countries Achieve in the WTO?” *Journal of Economic Literature*, 2006.

V. Library Reserve: Readings for the first section of the course are from your Econ 8B text,

- Trade Theory: selected chapters from Pugel, Thomas A. *International Economics*. (14th edition) McGraw-Hill.

OUTLINE OF TOPICS

Note: an asterisk (*) indicates a reading available on the course WebCT site)

I. Introduction and Review : Why Countries Trade, and Why there are Trade Disputes

- Introduction: (**Aug. 31**) Irwin, Chapters 1 and 2
- “Case Studies of WTO Dispute Settlement”: On-line WTO video (15 minutes) available at http://www.wto.org/english/res_e/webcas_e/webcas_e.htm
- Overview and Gains from Trade Review (**Sept. 2 and 9**)
 - Case: Note on WTO Disputes: Five major Cases. Prep: Identify the economic interests involved in each case. What WTO principle was at stake, and how did the WTO panel and (if applicable) Appellate Body rule in each case?
 - Pugel: Review Chapters 2 (Basic Theory Using Demand and Supply), 3 (Why everybody Trades), 4 (Trade: Factor Availability) and 5 (Who Gains and Who Loses)
 - Supplemental/Recommended: Jones, *Who’s Afraid of the WTO? Chapter 2*.

II. Trade Policy (Sept 14 and 16)

- Irwin: Chapter 3 “Protectionism”
- Pugel: Chapters 8 (Analysis of a Tariff) and 9 (Nontariff Barriers)
 - Tariffs, quotas, VERs, other non-tariff barriers to trade
 - Supplemental/Recommended: Jones, *Who’s Afraid of the WTO? Chapter 3*
- Application to the “WTO Disputes: Five Major Cases”

III. Introduction to the GATT/WTO (Sept. 21 and 23)

- Irwin: Chapter 7 (pp. 203-231) “The World Trading System...”
- Crowley*: “An Introduction to the GATT and WTO”
- Jackson*, “The Case of the World Trade Organization.”
- Supplemental/Recommended: Jones, *Who’s Afraid of the WTO? chapter 4*.

IV. The Economics of International Trade Disputes

For each of the dispute cases discussed below we will begin by introducing the basic issues and interested parties. Our first goal is to make use of economic tools to identify the economic interests of each side, including (1) plaintiff country firm, worker, consumer, policymaker, and NGO interests; (2) defendant country firm, worker, consumer, policymaker, and NGO interests; and (3) third country firm, worker, consumer, policymaker, and NGO interests. We use economic theory to predict who will be on which side of the particular dispute. This information

also helps us keep track of (i) the sign (gain or loss) and (ii) the size of the distributive effects (within a country) of the trade policy under dispute.

Second, we will use economic tools to aggregate the gains and losses within a country, accounting also for the potential non-monetary gains and losses to the trade policy. We thus see if economic theory can help to clarify or predict each country's position on the trade policy under dispute. This may reveal whether a particular policy choice is in the country's "overall" interest or whether it is the result of over-representation of a "special interest" in the country.

Finally, we will use economic tools to aggregate the overall interests across countries to attempt to justify on economic grounds whether the policy is globally beneficial or harmful, relative to the appropriately defined alternatives. We also highlight the cross country distributive issues, i.e., which countries gain and which countries lose, and again the within country distributive issues, i.e., which actors gain and which actors lose. The goal is to attempt to comment on the size (and feasibility) of transfers that may be necessary in order to make each actor and country in the system potentially better off with the disputed policy's implementation or removal.

Most of the analysis can be done by using the standard tools introduced in Economics 8B. Where necessary, it may also be necessary to introduce additional economic theory to address more complex issues.

A. Managing Trade – Import Protection

1. Dispute – *Bananas* (Sept. 29 and 30)

- Case: *Banana Wars: Challenges to the European Union's Banana Regime*.
- Pugel: Chapter 12 (Trade Blocs and Trade Blocks), pp. 259-266.

2. Dispute – *Anti-Dumping Duties, Textiles and Developing Countries* (Oct. 7 and 12)

- Case: *Confronting EU Antidumping: The Grey Cotton Case Seen from Turkey*.
- Irwin: Chapter 5 (pp. 146-165) "Relief from Foreign Competition..."
- Pugel: Chapter 11 (Pushing Exports), pp. 229-240.

OCTOBER 19TH – MIDTERM EXAM

3. Dispute – *US Steel Safeguards* (Oct. 21)

- Case: *Standing up for Steel: the US Government Response to Steel Industry and Union Efforts to Win Protection from Imports (1998-2001)*
- Irwin: Chapter 5 (pp. 165-175) and Chapter 4 "Trade, Jobs and Income Distribution"
- Pugel: Chapter 10 (Arguments for and against protection), pp. 199-204, 213-223.

B. Domestic Subsidies and Export Promotion

1. Dispute – *Agricultural Subsidies* (Oct. 26)

- Case*: *Brazil's WTO Cotton Case: Negotiation Through Litigation*
- Pugel: Chapter 11 (pp. 229-240)
- Panagariya*: "Liberalizing Agriculture"
- Handout with update on WTO dispute

2. Dispute – *Strategic Trade* Policy: Boeing/Airbus: The Continuing Saga (Oct. 28)

- Pugel, Chapter 11 (Pushing Exports), pp. 251-255)
- Carbaugh and Olienyk, "Boeing-Airbus Subsidy Dispute: A Sequel"

- Update readings to be announced

C. Environmental Standards

1. Dispute International Trade and the *Pollution-Haven* Hypothesis –(Nov. 2)
 - Case: *Note on the Pollution Problem in the Mexico-U.S. Border Region*
 - Pugel: Chapter 13 (Trade and the Environment), pp. 283-302)
 - Irwin: Chapter 7 (pp. 231-244)
2. Current Issue: The Carbon Tariff Controversy (Nov. 4)
 - Pugel: Chapter 13 (pp. 303-312)
 - Further reading TBA
 - Supplemental/Recommended: Jones, *Who's Afraid of the WTO?* Chapter 6

D. Labor Standards

- Dispute – Multinationals, *Sweatshops*, and Developing Countries (Nov. 9)
- Case: *Hitting the Wall : Nike and International Labor Practices*
 - Irwin: Chapter 6 “Developing Countries and Open Markets”
- Supplemental/Recommended: Jones, *Who's Afraid of the WTO?* Chapter 7

E. Intellectual Property Rights

1. Dispute – *Pharmaceuticals, Patents and Developing Countries* (Nov. 11, 16, and 18)
 - Case: *India's Intellectual Property Rights Regime and the Pharmaceutical Industry*
 - Gansladt et al*: *Developing and Distributing Essential Medicines to Poor Countries: the DEFEND Proposal*
 - Bown and Hoekman, “WTO Dispute Settlement and the Missing Developing Country Cases: Engaging the Private Sector.”

F. Simmering Disputes and Emerging Economies

- Dispute – *China and the WTO* (Nov. 23)
- Case: *China's Trade Disputes, version A*

G. Dispute Settlement and WTO Reform (Nov. 25, Nov. 30)

- Staiger*: “What Can Developing Countries Achieve in the WTO?”
- Bown, and Hoekman* “WTO Dispute Settlement and the Missing Developing Country Cases: Engaging the Private Sector.”
- Bown, and Hoekman * “Developing Countries and Enforcement of Trade Agreements: Why Dispute Settlement is Not Enough.”

H. New Disputes and Conclusions (Dec. 2)

- Address any new disputes that evolve during the course and tie together what we've learned

DECEMBER 2ND 3:30PM WTO TRADE DISPUTE RESEARCH PROJECT DUE

FINAL EXAM (DATE AND TIME TO BE SCHEDULED BY THE REGISTRAR)