

**Preliminary Syllabus (20 October 2008)**

**BACKGROUND**

*The New York Times*, July 30, 2008 (Geneva) – World trade talks collapsed here on Tuesday after seven years of on-again, off-again negotiations, in the latest sign of India's and China's growing might on the world stage and the decreasing ability of the United States to impose its will globally. Pascal Lamy, director general of the World Trade Organization, could not bridge differences between a group of newly confident developing nations and established Western economic powers. In the end, too few of the real power brokers proved committed enough to make compromises necessary to deliver a deal. The failure appeared to end, for the near term at least, any hopes of a global deal to further open markets, cut farm subsidies and strengthen the international trading system. "It is a massive blow to confidence in the global economy," said Peter Power, spokesman for the European Commission. "The confidence shot in the arm that we needed badly will not now happen." After nine consecutive days of high-level talks, discussions reached an impasse when the United States, India and China refused to compromise over measures to protect farmers in developing countries from greater liberalization of trade....

*The New York Times*, March 4, 2008 (Washington) — In a new escalation of trade disputes with China, the Bush administration joined with the European Union on Monday in filing a suit at the World Trade Organization to protest China's requirement that foreign financial news services operate through a government-designated distributor. The action, which would affect Dow Jones, Reuters, Bloomberg and other foreign suppliers of stock prices and other financial information, followed months of negotiations by the United States to get China to lift its requirement that these suppliers distribute their data and news reports through Xinhua, the Chinese government news agency's restrictive treatment of outside suppliers of financial information services places U.S. and other foreign suppliers at a serious competitive disadvantage," said Susan C. Schwab, the United States trade envoy. Ms. Schwab said that since Chinese regulations bar foreign suppliers of financial information from directly soliciting customers for their services, they are in effect required to develop new customers only by going through a major Chinese competitor... The filing of this petition with the W.T.O. continued a trend of the Bush administration's taking a more confrontational approach toward China on trade issues...

*International Herald Tribune*, November 2, 2007 (Paris) – In a bid to solidify Europe's position as a leader in the fight against global warming, France and Britain this month will lay out an ambitious plan to subsidize environmentally friendly products through Europe-wide tax cuts. The blueprint, to be presented at a meeting of European Union finance ministers in Brussels on Nov. 13, proposes reductions in value-added taxes on energy-efficient products sold across the bloc's 27 member states. ...The announcement comes as the momentum for tighter environmental regulation appears to be gathering pace in the European Union. The French president, Nicolas Sarkozy, and Prime Minister Gordon Brown of Britain first floated the idea of reducing taxes on environmentally friendly products in July, and Chancellor Angela Merkel of Germany made climate change the overarching theme of her country's presidency of the Group of 8 this year....Along with similar legislation being contemplated in the United States, it could set the scene for a major confrontation between wealthy regions like Europe and the United States and emerging powers like China, India and Brazil, which have less stringent environmental standards. "It's not clear how they can do this in compliance with the WTO rules," said Paolo Mesquita, deputy ambassador to Brazil's permanent mission at the World Trade Organization in Geneva...."On the question of production and processing methods there has been and there remains strong disagreement among our members," said Keith Rockwell, spokesman for Pascal Lamy, the director general of the WTO.

Doha, China, India, Brazil, the US, and EU. World trade talks, subsidies, energy, financial services, biofuels, and climate change. What are the common phenomenon that tie these issues and actors together? Who are the players? What are the sources of friction? What are the institutions, laws and policies involved?

## **COURSE DESCRIPTION**

ECON 260A is a course on international trade with a special focus on trade policy. The course is designed for MAief students to satisfy the program's requirement on international trade. The course is structured to provide students with a thorough understanding of the fundamental economics and the ever-evolving nature of policy issues that are confronted by those engaged in international trade.

Specific economic topics in this course will include theories behind the existence of tariffs, non-tariff barriers to trade and strategic trade policies. We will also address the economic reasoning (and sometimes lack thereof) behind various national entities which administer protection through the antidumping duty, countervailing duty, and safeguards laws. We will also consider trade disputes, the institutions that have been designed to remedy these disputes, the international rules of retaliation, the weaknesses of the international system that these disputes serve to identify, and the potential for systematic reform.

## **EXPECTATIONS**

It is expected that students will gain a fundamental familiarity with the economics of international trade, the trade policies that countries employ and the national institutions that serve to administer them. One fair question to ask is : why is it necessary for students of international economics and finance to thoroughly understand the effects of these trade policies? Put bluntly, why is this course a requirement?

As the background section illustrates, trade policy confronts issues that are met with great passion by interest groups who often have influence with national policy makers. In the least, policies over international trade are volatile, frequently up for debate, and are revisited time and again by politicians responding to special interests. A careful economic understanding of the ramifications of international trade policies is thus important for anyone interested in contributing to the ongoing debates over globalization.

Second, private sector decision-makers at multinational firms are affected by trade policies at a variety of levels. As we will see in our cases, trade policies give foreign governments the power to affect imported goods and services in ways that differentiate them from those that are domestically produced (via retaliatory tariffs, antidumping duties, safeguards, changes in acceptable standards, not enforcing laws on intellectual property, etc.) It is imperative that firms, their managers, and those who provide consulting services to them (i) understand the basic rationale for how these policies can occur (and build it into their expectations), and (ii) anticipate the ramifications of these policies in order to have the forethought to quickly and effectively react to changes in the policy environment.

Finally, it is increasingly important for those working in the public sector to understand how the rules of international trade interact with the "rules of the economy" as a whole. By looking at the various topics covered in the course (trade and intellectual property, trade and environment, trade and labor, etc.), it should be apparent that regardless of your professional interest, the pervasiveness of current trade policy initiatives makes it likely that that interest will be affected by the potential changes in the rules of international trade. The scope of the issues being confronted by policymakers has expanded to include many traditionally, "non-trade" issues, and hence the trade policy ramifications will necessarily require an improved understanding by more and more of the players and policymakers in all realms of the economy.

Our class meetings will be split fairly evenly between (i) *lectures* which will be designed to expose and clarify the economic theory behind the issues at stake, and (ii) *class discussions* in which we put our knowledge of the economic issues to work by dissecting "real world" cases. It is my expectation that students attend every class having *prepared* the relevant material ahead of time.

## **REQUIRED READING**

The *required* reading materials for this course can be broken down into three headings:

Texts: There is one text for the course covering the economic theory. It is the popular Krugman and Obstfeld text on trade theory also used in Professor Osler's ECON 202A course. It is also on sale at the bookstore:

- Trade Theory: Krugman, Paul R. & Maurice Obstfeld *International Economics: Theory and Policy*. MA: Addison Wesley, 8<sup>th</sup> edition, 2008, (ISBN: 0-321-48883-0)

Note that we will formally use only Chapters 2 through 11 from the Krugman and Obstfeld text. Note also that any prior edition of this text may well substitute for the 8<sup>th</sup> edition, if you have access to one.

I. Cases: Additionally, the bookstore will provide a packet of collected case studies that students will purchase and that we will discuss in class:

- Trade Policy in Practice:

A number of cases from *HBS* and Harvard's *Kennedy School of Government*

- *China Versus Japan: On the Verge of a Trade War* [HKU660, distributed by HBS]
- *Banana Wars: Challenges to the European Union's Banana Regime* [KSG: C14-99-1534.0]
- *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]
- *Delta Blues: U.S.-Vietnam Catfish Trade Dispute (A)* [HBS: 9-706-003]
- *Brazil's WTO Cotton Case: Negotiation Through Litigation* [available on LATTE]
- *Bombardier: Canada versus Brazil at the WTO* [HBS: 9-703-022]
- *Starkist (A)* [HBS: 9-794-128]
- *India's Intellectual Property Rights Regime and the Pharmaceutical Industry* [HBS: 9-702-039]

II. Electronic readings: Finally, there will be some journal articles and other material available through the course LATTE site, which on the course outline will be denoted by \*.

## **GRADING**

- Class Participation/Preparation (10%) [in our discussion of cases and other relevant areas]
- Problem Sets (20%)
- WTO Dispute Project (20%)
- Midterm Exam (25%)
- Final Exam (25%)

## **PROBLEM SETS**

Problem sets are not group projects and should be completed by each student independently. No late assignments will be accepted. If you have a conflict the day that an assignment is due, turning in an assignment early is acceptable and required, 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.

## **WTO TRADE DISPUTE PROJECT**

In late January you will be assigned to a group to research a pre-selected recent (and likely ongoing) trade dispute that is being adjudicated under the WTO. The research will be undertaken by consulting WTO documents available on-line from their website, as well as national government publications and the media, as well as more in depth research from private companies, NGOs, consumer groups (etc.) from independent databases and sources. The project will entail multiple components.

Note that we have organized a mandatory library intensive session with our course's research librarian, to discuss strategies involved with researching trade disputes for on a date and location in early February to be determined.