

THE GEORGE WASHINGTON UNIVERSITY
Department of Economics

Econ 6295 — Economics of International Trade Law
Fall 2013

M 6:10 — 8:00
Monroe B32

Professor Joseph Pelzman
Office Hours
E-Mail

Office — Monroe 319
M and W 2:00 to 4:00 & by Appointment
jpelz@gwu.edu

COURSE OVERVIEW:

Despite the fact that international trade issues are discussed in the popular press most people cannot answer the following simple questions. What is the WTO? What is it trying to accomplish and why? How does the world trading system function? Why are there so many disputes among countries that belong to the WTO? Why is the WTO a ‘rules based’ system rather than a system based on negotiated outcomes?

Given the significant influence of GATT/WTO on the world economy, it is of special importance to assess the progress that economists have made in providing a theoretical interpretation of GATT/WTO.

REQUIREMENTS FOR THE COURSE:

Your grade is based on:

- (a) a 20 page research paper (60%) which will use economic theory to analyze a current dispute between two members of the WTO. This paper will be due on December 2, 2013 via email to jpelz@gu.edu as an attachment in pdf format and
- (b) a final exam (40%) which will be given on December 9, 2013.

An outline of the paper and a list of current WTO disputes will be discussed in class.

READING MATERIAL:

The reading material assigned for this class is quite large, spanning both the legal literature and the economics literature. At a minimum, it is *essential* that you read the individual GATT/WTO articles prior to class. All of the academic readings listed in the syllabus represent the ‘best’ examples of the current literature. I will summarize much of that literature during the lectures. You should read as much of the literature as you can and keep the rest as a source for further reading. The GATT/WTO rules can be obtained in electronic version on line.

Keep in mind that I do not expect you to read all of economics articles. They should be viewed as reference material which will explain some of the economic arguments made in the lectures. All of the reading and power points will be made available in pdf form.

READINGS AND LECTURE LIST:

The dates to the right represent the dates when the material is scheduled to be discussed in class. This may be modified if we need more lecture time.

READINGS

1. ***The Four Pillars of the GATT\WTO – The Economic Theory of Behind Trade Agreements*** **8/26 — 9/9**

MFN Treatment (Article I)

Tariff Bindings (Article II)

National Treatment (Article III)

NTBs (Article XI)

Suggested Leading Articles:

Harry G. Johnson, “Optimum Tariffs and Retaliation,” *The Review of Economic Studies*, Vol. 21, No. 2 (1953 - 1954), pp. 142-153.

Gene M. Grossman and Elhanan Helpman, “Protection for Sale,” *The American Economic Review*, Vol. 84, No. 4 (Sep., 1994), pp. 833-850.

Gene M. Grossman and Elhanan Helpman, “Trade Wars and Trade Talks,” *Journal of Political Economy*, Vol. 103, No. 4 (Aug., 1995), pp. 675-708.

Giovanni Maggi and Andrés Rodríguez-Clare, “The Value of Trade Agreements in the Presence of Political Pressures,” *Journal of Political Economy*, Vol. 106, No. 3 (June 1998), pp. 574-601.

Kyle Bagwell and Robert W. Staiger (1999), “An Economic Theory of GATT,” *The American Economic Review*, Vol. 89, No. 1 (Mar., 1999), pp. 215-248.

Pamela E. Lowry, “Model GATT: A Role-Playing Simulation Course,” *The Journal of Economic Education*, Vol. 30, No. 2 (Spring, 1999), pp. 119-126.

Giovanni Maggi, “The Role of Multilateral Institutions in International Trade Cooperation,” *The American Economic Review*, Vol. 89, No. 1 (Mar., 1999), pp. 190-214.

Henrik Horn, Giovanni Maggi and Robert W. Staiger, “Trade Agreements as Endogenously Incomplete Contracts,” *The American Economic Review*, Vol. 100, No. 1 (March 2010), pp. 394-419.

2. MFN and Preferential Trade Agreements

9/16 — 9/30

MFN Treatment (Article I) ***Regional Agreements (Article XXIV)***

Suggested Leading Articles:

R.G. Lipsey, “The Theory of Customs Unions: A General Survey,” *The Economic Journal*, Vol. 70, No. 279 (Sep., 1960), pp. 496-513

Anthony J. Venables, “Winners and Losers from Regional Integration Agreements,” *The Economic Journal*, Vol. 113, No. 490 (Oct., 2003), pp. 747-761.

Murray Kemp and Henry Wan, Jr., “An Elementary Proposition Concerning the Formation of Customs Unions,” *Journal of International Economics* 6 (1976) pp. 95-97.

Henrik Horn and Petros C. Mavroidis, “Economic and Legal Aspects of the Most-Favored-Nation Clause,” *European Journal of Political Economy*, 17 (2001) pp. 233-279.

Kamal Saggi and Halis Murat Yildiz, “An Analysis of the MFN Clause under Asymmetries of Cost and Market Structure,” *The Canadian Journal of Economics*, Vol. 38, No. 1 (Feb., 2005), pp. 242-254.

Kamal Saggi and Faruk Sengul, “On the Emergence of an MFN Club: Equal Treatment in an Unequal World,” *The Canadian Journal of Economics*, Vol. 42, No. 1 (Feb., 2009), pp. 267-299.

Kyle, Bagwell and Robert W. Staiger, “Multilateral Trade Negotiations, Bilateral Opportunism and the Rules of GATT/WTO,” *Journal of International Economics* (67, (2005) 2, 268–294)

Jagdish Bhagwati and Arvind Panagariya, “The Theory of Preferential Trade Agreements: Historical Evolution and Current Trends,” *The American Economic Review*, Vol. 86, No. 2, Papers and Proceedings of the Hundredth and Eighth Annual Meeting of the American Economic Association San Francisco, CA, January 5-7, 1996 (May, 1996), pp. 82-87

Jagdish Bhagwati, David Greenaway and Arvind Panagariya, “Trading Preferentially: Theory and Policy,” *The Economic Journal*, Vol. 108, No. 449 (Jul., 1998), pp. 1128-1148.

Emanuel Ornelas, “Rent Destruction and the Political Viability of Free Trade Agreements,” *The Quarterly Journal of Economics*, Vol. 120, No. 4 (Nov., 2005), pp. 1475-1506.

Nuno Limão, “Are Preferential Trade Agreements with Non-trade Objectives a Stumbling Block for Multilateral Liberalization?,” *Review of Economic Studies* (2007) 74, 821– 855

3. WTO and DSU

10/7 — 10/14

UNDERSTANDING ON RULES AND PROCEDURES GOVERNING THE SETTLEMENT OF DISPUTES.***Suggested Leading Articles:***

Kyle Bagwell and Robert W. Staiger, “Enforcement, Private Political Pressure and The GATT/WTO Escape Clause,” NBER Working Paper 10987, December 2004.

Warren F. Schwartz and Alan O. Sykes, “The Economic Structure of Renegotiation and Dispute Resolution in the World Trade Organization,” *Journal of Legal Studies*, vol. XXXI (January 2002).

Joseph Pelzman and with Amir Shoham, “WTO DSU — Enforcement Issues,” in James Hartigan (ed.) *Frontiers of Economics and Globalization, Volume 6, Chapter 15. Trade Disputes and the Dispute Settlement Understanding of the WTO: An Interdisciplinary Assessment*. London: Emerald Group Publishing Ltd. pp. 369-395. 2009.

Joseph Pelzman and with Amir Shoham, “WTO Enforcement Issues,” *The Global Economy Journal*, 7:1, 2007.

Andrew T. Guzman and Beth A. Simmons, “Power Plays and Capacity Constraints: The Selection of Defendants in World Trade Organization Disputes,” *Journal of Legal Studies*, vol. 34 (June 2005).

Alberto Martin and Wouter Vergote, “On the Role of Retaliation in Trade Agreements,” *Journal of International Economics*, Volume 76, Issue 1, September 2008, Pages 61–77.

Giovanni Maggi and Robert W. Staiger, “The Role of Dispute Settlement Procedures in International Trade Agreements,” *The Quarterly Journal of Economics*, (2011) 126, 475–515

Giovanni Maggi and Robert W. Staiger, “Breach, Remedies And Dispute Settlement In Trade Agreements,” NBER Working Paper 15460, October 2009.

Giovanni Maggi and Robert W. Staiger, “On The Role And Design Of Dispute Settlement Procedures In International Trade Agreements,” NBER Working Paper 14067 June 2008.

4. Safeguards — Article XIX**10/21 — 10/28*****Safeguards (Article XIX)*****Suggested Leading Articles:**

Gene M. Grossman and Alan O. Sykes, “United States – Definitive Safeguard Measures on Imports of Certain Steel Products,” *World Trade Review*, Volume 6 Issue 01 March 2007, pp. 89-122.

Robert S. Pindyck and Julio J. Rotemberg, ‘Are Imports to Blame? Attribution of Injury Under the 1974 Trade Act,’ *Journal of Law and Economics*, Vol. 30, No. 1 (Apr., 1987), pp. 101-122.

Kyle Bagwell and Robert W. Staiger (1990), ‘A Theory of Managed Trade,’ *The American Economic Review*, Vol. 80, No. 4 (Sep., 1990), pp. 779-795.

Alan O. Sykes, ‘Protectionism as a “Safeguard”: A Positive Analysis of the GATT “Escape Clause” with Normative Speculations,’ *The University of Chicago Law Review*, Vol. 58, No. 1 (Winter, 1991), pp. 255-305.

Douglas A. Irwin, “Causing Problems? The WTO Review of Causation and Injury Attribution in US Section 201 Cases,” NBER Working Paper 9815. July 2003.

Alan O. Sykes, “The Safeguards Mess: A Critique of WTO Jurisprudence,” *World Trade Review*. Volume 2 Issue 03 November 2003, pp. 261-295.

Kyle Bagwell and Robert W. Staiger, “Enforcement, Private Political Pressure, and the General Agreement on Tariffs and Trade/World Trade Organization Escape Clause,” *The Journal of Legal Studies*, Vol. 34, No. 2 (June 2005), pp. 471-513.

Mostafa Beshkar, “Trade Skirmishes Safeguards: A Theory of the WTO Dispute Settlement Process,” *Journal of International Economics* 82 (2010) 35–48

5. Subsidies and Countervailing Measures**11/4 — 11/11*****AGREEMENT ON SUBSIDIES AND COUNTERVAILING MEASURES*****Suggested Leading Articles:**

Charles J. Goetz, Lloyd Granet and Warren F. Schwartz, “The Meaning of “Subsidy” and “Injury” in the Countervailing Duty Law,” *International Review of Law and Economics* (1986), 6 (17-32)

Alan O. Sykes, “Countervailing Duty Law: An Economic Perspective,” *Columbia Law Review*, Vol. 89, No. 2 (Mar., 1989), pp. 199-263.

Kyle Bagwell and Robert W. Staiger, “Strategic Trade, Competitive Industries and Agricultural Trade Disputes,” *Economics and Politics*, July 2001, v. 13, iss. 2, pp. 113-28.

Kyle Bagwell and Robert W. Staiger (2006), “Will International Rules on Subsidies Disrupt the World Trading System?,” *American Economic Review*, June 2006, v. 96, iss. 3, pp. 877-895.

Alan O. Sykes (2011), “The Questionable Case for Subsidies Regulation: A Comparative Perspective” Research Paper.

6. Dumping and Countervailing Measures

11/18 — 12/2

Anti-Dumping (Article VI)

Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994

Suggested Leading Articles:

Richard Boltuck and Robert E. Litan “Down in the Dumps: Administering America's "Unfair" Trade Laws,” *The Brookings Review*, Vol. 10, No. 2 (Spring, 1992), pp. 42-45

Richard D. Boltuck, Seth T. Kaplan, Gene M. Grossman and Keith Hall, “An Economic Approach to ITC Sunset Reviews,” *Brookings Trade Forum*, (1998), pp. 219-249.

Thomas J. Prusa, “Why Are So Many Antidumping Petitions Withdrawn?” *Journal of International Economics* 33 (1992) 1-20.

Sykes, Alan O. “The Economics of Injury in Antidumping and Countervailing Duty Cases,” *International Review of Law and Economics*, March, 1996, 5-26.

Robert W. Staiger, Frank A. Wolak, Robert E. Litan, Michael L. Katz and Leonard Waverman, “Measuring Industry-Specific Protection: Antidumping in the United States,” *Brookings Papers on Economic Activity. Microeconomics*, Vol. 1994 (1994), pp. 51-118

Alan O. Sykes and Richard N. Cooper, “Antidumping and Antitrust: What Problems Does Each Address?” *Brookings Trade Forum*, (1998), pp. 1-53.

FINAL EXAM — December 9, 2013

FINAL PAPER DUE — December 2, 2013