

# Trade policies

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## **Presentation of the course:**

The objective of the course is to provide student with a clear knowledge and understanding of trade policies and their consequences. Institutional aspects will be analysed, both in terms of trade policy tools and in terms of institutional framework, including the World Trade Organization and preferential trade arrangements. Theoretical and applied economic analysis will cover the formation of protection, the economic impact of protection, and applied assessment of trade policies. The course will aim at addressing questions such as: what is at stake in the Doha Round? What are the economic impacts of tariff duties? What are the costs and benefits to be expected from preferential trade arrangements? Why is protection in agriculture higher than in other sectors in developed countries, and what are the consequences? How can trade policies help dealing with price volatility?

## Course outline

### I. Institutional aspects

The WTO: history, rules, law, practices  
The EU's trade policy: institutions, agreements, practices  
PTAs

### II. The economics of protection

1. The economics of protection in a small country
  - Impact of a tariff in a small country*
  - Welfare loss in partial equilibrium*
  - Equivalence between instruments*
2. The economics of protection for a large country
  - Tariff for a large country and optimal tariff*
  - The economics of export subsidization for a large country*
3. Other issues
  - The economics of PTAs*
  - Trade policies and "new trade theories"*
  - Trade policies and "new new trade theories"*

### III. Assessing trade policies

Econometric analysis  
Partial equilibrium models  
General equilibrium models

### IV. The formation of protection

Economic motivations

- Optimal tariffs*
- Protection and uncertainty*
- Other arguments*

Political economy motivation

- Median voter choice*
- Lobbying*
- Loss aversion*

## Practical issues

5 classes, 4 h. each. Monday 26 Sept., 10 Oct., 17 Oct., 21 Nov. and 28 Nov.

8h00 to 12h15. Salle J 211 (13, rue de l'Université), except 28 Nov. in salle 15 rue Saint-Guillaume.

## Evaluation

(50%) Presentation + essay ( $\leq 5$  pages), by group of 2

(50%) Final exam – take-home exam, short-essay

For presentations and short notes, explain what is at stakes, describe institutional and law aspects as needed, and rely on clear and well-suited economic analysis. Here is an indicative list of possible themes:

1. trade and medicines
2. trade policy and the environment

3. carbon-based Border Tax Adjustments
4. rare earths and trade policies
5. intellectual property rights in trade arrangements
6. currencies and trade policies
7. fisheries in international agreements
8. trade facilitation
9. investment clauses in trade arrangements
10. social clauses in trade arrangements
11. the on-going reform of the EU GSP
12. the differentiation of developing countries in the WTO
13. Russia's accession to the WTO
14. presentation of a specific preferential trade agreement and of its assessed impact
15. presentation and discussion (including from an economic point of view) of a trade dispute raised at the WTO
16. ...

Presentations will take place during the last 2 sessions. They should be 10-minute long approximately, 15 minutes at most. Please

- Tell me which theme you would like to treat **by October 21** at the latest, and wait for my approval (to avoid redundancies)
- Feel free to ask questions in case you need help
- Send me your essay and presentation **no later than Thursday of the week before the presentation.**

## Useful links

WTO website ([wto.org](http://wto.org) –an invaluable source of information, data and analyses)

ICTSD website (weekly and monthly publications *Bridges*)

CEPII website and publications ([www.cepii.fr](http://www.cepii.fr), *Cepii Newsletter* may be particularly useful)

The European Commission's DG Trade website (<http://ec.europa.eu/trade/>) includes a wealth of information concerning EU's trade policy.

The World Bank website (databases, policy briefs and working papers)

UNCTAD ([www.unctad.org](http://www.unctad.org)), UN body responsible for trade and development issues.

International Trade Centre ([www.intracen.org](http://www.intracen.org)), the technical cooperation agency of UNCTAD and WTO.

Bilaterals.org (on bilateral trade agreements)

Vox.eu (science-based, policy-oriented economic pieces).

The Guardian special section on the WTO (The Guardian website)

Institute for Agriculture and Trade Policy ([www.iatp.org](http://www.iatp.org))

Trade Knowledge Network ([www.tradeknowledgenetwork.net](http://www.tradeknowledgenetwork.net)), a network of research and policy institutions concerned with trade and sustainable development

Secretariat of the North American Free Trade Agreement ([www.nafta-sec-alena.org](http://www.nafta-sec-alena.org)), responsible for the administration of the dispute settlement provisions and support for various non-dispute issues.

Consumer Unity and Trust Society (CUTS, <http://www.cuts-international.org>), India-based advocacy and research centre on multilateral trade and sustainable development issues, consumer safety and economic regulation.

Centre for Trade and Development (Centad, <http://www.centad.org>) is an independent, not-for-profit organisation carries out policy research and advocacy on issues around trade and development, with a focus on South Asia.

## References

### Textbooks/basics

Feenstra, R. and Taylor, A.M. (2007). *International macroeconomics*. New York: Worth Publishers.

Feenstra, R. (2004), *Advanced International Trade: Theory and Evidence*, Princeton University Press.

Krugman, P. & Obstfeld, M. (2003), *International Economics. Theory and Policy. Sixth Edition*, Addison Wesley.

Vousden N. (1990), *The Economics Of Trade Protection*, Cambridge University Press.

Winters A. (1991), *Applied international economics*.

WTO (2011), *Understanding the WTO*, World Trade Organisation.

### Research articles

Bagwell, K. & Staiger, R. W. (1999), 'An Economic Theory of GATT', *The American Economic Review* **89**(1), 215--248.

Bagwell, Kyle and Robert W Staiger (2003), *The Economics of the World Trading System*, The MIT Press, 238 p.

Baldwin, R. E. (2006), 'Multilateralising Regionalism: Spaghetti Bowls as Building Blocs on the Path to Global Free Trade', *The World Economy* **29**(11), 1451-1518.

Baldwin, R. & Robert-Nicoud, F. (2006), 'Protection for Sale Made Easy'(5452), Technical report, C.E.P.R. Discussion Papers.

Bouët A. (2008), "The Expected Benefits of Trade Liberalization for World Income and Development Opening the "Black Box" of Global Trade Modeling", IFPRI Research Report.

Bouët, A.; Bureau, J.-C.; Decreux, Y. & Jean, S. (2005), 'Multilateral Agricultural Trade Liberalisation: The Contrasting Fortunes of Developing Countries in the Doha Round', *World Economy* **28**(9), 1329--1354.

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- Freund, C. & Ozden, C. (2008), 'Trade Policy and Loss Aversion', *American Economic Review* **98**(4), 1675-91.
- Grossman, G. M. & Helpman, E. (1994), 'Protection for Sale', *American Economic Review* **84**(4), 833--850.
- Jean, S.; Laborde, D. & Martin, W. (2011), 'Formulas and Flexibility in Trade Negotiations Sensitive Agricultural Products in the WTO's Doha Agenda', *The World Bank Economic Review* **24**(3), 500-519.
- Krugman, Paul R., 1979, "Increasing Returns, Monopolistic Competition and International Trade," *Journal of International Economics*, 9, 469-479.
- Krugman, P. (1980), 'Scale Economies, Product Differentiation, and the Pattern of Trade', *The American Economic Review* **70**(5), 950--959.
- Mitra, D.; Thomakos, D. & Ulubasoglu, M. (2006), 'Can we obtain realistic parameter estimates for the `protection for sale' model?', *Canadian Journal of Economics* **39**(1), 187-210.
- Romalis, J. (2007), 'NAFTA's and CUSFTA's Impact on International Trade', *Review of Economics and Statistics* **89**(3), 416-435.