

ITF-110
The Political Economy of Trade
Fall 2007

Robert Z. Lawrence

Office: Littauer 316

Email: Robert_Lawrence@harvard.edu

Telephone: 617.495.1118

Class Hours/Location

Monday and Wednesday
4:10-5:30 pm
Weiner Auditorium

Review Sessions

Friday
8:40 am-10:00am
L-130

Office Hours

Tuesday
10:00am – 11:30am
or by appointment

Teaching Fellow

Iza Lejarraga
Iza_Lejarraga@ksg07.harvard.edu

Course Assistants

Alok Chopra
alok_chopra@ksg08.harvard.edu

Matt McClelland
matt_mcclelland@ksg08.harvard.edu

Faculty Assistant

Jennifer Shultis
Jennifer_Shultis@harvard.edu
L-211B, 496-8054

Preliminary Syllabus

This course provides a multidimensional introduction to international trade policy. Its purpose is to provide students with an understanding of international trade economics, rules, politics and institutions, and the major policy issues facing the global trading system. The course begins with an exploration of the rationales for free trade & protection, the distributional impact of trade, and the challenges presented by deeper international economic integration. The course then considers the World Trade Organization (WTO). It explores negotiation mechanisms and principles, and the rules relating to market access, dispute settlement, fair trade, safeguards and trade-related intellectual property (TRIPs). The final section considers major issues facing the trading system. These include regional trading arrangements, foreign investment, China's entry into the WTO and the Doha Development Agenda. The course will include a day long simulation exercise of the Doha negotiations for which students will be organized into national teams. The teams will jointly determine negotiations strategy and prepare a negotiations briefing book.

Requirements: Students are expected to prepare for each class and discussion group. The course will meet twice a week for lectures. In the first two weeks there will be review sessions held on Friday. Thereafter, at a time determined by each group, there will be weekly small-group discussion sessions and exercises, for which attendance is mandatory. Grades will be determined as follows. Midterm (20 percent) Group memo (10 percent). Participation in class and small-group discussions (10 percent) Negotiations briefing book (30 percent) and Final Exam (30 percent)

Note: This course presumes no knowledge of economics.

Course Materials

1. Bernard Hoekman and Michel M. Kostecki, *The Political Economy of the World Trading System*, 2nd Edition, Oxford University Press, 2001. [H&K]

2. Charan Devereaux, Robert Z Lawrence and Michael D Watkins, *Case Studies in US Trade Negotiation: Vol. 1 Making the Rules and Vol. 2 Resolving Disputes*, Washington DC: Institute for International Economics, 2006. ([DLW-V1] and [DLW-V2])
3. Case Study Packet (available at Course Materials Office)
4. Course CD (provided in class)
5. Key web materials

WTO Materials

http://www.wto.org/english/docs_e/legal_e/final_e.htm

WTO Analytical Index: Guide to WTO Law and Practice (Geneva: World Trade Organization) 2003.

Harvard Trade Negotiations Web Page

<http://www.cid.harvard.edu/cidtrade/index.html>

Course Outline

September 12	Why Trade?
September 17	Trade: Who wins, who loses?
September 19	Why Protect?
September 24	The Challenge of Deeper Integration.
September 26	Organizing to Negotiate: Fast Track Case.
October 1	Trade Rules 1: GATT: Basic principles
October 3	Trade Rules 2: GATT: Exceptions
October 8	Columbus Day Holiday
October 10	TRIPS Cases
October 15	Trade Retaliation
October 17	Dispute Settlement: Beef Hormones Case
October 22	Trade Rules: Fair Trade
October 24	Steel Case
October 29	Mid-Term Exam (in class)
October 31st	Regionalism: Concepts and Rules
November 5	Regionalism: Experiences
November 7	Foreign Investment: Intel Case
November 12	WTO and Developing Countries: China PNTR Case
November 14	Services
November 19	Agriculture
November 21	Pre- Thanksgiving. Optional Class
November 26	A Development Round?
November 28	Cotton Case
November 30th	Doha Round Simulation
December 3	Analysis of Doha Round:
December 5	Future of the Trading System
December 10	Last Class.

Class Schedule

Wednesday, September 12 Why Trade?

1. Alan Sykes. "A Primer on Comparative Advantage and Normative Economics," *Journal of International Economic Law* Volume 1 Number 1, pp. 49-82.

Supplementary Reading: H&K, pp. 489-506. Annex 2: Economic Effects of Trade Policy—Basic Concepts.

Monday, September 17 Trade: Who Wins and Who Loses?

1. Dixit, Avinash, Trade Based on Factor Endowment Differences, Lecture Notes on International Trade, Princeton, 1994, pp. 76 –89.
2. James E. Alt and Michael Gilligan. "The Political Economy of Trading States: Factor Specificity, Collective Actions Problems and Domestic Political Institutions," Chapter 21 in Jeffrey Frieden and David A Lake. *International Political Economy*, Belmont: Wadsworth, pp. 327-342.
3. Scheve, Kenneth, and Matthew Slaughter, pp. 9 – 11. in *Globalization and the Perceptions of American Workers*, Washington DC: Institute for International Economics 2001.

Wednesday, September 19 Why Protect?

1. Kreinen, Mordechai. "Protection of Domestic Industries: The Tariff," Chapter 4 in *International Economics*, Chicago: Dryden Press, 1998, pp. 85-112.

Debate:

Panagariya, Arvind. "Free Trade Skeptics: Wrong Again" *Economic Times*, January 25, 2006, http://www.columbia.edu/~ap2231/ET/et86_January25-06.htm

Chang, Ha-Joon. "History debunks free trade myth." *The Guardian*, June 24, 2002, <http://www.iatp.org/tradeobservatory/headlines.cfm?refID=17478>

Supplementary Reading: Corden, W. Max. "The Theory of Domestic Divergences" pp7 –16. (Sections 2.2,2.3 and 2.4) and pp 21- 23 (Section 2.8) in W Max Corden *Trade Policy and Economic Welfare*(New York: Oxford University Press) 1997

Monday, September 24 The Challenge of Deeper Integration

1. Robert Z. Lawrence, Albert Bressand, and Takatoshi Ito. "When is International Cooperation Desirable?" Chapter 3 in *A Vision for the World Economy: Openness, Diversity and Cohesion*, Washington, D.C.: Brookings Institution, 1996.

2. DLW-V1, pp.7-16. Chapter 1 “Making Trade Policy.”
3. Paul R. Krugman. “What Should Trade Negotiators Negotiate About?” *Journal of Economic Literature* Vol. XXXV (March 1997) pp. 113-120.
4. Dani Rodrik. “Trade Policy Reform as Institutional Reform.” Chapter 1 in Hoekman, Bernard, Mattoo Aadiya and Phillip English (eds.), *Development Trade and the WTO: A Handbook* Washington, D.C: World Bank, 2002, pp. 3-10.

Wednesday, September 26 **Organizing to Negotiate in the USA: The Case of Fast Track**

1. DLW-V1, pp. 187-239. Chapter 5, “Fast Track/Trade Promotion Authority,” including Charan Devereaux. Fast Track Derailed, KSG Case No. 1660.0, Revised 2005.
2. **Supplementary Reading:** M. Destler and Peter J. Balint. *The New Politics of American Trade: Trade Labor and the Environment*, Institute for International Economics, October 1999. Available on reserve in KSG Library.

Monday, October 1 **GATT Basic Principles**

1. H&K, pp. 145-207. Chapter 5, “Trade in Goods.”
2. Understanding the WTO (available on WTO Website), http://www.wto.org/english/thewto_e/whatis_e/tif_e/understanding_e.doc

Wednesday, October 3 **GATT Exceptions**

1. H&K, pp. 385-412. Chapter 12, “Integrating Developing Countries and Economies in Transition.”
2. John H. Jackson. “Competing Policies and Ingenious Devices,” Chapter 9 in *The World Trading System: Law and Policy of International Economic Relations*, Cambridge:MIT Press, 1997, pp. 229-245.

Wednesday, October 10 **TRIPS**

1. DLW-V1, pp 37- 76. Includes, Charan Devereaux. “International Trade Meets Intellectual Property: The Making of the TRIPs Agreement,” KSG Case No. 1661.0, 1999.
2. DLW-V1, pp 76-128. Includes, Charan Devereaux. “TRIPS Part II: TRIPS, Activists and Developing Countries,” KSG Case No. 1736.0, 2004.

Monday, October 15

Trade Retaliation

1. Robert Z. Lawrence. Chapter 2, "Role of Remedies in the WTO System.," in *Crimes and Punishments: Retaliation under the WTO*, Washington DC: Institute for International Economics, 2003, pp. 13-47.
2. DLW-V2, pp 1 -27. Introduction.

Supplementary Readings: Judith Goldstein. "International Institutions and Domestic Politics" in Anne O. Krueger (ed) *The WTO as an International Organization*, Chicago: University of Chicago, 1998, pp. 133-152.

Robert Z. Lawrence *The United States and the WTO Dispute Settlement System* New York: Council on Foreign Relations 2007

Wednesday, October 17

Dispute Settlement: Beef Hormones

1. DLW-V2, pp. 31-96. Chapter 1, "Food Fight: The United States, Europe, and Trade in Hormone-Treated Beef," including, Charan Devereaux. "Food Fight: The US, Europe, and Trade in Hormone-Treated Beef." KSG Case No. 1677.0.

Reference: Agreements on Application of Sanitary and Phytosanitary Measures and Technical Barriers to Trade. http://www.wto.org/english/docs_e/legal_e/final_e.htm--

Monday, October 22 Trade Rules: Fair Trade

1. H&K, pp. 303-345. Chapter 9, "Safeguards and Exceptions."

Supplementary Reading: Alan O. Sykes. "The Economics of WTO Rules on Subsidies and Countervailing Measures" The Chicago Working Paper No. 186, http://www.law.uchicago.edu/Lawecon/WkngPprs_176-200/186.aos.subsidies.pdf

Reference: Agreement on Subsidies and Countervailing Measures and Agreement on Safeguards. http://www.wto.org/english/docs_e/legal_e/final_e.htm

Wednesday, October 24

1. Susan Rosegrant. "Standing up for Steel: The US Government Response to Steel Industry and Union Efforts to Win Protection from Imports (1998-2001)." KSG Case No. 1651.0.

Monday, October 29

Mid-Term

Wednesday, October 31st **Regionalism: Concepts and Rules**

1. Robert Z. Lawrence. *Regionalism, Multilateralism and Deeper Integration*, Brookings Institution, 1996, pp. 21-42.
2. Jagdish Bhagwati. "US Trade Policy: The Infatuation with Free Trade Areas" in Jagdish Bhagwati and Anne O. Krueger. *The Dangerous Drift to Preferential Trade Agreements*, Washington, DC: American Enterprise Institute, 1995, pp. 1-18.
3. Jeffery A. Frankel. "A Political Economy Survey of Regionalism's Effect on Global Liberalization," *Regional Trading Blocs in the World System*, Chapter 10, Washington, DC.:Institute for International Economics, 1997, pp. 207-228.

Monday, November 5 **Regionalism: Experiences**

1. Robert Z. Lawrence. "Preferential Trading Arrangements: The Traditional and the New." *Regional Partners in Global Markets*, Galal and Hoekman (eds), London: CEPR, 1997, pp. 13 – 34.

Wednesday, November 7 **Foreign Investment: Intel Case**

1. Debora Spar. "Attracting High-Technology Investment" Foreign Investment Advisory Service Occasional Paper 11, Washington, DC:The World Bank, 1998.

Monday, November 12 **WTO and Developing Countries: China PNTR**

1. DLW-V1, pp. 241-300. Chapter 6, "The 1999 U.S.- China Bilateral Agreement and the Battle for PNTR," including Charan Devereaux. "The Eagle and the Dragon-- The 1999 U.S.- China Bilateral Agreement and the Battle for PNTR," KSG Case No. 1771.0.

Supplementary Reading: Bernard Hoekman, Aaditya Mattoo and Phillip English (eds). *Development, Trade and the WTO: A Handbook*, Washington, DC.: The World Bank, 2002.

Wednesday, November 14 **Services**

1. H&K, pp.237-273. Chapter 7, "Trade in Services."
2. Robert M. Stern. "Quantifying Barriers to Trade in Services." *Development Trade and the WTO: A Handbook*, Hoekman, Aadiya and English (eds.), Chapter 26, Washington, D.C .:World Bank, 2002.

Monday, November 19 **Agriculture**

1. H&K, pp. 208-226.
2. Tim Josling and Dale Hathaway. "Policy Brief on Agricultural Trade Reform" (mimeo) December 5,2003. Paper Presented at Institute for International Economics.

3. New York Times: Harvesting Poverty: An Archive of Editorials on the Plight of Farmers in Developing Nations. <http://www.nytimes.com/ref/opinion/harvesting-poverty.html?pagewanted>

Wednesday, November 21 Pre-Thanksgiving Optional Class

Monday, November 26 A Development Round?

1. The Economist “Economics Focus: Punch-Up Over Handouts” March 23rd 2005. (See Also Arvind Panagariya’s Web Page <http://www.columbia.edu/~ap2231/> Section On Agricultural Protection and Subsidies.)
2. Robert Z Lawrence. “Cancun Collapse Won’t Halt Global Trade Reform” *Global Issues: Special Edition*, New York: J.P. Morgan, 2003, pp.1-12, 16.
3. Dani Rodrik. “How to Make the Trade Regime Work for Development.” (mimeo 2004) Available at <http://ksghome.harvard.edu/~drodrik/How%20to%20Make%20Trade%20Work.pdf>
4. Nadia Cuffaro. “Regulation in the WTO and the North-South divide: a post Cancun evaluation” Mimeo (September 2004).

Wednesday, November 28 The Cotton Case.

1. DLW-V2, pp. 235-282. Chapter 5, Ray A. Goldberg, Robert Lawrence and Katie Milligan, *Brazil’s WTO Cotton Case: Negotiation through Litigation*. Harvard Business School Case No. N1-905-405.

Friday, November 30th Doha Simulation

Monday, December 3 Simulation Debrief and Analysis of Doha Round Interests.

Wednesday, December 5 Future of the Trading System

World Trade Organization, *The Future of the WTO*. Conclusions pp. 79-84. For full document see http://www.wto.org/english/thewto_e/10anniv_e/10anniv_e.htm#future

Final Exam

Location/Time: TBA