

Glossary for the International Trade Forum

Chapter 11

A section within NAFTA (which does not exist in the GATT or other WTO agreements) providing for investor protections against “actions tantamount to expropriation” (see sidebar to this glossary). Under Chapter 11 foreign corporations can sue national governments over trade issues.

Comparative Advantage

David Ricardo, in the early part of the 19th century, realized that *absolute* advantage was a small part of a more general theory of *comparative* advantage. He saw that even when one country, such as Italy, had an absolute advantage in both wheat and wine, it could still be mutually beneficial for Italy and another country, such as England to trade in these two products. If Italy was more efficient at making wine than it was at growing and harvesting wheat it could make sense for Italy to buy English wheat and sell England more wine.

A more realistic example of this theory, often cited in textbooks, is the comparative advantage that Chinese textile companies have in making shirts compared to Italian manufacturers. In this example, Italy specializes in making bicycles. China can make either two shirts or half a bicycle with the same labor. However, it can trade two shirts for three quarters of an Italian bicycle because it makes high quality shirts so cheaply. By trading shirts for Italian bicycles, China can have more bicycles and shirts than it can without trade and more Chinese can afford bicycles. As other countries in Asia find comparative advantages relative to China's they may start trading collars to China for whole shirts. China then remains competitive in shirts and maintains the comparative advantage with Italy in bicycles, while other Asian nations benefit from the dynamics of international trade. Italy might also find someone in Asia to make bicycle seats and this can help it maintain its comparative advantage in bicycles.

The theory of comparative advantage is the basis for the prevailing rationale for free trade. The theory indicates that a country does not have to be the best at anything to benefit from trading with other countries; it just needs a comparative advantage in some product (see **Opportunity Cost**). *JH*

Doha

City in Qatar and the location of the Fourth WTO Ministerial Conference (held every two years); the next one will be in Cancun, Mexico, in September of 2003.

Expropriation

Expropriation is the taking by the state of private property for public purposes, normally without compensation. In this issue of *Oregon's Future* Brent Foster describes how the Metalclad Corporation filed a claim against the Mexican government under Chapter 11 of NAFTA. A tribunal ruled in favor of Metalclad and ordered Mexico to pay \$16.7 million in damages. The justification for the ruling, which Brent Foster does not discuss, was that Mexico had expropriated Metalclad's plant when it had decided that it was too dangerous to the public health to operate a waste disposal sight on top of an aquifer. However, after the aquifer was found, Metalclad was assured by the Mexican government that the permits would be granted and proceeded with construction. *JH*

FTAA

Free Trade Agreement of the Americas. Future agreement developed for all of North, Central, and South America (except Cuba), based on NAFTA.

Fast Track

See **Trade Promotion Authority (TPA)**.

Federalism

The distribution of power in an organization (such as a government) between a central authority and the constituent units.

GATS

General Agreement on Trade in Services, part of the WTO.

GATT

General Agreement on Tariffs and Trade, superseded by the WTO.

GSP

Gross State Product. The value added in production by the labor and property in all industries in a state. In concept, an industry's GSP, referred to as its “value added”, is equivalent to its gross output (sales or receipts and other operating income, commodity taxes, and inventory change) minus its intermediate inputs (consumption of goods and services purchased from other U.S. industries or imported). Thus, GSP is often considered the state counterpart of

the nation's gross domestic product (GDP) which is the measure of national output used by the U.S. Department of Commerce's Bureau of Economic Analysis (source: <http://www.bea.gov/beamf.htm#regional>).

Globalization

The term used to describe the increasing flow of trade, capital, culture, and information between nations and their growing economic interdependence. The three main institutions that govern globalization are the **International Monetary Fund (IMF)**, the **WTO**, and the **World Bank Group**. Other smaller players are the UN Development Program and the UN Conference on Trade and Development (UNCTAD), and regional banking institutions, such as the Asian Development Bank. (Source: *Globalization and its Discontents* by Joseph E. Stiglitz.)

Hazelnuts

The second-most consumed tree nut globally, behind only almonds. Hazelnuts are generally only grown in mild climates near the ocean and generally on the Western coastal areas of countries between the 40th and 45th parallels. (Oregon, of course, fits this definition perfectly.) The hazelnut tree is very temperamental and generally takes about seven years before it produces fruit consistently. *JH*

IMF

The International Monetary Fund originated at Bretton Woods, New Hampshire, in 1944, along with the World Bank and the idea of a world trade organization (which became the GATT). The IMF's purpose was to prevent another Great Depression. Now the main business of the IMF is the provision of loans to its members (including both industrialized and developing countries) when they experience balance-of-payments difficulties. These loans frequently carry conditions that require substantial internal economic adjustments by the recipients, most of which are developing countries.

The IMF is a public institution paid for by taxpayers around the world and it reports to the finance ministers of the world. The major developed countries are the most influential in its affairs. The United States has veto power over IMF actions. The IMF has become a permanent part of life in the developing world, administering loans and enforcing loan agreements. It has been

responsible for the plan to transition Communist Bloc countries to free enterprise systems after the end of the Cold War. Many people believe that it has pushed liberalization of capital markets far too quickly and that this is the reason for the economic instability in countries in the former Soviet Union and other developing nations which have followed its directives. *JH*

NAFTA

North Atlantic Free Trade Agreement, covering Canada, the United States, and Mexico.

NGO

Non-governmental organization. Big or small, international or local, organizations which may participate in UN-related activities per Chapter 10, Article 71 of the United Nations charter. The term NGO covers a wide range of organizations, as large as Amnesty International, Greenpeace, and “Medecins Sans Frontieres” or as small as community organizations. The largest NGO, the Red Cross, has 105 million members. The term distinguishes organizations that are not sponsored by any government from governments, national and transnational business corporations, and government-sponsored organizations. (Source: <http://ngo.fawco.org/glossary.html>)

Opportunity Cost

The best alternative that is forgone because a particular course of action is pursued. In the example in the entry on **Comparative Advantage**, the opportunity cost was the profit that China could have made from selling bicycles to Italy. Opportunity costs determine comparative advantages. In Jim Bailey’s example of comparative advantage in his article “Myths about the WTO”, the opportunity costs of growing bananas in North Dakota, compared to buying them from Guatemala, are impracticably high. *JH*

PNTR

Permanent Normalized Trade Relations. China, along with other Communist countries, was denied PNTR treatment by the Trade Act of 1974. In 1980 China was granted temporary Most Favored Nation and temporary Normal Treatment. Because of China’s accession to the WTO in Dec. 2001, U.S. businesses lobbied Congress to grant China PNTR to secure the same trading rights with China that other WTO nations enjoy.

Precautionary Principle

A principle advocated by the EU and others that is based on the idea that some health threats do not become apparent for many years. The precautionary principle holds that

it is appropriate for nations to take preventative action which may also restrict trade in the presence of scientific uncertainty. Critics of its use believe that it is too vague and therefore subject to abuse and that current rules offer enough protection. *JH*

Tariff

A government-imposed tax on imported or exported goods.

Trade Promotion Authority

(TPA), also known as “Fast Track,” is a controversial streamlining approach to making trade agreements that bypasses normal U.S. Senate procedures. Jim Bailey, Barbara Dudley, and Oregon’s congressional delegation discuss Fast Track in this issue of *Oregon’s Future*. *JH*

Transparency

According to the WTOs, Web site, transparency is the degree to which trade policies and practices, and the process by which they are established, are open and predictable. Transparency is very important to globalization because investors and traders want accurate information on which to base their decisions.

Many people believe it is ironic that there is so little transparency in dispute resolution proceedings under NAFTA and the WTO as well as WTO ministerial meetings. According to Joseph E. Stiglitz, former chief economist at the World Bank, many of the International Monetary Fund’s agreements with foreign countries are also kept secret. In his book *Globalization and its Discontents*, Stiglitz discusses the influence of the banking lobby on the U.S. Department of the Treasury, which has a great deal of influence over the IMF and the closed negotiations of the WTO Ministerial Conferences. *JH*

Über-Alles

A German phrase that means “above all”. “Deutschland über alles” (Germany above all) was once part of Germany’s national anthem.

WTO

World Trade Organization. Established on January 1, 1995, the WTO has more than 140 members. Around 30 others are negotiating membership. Decisions are made typically by consensus. A majority vote is also possible but it has never been used. The WTO’s top decision-making body is the

Some Helpful Basics

Barbara Dudley and Jim Bailey

NAFTA

Dudley NAFTA is an entirely independent trilateral agreement, separate from the WTO agreements. It does not, however, have its own dispute resolution board. When challenges are brought under NAFTA by one of the three member countries—the United States, Canada, or Mexico—or by foreign investors, the dispute is heard by a panel borrowed from the WTO or from the UN, but the rules that apply are those of NAFTA, not those of any other agreement. Chapter 11 is a section within NAFTA that protects investors against “actions tantamount to expropriation.” This provision, which does not exist in the GATT or other WTO agreements, gives foreign corporations the right to sue national governments for actions which they claim are contrary to any of the various NAFTA accords, and which negatively impact the profits of the foreign corporation.

Bailey NAFTA’s dispute resolution process is entirely ad hoc (the WTO/DSB process is ad hoc at the initial review panel stage but appeals are to a sitting body). While it is possible that the same people would be tapped for both the WTO and NAFTA, this is not at all automatic; it would be, rather, an inevitable coincidence resulting from the size of the pool of qualified people. U.S. companies and the U.S. government have been concerned about the possibility of “nationalization” ever since Cuba did it and other Communist-leaning Latin American governments talked about it repeatedly in the 60s and 70s. Since NAFTA included a Latin American country (and the potential for expanding it to others has always been in everyone’s mind through the FTAA), the United States constructed Chapter 11 to protect against the

Ministerial Conference, which meets at least once every two years. Below this is the General Council, which meets as the Trade Policy Review Body and the Dispute Settlement Body. Numerous specialized committees, working groups, and working parties deal with the individual agreements, membership applications, and regional trade agreements. The organization is headed by Director-General Supachai Panitchpakdi. (Source: the WTO’s Web site).

World Bank

The World Bank is part of the World Bank Group, which consists of five closely associated institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). These institutions are owned by the governments of the countries that subscribe their capital. To participate in the

possibility of expropriation without compensation. U.S. companies cannot sue for “anything they claim is contrary to NAFTA”, as some critics claim; rather, they can sue foreign governments only if they essentially take the company’s factory without paying for it. It is possible that extreme regulation might add up to essentially a taking in disguise—and that, too, could be the basis of such a suit.

Dumping

Dudley Dumping is another issue in international trade and involves the selling of goods or services for less than the cost of production. In the United States the International Trade Commission (ITC) settles disputes about dumping between our country and others. If a U.S. industry—for example steel producers, softwood lumber producers, or raspberry growers—feels that foreign goods have been dumped in the United States creating unfair competition, they can bring such a complaint before the ITC. If the ITC finds that dumping has occurred, it can authorize countervailing duties. If the country accused of dumping disagrees with the finding, they can challenge the countervailing duties through a WTO dispute.

Bailey Note, however, that if the country really was dumping then it would also lose at the WTO/DSB. The WTO, however, could rule that the CVD (countervailing duty) was too high and require the United States to lower it. But, even if too high, the United States could offer to refund part of the CVD without changing the CVD (thereby continuing the protection ordered by the ITC while coming in line with the DSB ruling). The important point is that the U.S. government takes the economic burden of protecting the affected U.S. industry rather than letting it shoulder the burden.

World Bank Group, member states must first belong to the IMF. The term "World Bank"—sometimes shortened to "the Bank"—refers specifically to the IBRD and IDA. (Source: www.worldbank.org)

Zero-sum game

A transaction in which a gain by one entity (for example a person, a group, or a state) must be matched by another entity’s loss. In early modern Europe the theory of mercantilism held that in order to prosper nations had to export manufactured products and import raw materials, but discourage the import of manufactured goods and the export of native raw materials. This was done using tariffs to discourage trade in certain goods and was based on the logic that a gain to one country in trade had to be a loss to another. Adam Smith was the first to argue that free trade would increase the size of the economic pie for everyone. The basic economic theory of international trade and comparative advantage holds that the world as a group of nations does not have to compete in a zero-sum game (see **Comparative Advantage**).



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