

## **CHAPTER 2: The World Trade Organization and the World trade System**

### **Multiple Choice Questions**

1. Global trade has grown during the past 60 years at an average annual rate of about
  - a) 2 percent.
  - b) 6 percent.
  - c) 8 percent.
  - d) 12 percent.
  - e) 16 percent.

*Answer: b; Page: 21; Skill: Understanding*

2. World trade has grown so rapidly over the last 60 years because
  - a) the WTO and GATT supported and encouraged such growth.
  - b) of the competition between the US and the USSR.
  - c) as a consequence of greater wealth equality between rich and poor nations.
  - d) national economies becoming less connected.
  - e) the world's economic output has grown more than trade.

*Answer: a; Page: 21; Skill: Application*

3. The World Trade Organization – WTO
  - a) has a staff and budget about the same as the World Bank.
  - b) has a staff and budget somewhat larger than the World Bank.
  - c) has its headquarters in London.
  - d) has its headquarters in Washington, D.C..
  - e) has a staff and budget much smaller than the World Bank.

*Answer: e; Page: 22; Skill: Understanding*

4. Which two core principles stand at the base of the WTO?
  - a) Political liberalism and nondiscrimination
  - b) Market liberalism and preferential discrimination
  - c) Market liberalism and nondiscrimination
  - d) Market conservatism and dispute settlement
  - e) Intergovernmental bargaining and dispute settlement

*Answer: c; Page: 22; Skill: Understanding*

5. “Nondiscrimination” ensures that
  - a) each WTO member faces identical opportunities to trade with other WTO members.

- b) each WTO member faces identical opportunities to trade with other non-WTO members.
- c) each WTO member faces preferential opportunities to trade with other WTO members.
- d) each WTO member are required to lower tariffs with other WTO members.
- e) each WTO member are required to raise tariffs with other non-WTO members.

*Answer: a; Page: 23; Skill: Understanding*

6. A public good is defined by which two characteristics?

- a) Excludability and non-rivalry
- b) Non-excludability and rivalry
- c) Undersupply and non-rivalry
- d) Oversupply and rivalry
- e) Non-excludability and non-rivalry

*Answer: e; Page: 28; Skill: Understanding*

7. A *hegemon* is a country that

- a) produces a disproportionately small share of the world's output but leads in the development of new technologies.
- b) produces a disproportionately large share of the world's output and leads in the development of new technologies.
- c) produces a disproportionately large share of the world's output but trails in the development of new technologies.
- d) are usually unwilling to contribute their fair share of the costs of the development of new technologies.
- e) produces a disproportionately small share of the world's output because it trails in the development of new technologies.

*Answer: b; Page: 29; Skill: Understanding*

8. As a *hegemon* declines in power,

- a) it becomes more willing to bear the cost of maintaining trade rules and world trade becomes more open.
- b) it becomes more willing to bear the cost of maintaining trade rules and world trade becomes less open.
- c) it becomes less willing to bear the cost of maintaining trade rules and world trade becomes less open.
- d) it becomes less willing to bear the cost of maintaining trade rules and world trade becomes more open.
- e) it becomes less willing to bear the cost of maintaining trade rules so that more free riders will be able to profit.

*Answer: b; Page: 29; Skill: Understanding*

- 9. The history of hegemonic transitions provides some support that**
- a) world trade has flourished during periods of hegemonic leadership and floundered during periods without it.**
  - b) world trade has floundered during periods of hegemonic leadership and flourished during periods without it.**
  - c) the British failed to reconstruct the world economy after WW II even though it had the resources to do so.**
  - d) the United States reconstructed the world economy after WW II even though it didn't have resources to do so.**
  - e) Japan will reconstruct the world economy in the coming decades because China will not have the resources to do so.**

*Answer: a; Pages: 29-30; Skill: Application*

- 10. Two important probable changes within the WTO are**
- a) the decline of developing countries as a powerful bloc within the organization, and the emergence of NGOs as a powerful force outside the organization.**
  - b) the emergence of developing countries as a powerful bloc within the organization, and the decline of NGOs as a powerful force outside the organization.**
  - c) the emergence of advanced countries as a powerful bloc within the organization, and the decline of NGOs as a powerful force outside the organization.**
  - d) the emergence of developing countries as a powerful bloc within the organization, and the emergence of NGOs as a powerful force outside the organization.**
  - e) the decline of advanced countries as a powerful bloc within the organization, and the emergence of NGOs as a powerful force outside the organization.**

*Answer: d; Page: 32; Skill: Understanding*

- 11. According to Oatley, the agreements that will conclude the Doha Round will impose**
- a) few adjustment costs in agriculture in developed countries and manufactured goods for most developing countries.**
  - b) hefty adjustment costs in agriculture in developing countries and manufactured goods for most developed countries.**
  - c) hefty adjustment costs in agriculture in developed countries but few adjustment costs for manufactured goods for most developing countries.**
  - d) few adjustment costs in agriculture in developed countries but hefty adjustment costs for manufactured goods for most developing countries.**
  - e) hefty adjustment costs in agriculture in developed countries and manufactured goods for most developing countries.**

*Answer: e; Pages: 34-35; Skill: Application*

**12. According to Oatley, WTO rules have been criticized by NGOs as**

- a) too favorable towards consumer interests.
- b) too favorable towards producer interests.
- c) too biased against producer interests.
- d) too favorable towards environmental interests.
- e) too favorable towards labor unions.

*Answer: b; Pages: 35-36; Skill: Understanding*

**13. Reforms that might make WTO decision making more inclusive**

- a) would also make it more difficult to reach agreement within the organization.
- b) would also make it less difficult to reach agreement within the organization.
- c) would also make it more useful for governments to pursue their trade objectives.
- d) would also make it less likely that governments will seek alternative organizations.
- e) would also make it more hostile to developing country interests.

*Answer: a; Page: 36; Skill: Evaluation*

**14. Many observers believe that regional trade arrangements**

- a) don't pose a threat to the multilateral trade system.
- b) pose a challenge to the WTO because they don't offer a more discriminatory way to organize world trade.
- c) don't pose a challenge to the WTO because they offer a more preferential market access to another country located in the same region of the world.
- d) don't pose a challenge to the WTO because they offer a more discriminatory way to organize world trade.
- e) pose a challenge to the WTO because they offer a more preferential market access to another country located in the same region of the world.

*Answer: e; Page: 36; Skill: Evaluation*

**15. Agreements between countries in Western, Eastern, and Central Europe, and in the Mediterranean account for almost**

- a) 30 percent of RTAs in operation.
- b) 40 percent of RTAs in operation.
- c) 50 percent of RTAs in operation.
- d) 70 percent of RTAs in operation.
- e) 80 percent of RTAs in operation.

*Answer: d; Page: 37; Skill: Understanding*

16. Which of the following is **NOT** an idea generally advanced by scholars to account for the rapid proliferation of RTAs?

- a) To decrease a country's bargaining power in multilateral trade negotiations.
- b) The EU establishment of free-trade agreements as the first step in the accession process.
- c) A country's desire to gain a more secure access to the market of a particularly important trading partner.
- d) A government's need to signal a strong commitment to economic reform.
- e) The disintegration of the Soviet Union.

*Answer: a; Pages: 38-40; Skill: Application*

17. If more trade is created than diverted, a RTA

- a) pushes the world toward protectionism.
- b) has liberalized trade.
- c) undermines the WTO's nondiscrimination principle.
- d) makes it easier for *hegemons* to stabilize trade.
- e) has no net impact on trade.

*Answer: b; Page: 40; Skill: Analysis*

18. The WTO reduces the impact of raw power on international trade relations because

- a) it does not bring the rule of law to bear in international trade relations.
- b) it does not provide a dispute-settlement mechanism that allows governments to enforce common rules.
- c) it brings the rule of law to bear in international trade relations.
- d) it does not reflect the interests of the most powerful political systems.
- e) it promotes discriminatory international trade.

*Answer: c; Page: 43; Skill: Application*

19. The growth of the WTO membership and the emergence of the G-20 as a powerful bloc within the organization

- a) has lowered the stakes of trade negotiations.
- b) has made it easier to find packages acceptable to the full membership.
- c) has reversed the apparent tendency to place business interests before consumer interests.
- d) has made it more difficult to find packages acceptable to the full membership.
- e) has decreased market liberalism.

*Answer: d; Page: 43; Skill: Analysis*

20. The multilateral trade system is an international political system because

- a) it provides rules that regulate how governments can use policies to influence the cross-border flow of goods and services.
- b) it does not tell governments how they use policies to influence the cross-border flow of goods and services.
- c) it does not reflect the differential power between developed and developing countries.
- d) it does not try to enhance the efficiency of the world trade system.
- e) it did not strengthen the growing interests of Europe and Japan during the Cold War.

*Answer: a; Page: 43; Skill: Understanding*

21. Which of the following statements is NOT true about the Doha Round of trade bargaining that began in November 2001?

- a) Governments agreed to negotiate additional tariff reductions.
- b) Governments agreed to incorporate existing negotiations in services.
- c) Governments agreed to pursue meaningful liberalization of trade in agricultural products.
- d) Governments agreed to explore aspects of the relationship between trade and the environment.
- e) Governments agreed to negotiate on competition and government procurement policy.

*Answer: e; Page: 26; Skill: Application*

22. International institutions such as the WTO have public good characteristics.

Therefore, international rules and procedures

- a) necessarily benefit all governments equally.
- b) make it easier to deny a government these benefits once an institution has been established.
- c) do not decrease as a function of the number of governments that belong to the institution.
- d) cannot be frustrated by free riding.
- e) make it impossible to deny a government these benefits once an institution has been established.

*Answer: e; Page: 26; Skill: Application*

23. In the 1970s and 1980s, many commentators viewed Japan's ascent as a harbinger of US hegemonic decline

- a) in spite of increasing US competitive advantage in high technology industries.
- b) because of increasing US trade surpluses with China.
- c) because of increasing US trade deficits with Japan.

- d) because of increasing Japanese protectionism.
- e) because the end of the Cold War allowed the US to increase its economic alliance with Japan.

*Answer: c; Pages: 31-32; Skill: Application*

**24. The difference between a free trade area and a customs union is that**

- a) in a free trade area, governments eliminate tariffs on other members' goods but each member retains independent tariffs on goods entering their market from nonmembers.
- b) in a free trade area, governments eliminate tariffs on other members' goods but impose a common tariff on goods entering their market from nonmembers.
- c) in a free trade area, governments eliminate tariffs on both other members' goods and on goods entering their market from nonmembers.
- d) in a customs union, governments eliminate tariffs on other members' goods but each member retains independent tariffs on goods entering their market from nonmembers.
- e) in a customs union, governments are allowed to choose which tariffs apply to both other members' goods and on goods entering their market from nonmembers.

*Answer: a; Page: 37; Skill: Understanding*

**25. The WTO's dispute settlement mechanism is necessary**

- a) because this ensures that individual compliance with established rules is guaranteed.
- b) in order to avoid punishment in the event of compliance.
- c) so that governments can disregard WTO rules with impunity.
- d) in order to authorize punishment in the event of noncompliance.
- e) in order to avoid punishment by providing an independent quasi-judicial tribunal.

*Answer: d; Page: 28; Skill: Understanding*

### **True-False Questions**

- 1. Internationalization has been brought about by the decisions governments have made about the rules and institutions that govern world trade.**

*Answer: True; Page 22; Understanding*

- 2. Market liberalism asserts that every country –no matter how rich or poor- enjoys a higher standard of living with trade than it can achieve without trade.**

*Answer: True; Page 22; Application*

3. **National treatment** allows governments to use taxes, regulations, and other domestic policies to provide an advantage to domestic firms at the expense of foreign firms.  
*Answer: False; Page 23; Application*
4. **Most-Favored Nation (MFN)** requires each WTO member to treat all WTO members the same.  
*Answer: True; Page 23; Understanding*
5. **Non-tariff barriers** are taxes that governments impose on foreign goods entering the country.  
*Answer: False; Page 24; Understanding*
6. Presently American and European governments remain unwilling to liberalize their farm sectors enough to satisfy India, Brazil, and other Group of 20 (G20) governments.  
*Answer: True; Page 27; Application*
7. Assertions of US hegemonic decline proved accurate when American unilateralism subsided in the mid-1990s.  
*Answer: False; Page 32; Application*
8. Under the leadership of China, Brazil, and India developing countries have constructed a powerful bloc within the WTO in the past decade.  
*Answer: True; Page 34; Application*
9. Governments, under WTO rules, cannot ban imports of a product on health or safety grounds unless a preponderance of scientific evidence indicates that the product is, in fact, harmful.  
*Answer: True; Page 35; Understanding*
10. Many observers believe that regional trade arrangements (RTAs) pose the single greatest challenge to the multilateral trade system.  
*Answer: True; Page 36; Application*

### Essay/Discussion Questions

1. Explain how the operation of global markets depends upon rules created by political structures. Why do most political economists believe that if governments had never created this institutional framework after World War II world trade would not have grown so rapidly?

- 2. Define and explain how the principles of market liberalism and nondiscrimination are the core principles at the heart of WTO operations. What is meant by Most-Favored Nation (MFN) rules and when exceptions are allowed?**
- 3. How are WTO rules created through intergovernmental bargaining? What role do ministerial conferences play in this process?**
- 4. How effective has the current Doha rounds of trade negotiations been in resolving conflicts? What are the “Singapore issues”? Why has bridging the gap concerning agriculture and the Singapore issues been so difficult?**
- 5. What is hegemonic stability theory? Why does it depend upon the provision of international public goods? What historical evidence is cited to support hegemonic stability theory?**
- 6. What are historical examples of hegemonic transition in the past two centuries? Is the United States still an economic hegemon? Will China become the next economic hegemon or will it resemble Japan in the 1980s and 1990s?**
- 7. What substantial changes will the WTO face from the growing power of developing countries within the organization? Will more members make consensus of trade issues easier or more difficult? How? Why?**
- 8. What substantial changes will the WTO face from the growing power non-governmental organizations (NGOs) striving to influence the organization? Why do NGOs worry about how WTO rules affect the ability of governments to safeguard consumer and environmental interests?**
- 9. Why do many observers believe that regional trade arrangements (RTAs) pose the single greatest challenge to the current multilateral trade system? What factors have influenced the rapid growth of RTAs?**
- 10. Why did the United States abandon its exclusive strategy through the multilateral trade system in the late 1980s? Why do proponents of agreements like NAFTA believe that the US can achieve more through regionalism than it can achieve within the WTO? What do opponents of regionalism claim?**