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Chapter 2

Multiple Choice

1. A report from Credit Suisse Research Institute (CSRI) considers three potential futures for our global economy. Which of the following is not cited in the report?

   a. Reversal of globalization to be replaced by nationalism.
   b. Globalization to continue to expand with the U.S. remaining a financial and military superpower
   c. The world will become more multipolar and regionally focused
   d. The emergence of four centers of world power

Answer: d
Difficulty: Medium
Section: Introduction

2. _____ has helped improve the economies of emerging and developing countries more than those of developed countries.

   a. The WTO
   b. NAFTA
   c. Globalization
   d. Emigration
   e. Intellection property rights

Answer: c
Difficulty: Easy
Section: Introduction

3. The Global economy is becoming more _____.

   a. regional.
   b. local.
   c. isolated.
   d. transnational.
   e. intertwined.

Answer: e
Difficulty: Medium
Section: Intertwined World Economy

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4. In general, the larger the country's domestic economy, the less dependent it tends to be on exports and imports relative to its _____.

   a. gross domestic product
   b. gross domestic income
   c. gross domestic spending
   d. gross domestic capital
   e. global domestic knowledge

Answer: a
Difficulty: Hard
Section: Intertwined World Economy

5. What rank is the United States in regards to exporters?

   a. First
   b. Second
   c. Third
   d. Fourth
   e. Fifth

Answer: b
Difficulty: Medium
Section: Exhibit 2-2

6. A nation that is a _____ displays a natural inclination to be competitive in the world market.

   a. larger importer
   b. large exporter
   c. very populous nation
   d. very large nation
   e. successful trader

Answer: e
Difficulty: Hard
Section: Intertwined World Economy

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7. _____ which means investment in manufacturing and service facilities in a foreign country with an intention to engage actively in managing them

   a. Outsourcing
   b. Offshoring
   c. Foreign direct investment
   d. Having a foreign subsidiary

Answer: c
Difficulty: Medium
Section: Foreign Direct Investment

8. As of 2017, which company was the largest exporter of automobiles from the United States?

   a. Honda
   b. Toyota
   c. Ford
   d. GM
   e. BMW

Answer: e
Difficulty: Medium
Section: Foreign Direct Investment

9. When firms invest in manufacturing and distribution facilities outside their home countries to expand into new markets around the world, they have added operational capacity to the stock of _____.

   a. global direct investment
   b. regional direct investment
   c. local direct investment
   d. foreign direct investment
   e. none of the above

Answer: d
Difficulty: Medium
Section: Complementary Role of Foreign Direct Investment for Increased Trade

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10. _____ refers to investment in foreign countries that are withdrawable at short notice (such as investment in foreign stocks and bonds).

a. Direct investment
b. Economic investment
c. International investment
d. Demand investment
e. Portfolio investment

Answer: e
Difficulty: Easy
Section: Portfolio Investment

11. An example of portfolio investment (or indirect investment) in foreign markets is _____.

a. production facilities
b. computers
c. stocks and bonds
d. buildings
e. manufacturing facilities

Answer: c
Difficulty: Easy
Section: Portfolio Investment

12. The _____ volume of international trade in currencies exceeds the annual value of the trade in goods and services.

a. daily
b. weekly
c. monthly
d. annual
e. None of the above

Answer: b
Difficulty: Hard
Section: Portfolio Investment

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13. Trading in foreign currencies has an effect on world trade. For example, a rise in the value of the local currency due to daily flows vis-à-vis other currencies makes exports _____.

a. less expensive
b. more expensive
c. come under government control
d. parallel with imports
e. be banned

Answer: b
Difficulty: Medium
Section: Portfolio Investment

14. Country competitiveness is not a _____ thing.

a. fixed
b. moving
c. temporary
d. dynamic
e. None of the above

Answer: a
Difficulty: Medium
Section: Changing Country Competitiveness

15. The World Economic Forum's Global Competitiveness Report placed one of four Asian Tigers (Singapore) among the world's top _____ economies (along with the Finland, United States, Sweden, Denmark, Iceland, Switzerland, Norway, and Australia).

a. five
b. ten
c. twenty
d. twenty-five
e. thirty

Answer: c
Difficulty: Easy
Section: Human Resources and Technology

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16. Which of the following does not contribute to Singapore's consistently high ranking for global competitiveness?

    a. Education
    b. Natural resources
    c. Healthcare
    d. Infrastructure

Answer: b
Difficulty: Easy
Section: Human Resources and Technology

17. Triad regions of the world include:

    a. North America, Western Europe and Africa
    b. North America, Western Europe and Japan
    c. North America, Western Europe and Asia
    d. North America, Western Europe and South America
    e. North America, Western Europe and China

Answer: b
Difficulty: Medium
Section: Emerging Economies

18. BEMs stand for:

    a. Big Electronic Markets
    b. Big Efficient Market
    c. Big Effective Markets
    d. Big Emerging Markets
    e. None of the above

Answer: d
Difficulty: Easy
Section: Emerging Economies

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19. In the past 20 years, China's average growth rate in GDP has been over:

a. 2.0 percent
b. 4.5 percent
c. 6.0 percent
d. 8.3 percent
e. 9.5 percent

Answer: e
Difficulty: Medium
Section: Emerging Economies

20. In the past 20 years, India's average growth rate in GDP has been over:

a. 3.1 percent
b. 5.7 percent
c. 7.0 percent
d. 9.1 percent
e. 9.7 percent

Answer: b
Difficulty: Easy
Section: Emerging Economies

21. Which country consistently achieves the highest growth rates in GDP?

a. United States
b. Germany
c. Japan
d. Vietnam
e. China

Answer: e
Difficulty: Medium
Section: Emerging Economies

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22. Which nation is the world's largest exporter?

a. United States
b. China
c. Netherlands
d. Germany
e. Japan

Answer: b
Difficulty: Medium
Section: Emerging Economies

23. Which nation is the world's second largest exporter?

a. United States
b. China
c. Netherlands
d. Germany
e. Japan

Answer: a
Difficulty: Medium
Section: Emerging Economies

24. Which nation is the world's third largest exporter?

a. United States
b. China
c. Netherlands
d. Germany
e. Japan

Answer: d
Difficulty: Medium
Section: Emerging Economies

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25. Which of the following countries is not considered to be a big emerging market?

a. Mexico
b. Brazil
c. Russia
d. India
e. China

Answer: a
Difficulty: Medium
Section: Emerging Markets

26. With which country did the U.S. have a trade deficit over $376 billion in 2017?

a. United States
b. China
c. Netherlands
d. Germany
e. Japan

Answer: b
Difficulty: Medium
Section: Emerging Economies

27. General Agreements on Tariffs and Trade (GATT) was negotiated after:

a. World War I.
b. World War II.
c. the Korean war.
d. the Vietnam war
e. None of the above.

Answer: b
Difficulty: Medium
Section: General Agreements on Tariffs and Trade

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28. The main operating principle of the General Agreements of Tariffs and Trade (GATT) was the concept of normal trade relations (NTR) status, formerly known as:

a. Early Favored Nation status.
b. Most Favored Nation status.
c. Late Favored Nation status.
d. World Trade status.
e. Best Nation status.

Answer: b
Difficulty: Hard
Section: General Agreements on Tariffs and Trade

29. The World Trade Organization was created in the eighth round of the GATT talks–called the _____ that lasted from 1986 to 1994.

a. Brussels Round
b. Paris Round
c. Morocco Round
d. Paraguay Round
e. None of the above

Answer: e
Difficulty: Medium
Section: World Trade Organization

30. The World Trade Organization (WTO) was created in the _____ of GATT talks---called the Uruguay Round.

a. fifth round
b. sixth round
c. seventh round
d. eighth round
e. ninth round

Answer: d
Difficulty: Hard
Section: World Trade Organization

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31. Perhaps the most important accomplishment of the Uruguay round of GATT talks was the establishment of the _____.

a. World Trade Organization
b. Asian Development Bank
c. World Bank
d. International Monetary Fund
e. International Finance Corporation

Answer: a
Difficulty: Hard
Section: World Trade Organization

32. The World Trade Organization (WTO) took effect on _____,

a. January 1, 1994
b. January 1, 1995
c. January 1, 1996
d. January 1, 2011
e. January 1, 2017

Answer: b
Difficulty: Hard
Section: World Trade Organization

33. As of April 26, 2015, the World Trade Organization (WTO) has _____ member countries.

a. 123
b. 135
c. 142
d. 161
e. 180

Answer: d
Difficulty: Hard
Section: World Trade Organization

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34. The World Trade Organization's (WTO) ninth round of trade talks which were launched in November 2001 were called:

a. the Doha Round.
b. the Seattle Round.
c. the Geneva Round
d. the New York Round.
e. the London Round.

Answer: a
Difficulty: Medium
Section: World Trade Organization

35. Doha's Development Agenda (Doha Round) includes new trade talks—an actions program to resolve developing countries' complaints about the implementation of Uruguay Round agreements, and an accord on _____.

a. Trade Related Aspects of Intellectual Property Rights
b. Services Related Aspects of Intellectual Property Rights
c. Regional Related Aspects of Intellectual Property Rights
d. Local Related Aspects of Intellectual Property Rights
e. National Related Aspects of Intellectual Property Rights

Answer: a
Difficulty: Hard
Section: World Trade Organization

36. Which of the following countries got full membership to the WTO during the Doha Round of meetings?

a. China and Russia
b. Russia and Taiwan
c. China and Taiwan
d. China, Taiwan, and Russia
e. Burma

Answer: c
Difficulty: Medium
Section: World Trade Organization

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37. The agenda for the Doha Round of WTO meeting an accord on Trade Related Aspects of Intellectual Property Rights (TRIPS) ensuring that patent protection does not block developing countries' access to what?

a. The Internet
b. Affordable medicines
c. Lower tariffs for their exports
d. Foreign aid from the WTO and the U.S.
e. Green energy

Answer: b
Difficulty: Medium
Section: World Trade Organization

38. One of the differences between WTO and GATT is that WTO's dispute settlement mechanism is:

a. inferior.
b. faster and more automatic.
c. very limited.
d. controlled by the World Bank.
e. controlled by the negotiation section of the United Nations.

Answer: b
Difficulty: Medium
Section: Dispute Settlement Mechanism

39. In December 1999, WTO launched what would have become the beginning of a _____ round of negotiations in Seattle, Washington.

a. fifth
b. sixth
c. seventh
d. eighth
e. ninth

Answer: e
Difficulty: Hard
Section: Dispute Settlement Mechanism

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40. Why was the December, 1999, WTO meeting in Seattle postponed?

a. Weather
b. Transportation strike
c. High crime
d. Protests
e. Death of a major world leader

Answer: d
Difficulty: Hard
Section: Dispute Settlement Mechanism

41. The WTO Work Program on _____ is in the process of defining the trade-related aspects of _____ that would fall under the parameters of WTO mandates.

a. business commerce
b. electronic commerce
c. equity commerce
d. network commerce
e. network commerce

Answer: b
Difficulty: Medium
Section: Global E-Commerce

42. With respect to intellectual property rights, an example of an information-related product is:

a. computer hardware.
b. an automobile.
c. computer software.
d. jewelry.
e. a new drilling bit.

Answer: c
Difficulty: Easy
Section: Information Technology and the Changing Nature of Competition

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43. _____ are highly interested in putting strong international intellectual property laws in place:

a. Developing nations
b. Developed nations
c. Asian countries
d. European countries
e. African countries

Answer: b
Difficulty: Medium
Section: Value of Intellectual Property in Information Age

44. One way around having your intellectual property (such as software) copied because of easy access is to sell:

a. demos.
b. to new markets.
c. to governments.
d. subscriptions or membership
e. only to a chosen few.

Answer: d
Difficulty: Easy
Section: Value of Intellectual Property in Information Age

45. UNCITRAL stands for:

a. United Nations Commission on International Trade Law.
b. United Nations Commission on International Trade Limits.
c. United Nations Commission on International Technical Law.
d. United Nations Commission on International Technical Trade.
e. None of the above.

Answer: a
Difficulty: Easy
Section: Proliferation of E-Commerce and Regulations

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46. UNCITRAL is the core legal body within the United Nations system in the field of what?

a. International trade law
b. International patent law
c. International copyright law
d. International export/import law
e. International transportation/shipping law

Answer: a
Difficulty: Easy
Section: Proliferation of E-Commerce and Regulations

47. An evolving trend in international economic activity is the formation of:

a. multinational advertising agencies.
b. multinational insurance agencies.
c. multinational trading blocs.
d. multinational purchasing agencies.
e. multinational courts.

Answer: c
Difficulty: Medium
Section:

48. The universal reason for forming trading blocs is to:

a. bypass tariff restrictions.
b. bypass legal restrictions.
c. bypass government controls.
d. ensure the economic growth and benefit of the participating countries.
e. make competition suffer.

Answer: d
Difficulty: Medium
Section: Regional Economic Arrangements

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49. A _____ is a formal agreement among two or more countries to reduce or eliminate customs duties and nontariff trade barriers among partner countries.

a. trade union
b. regional cooperative
c. customs union
d. common market
e. free trade area

Answer: e
Difficulty: Hard
Section: Free Trade Area

50. Which of the following is an example of an international trading bloc?

a. The World Trade Organization.
b. GATT
c. The World Court in The Hague.
d. NAFTA
e. The United Nations

Answer: d
Difficulty: Easy
Section: Free Trade Area

51. NAFTA is the free trade area among the United States, Mexico, and _____.

a. Canada
b. Argentina
c. Panama
d. Columbia
e. Brazil

Answer: a
Difficulty: Easy
Section: Free Trade Area

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52. An example of a free trade area would be:

a. the European Union.
b. the Soviet Union.
c. the United Kingdom.
d. NAFTA
e. the United Nations.

Answer: d
Difficulty: Easy
Section: Free Trade Area

53. When members of a free trade area add common external tariffs to the provisions of the free trade agreement, the free trade area becomes a:

a. cartel.
b. common market.
c. monetary union.
d. political union.
e. customs union.

Answer: e
Difficulty: Medium
Section: Free Trade Area

54. One difference between a customs union and a free trade area is that the customs union:

a. adds external tariffs to nonmember countries.
b. adds higher taxes to its consumers.
c. refuses to import from nonmember nations.
d. demands that a common currency be used among members.
e. requires that member countries align themselves politically.

Answer: a
Difficulty: Medium
Section: Customs Union (30)

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55. A _____ eliminates all tariffs and barriers to trade among members, adopts a common set of external tariffs on nonmembers, and removes all restrictions on the flow of capital and labor among member nations.

a. regional market
b. common market
c. monetary market
d. political market
e. customs market

Answer: b
Difficulty: Medium
Section: Common Market

56. The primary difference between a common market and a customs union is that the common market:

a. adopts a common set of external tariffs on nonmembers.
b. eliminates all tariffs.
c. eliminates all trade barriers.
d. removes all restrictions on the flow of capital and labor among member nations.
e. the number of countries involved.

Answer: d
Difficulty: Hard
Section: Common Market

57. The effect of a monetary union is that members:

a. can buy goods from one another.
b. refuse to buy goods from nonmembers.
c. switch to a common currency and a central bank.
d. give up all sovereignty.
e. no longer recognize national boundaries.

Answer: c
Difficulty: Hard
Section: Monetary Union

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58. The new European currency, the euro, began its circulation in January _____.

a. 1998
b. 1999
c. 2000
d. 2001
e. 2002

Answer: e
Difficulty: Easy
Section: Monetary Union

59. The Maastricht Treaty succeeded the:

a. Treaty of Brussels.
b. Treaty of Rome.
c. Treaty of Geneva.
d. Treaty of Paris.
e. Treaty of Vienna.

Answer: b
Difficulty: Hard
Section: Monetary Union

60. A monetary union represents the _____ level of integration with a single common currency among politically independent countries.

a. first
b. second
c. third
d. fourth
e. fifth

Answer: d
Difficulty: Medium
Section: Monetary Union

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61. The Maastricht Treaty is a(n):

a. economic union.
b. development union.
c. transnational union.
d. monetary union.
e. national union.

Answer: d
Difficulty: Easy
Section: Monetary Union

62. The last step of the possible integration forms is the:

a. cartel.
b. common market.
c. monetary union.
d. political union.
e. customs union.

Answer: d
Difficulty: Medium
Section: Political Union

63. The principle goal of a political union is that it:

a. can buy goods from one another.
b. can refuse to buy goods from nonmembers.
c. can switch to a common currency and a central bank.
d. gives up all sovereignty among individual members.
e. no longer recognizes national boundaries.

Answer: d
Difficulty: Hard
Section: Political Union

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64. The U.S. government defines the multinational company for statistical purposes as a company that owns or controls _____ or more of the voting securities, or the equivalent, of at least one foreign business enterprise.

a. five percent
b. ten percent
c. fifteen percent
d. twenty percent
e. twenty-five percent

Answer: b
Difficulty: Hard
Section: Multinational Corporations

65. Researchers have reported that multinationals have not been as great a threat to countries' national sovereignty because multinationals have yet to solve the problem of:

a. demand.
b. size.
c. war.
d. religious conflict.
e. language differences.

Answer: b
Difficulty: Hard
Section: Multinational Corporations

66. The sovereignty of _____ will perhaps continue to weaken due to multinationals and the increasing integration of economies.

a. cities
b. nations
c. regions
d. trading blocs
e. None of the above

Answer: b
Difficulty: Easy
Section: Multinational Corporations

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True/False

67. Today, countries have become economically independent.

Answer: False
Difficulty: Easy
Section: Introduction

68. GATT's successor is the World Trade Organization (WTO).

Answer: True
Difficulty: Easy
Section: Introduction

69. The growth of international flows in goods and services has consistently surpassed the growth rate of the world economy

Answer: True
Difficulty: Easy
Section: Introduction

70. In most of the years since 2011, world trade has grown at half the normal rate relative to world GDP.

Answer: True
Difficulty: Easy
Section: Introduction

71. Since the second half of the 1990s, there have been some strong globalization movements.

Answer: False (Anti-globalization movements)
Difficulty: Easy
Section: Introduction

72. Globalization has helped improve the economies of emerging and developing countries more than those of developed countries.

Answer: True
Difficulty: Easy
Section: Introduction

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73. Inflation will likely remain a key driving force for the twenty-first-century economy.

Answer: False (Expanding world markets)
Difficulty: Easy
Section: Introduction

74. The 2008-9 global recession has caused relatively small downturns for countries that opened up most to world trade.

Answer: False
Difficulty: Easy
Section: Introduction

75. The global economy continues to become more intertwined.

Answer: True
Difficulty: Easy
Section: Intertwined World Economy

76. In general, the larger the country's domestic economy, the more dependent it tends to be on exports and imports relative to its GDP.

Answer: False (less dependent)
Difficulty: Easy
Section: Intertwined World Economy

77. The world's largest exporting country is China.

Answer: True
Difficulty: Easy
Section: Exhibit 2-2

78. The world's largest importing country is the U.S.

Answer: True
Difficulty: Easy
Section: Exhibit 2-2

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79. Four of the top five exporting countries in 2017 were Asian.

Answer: False (3 of 5)
Difficulty: Easy
Section: Exhibit 2-2

80. None of the top five importing countries in 2017 were Asian.

Answer: False (China and Japan)
Difficulty: Easy
Section: Exhibit 2-2

81. Foreign Direct Investment (FDI) means any large investment in a foreign country by a multinational firm.

Answer: False (It means investment in manufacturing and service facilities in a foreign country with an intention to engage actively in managing them)
Difficulty: Medium
Section: Foreign Direct Investment

82. FDI is shifting from developed countries to developing countries.

Answer: True
Difficulty: Easy
Section: FDI Shifting from Developed Countries to Developing Countries

83. The Chinese government provides financial support and credit support to enterprises going abroad.

Answer: True
Difficulty: Easy
Section: FDI Shifting from Developed Countries to Developing Countries

84. Asia is the largest FDI recipient region in the world.

Answer: True
Difficulty: Easy
Section: FDI Shifting from Developed Countries to Developing Countries

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85. Portfolio investments are investments in foreign countries that are spread out over a wide variety of industries.

Answer: False (Portfolio investment refers to investments in foreign countries that are withdrawable at short notice.)
Difficulty: Medium
Section: Portfolio Investment

86. Country competitiveness refers to how low wage rates are in a country relative to average global wage rates.

Answer: False (Country competitiveness refers to the productiveness of a country.)
Difficulty: Easy
Section: Country Competitiveness

87. There is no evidence that high tax rates in Nordic countries are adversely affecting the ability of these countries to compete effectively in world markets.

Answer: True
Difficulty: Easy
Section: Human Resources and Technology

88. In 2018, according to the World Economic Forum's Global Competitiveness Report, five of the top 10 countries are Asian countries.

Answer: False
Difficulty: Medium
Section: Exhibit 2-4

89. The Triad Regions of the world (North America, Western Europe, and Japan) were the major economies in most of the 20th century.

Answer: True
Difficulty: Easy
Section: Emerging Economies

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90. The main operating principle of the General Agreements of Tariffs and Trade (GATT) is the concept of the Highly Favored Nation status (HFN).

Answer: False
Difficulty: Medium
Section: General Agreements on Tariffs and Trade

91. The Uruguay Round set up an international body called the World Trade Organization (WTO).

Answer: True
Difficulty: Medium
Section: World Trade Organization

92. As of April 26, 2015, the WTO had 161 member countries.

Answer: True
Difficulty: Medium
Section: World Trade Organization

93. The Doha Round paved the way for China and Singapore to get full membership in the WTO.

Answer: False (China and Taiwan)
Difficulty: Hard
Section: World Trade Organization

94. Due to Chinese objections, Taiwan is not a member of the WTO.

Answer: False (They joined in 2001)
Difficulty: Medium
Section: World Trade Organization

95. The World Trade Organization (WTO) is a global institutional proponent of free trade.

Answer: True
Difficulty: Easy
Section: World Trade Organization

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96. TRIPs (Trade-Related Aspects of Intellectual Property Rights), an agreement concluded as part of the GATT Uruguay Round, is an attempt to create a universal patent system.

Answer: False (As stated in the textbook, it is not an international attempt to create a universal patent system.)
Difficulty: Moderate
Section: Trade-Related Aspects of Intellectual Property Rights (TRIPS). Trade-Related Aspects of Intellectual Property Rights

97. One consequence of fungible content, information products, and electronic networks is an additional assault on the power of national governments to regulate international commerce.

Answer: True
Difficulty: Hard
Section: Value of Intellectual Property in Information Age

98. In the U.S., the Federal Trade Commission (FTC) is in charge of cases where entities are trying to mislead the public and commit fraud.

Answer: True
Difficulty: Easy
Section: Proliferation of E-Commerce and Regulations

99. Regulating international e-commerce does not require cross-border cooperation.

Answer: False (From the text, regulating international e-commerce obviously requires cross-border cooperation.)
Difficulty: Easy
Section: Proliferation of E-Commerce and Regulations

100. A free trade area (FTA) is a formal agreement among two or more countries to reduce or eliminate customs duties and nontariff trade barriers among partner countries.

Answer: True
Difficulty: Medium
Section: Free Trade Area

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101. NAFTA is the free trade area among Canada, the United States, and Chile.

Answer: False (Mexico)
Difficulty: Easy
Section: Free Trade Area

102. A common market eliminates all tariffs and other barriers to trade among members of the common market.

Answer: True
Difficulty: Medium
Section: Common Market

103. 1993's Maastricht Treaty succeeded the Treaty of Brussels.

Answer: False (It succeeded the Treaty of Rome)
Difficulty: Hard
Section: Common Market

104. A common market and a monetary union are basically the same thing.

Answer: False (It uses the same currency)
Difficulty: Moderate
Section: Monetary Union

105. A monetary union represents the fourth level of integration with a single common currency among politically independent countries.

Answer: True
Difficulty: Medium
Section: Monetary Union

106. The U.S. government defines the multinational corporation for statistical purposes as a company that owns or controls 60 percent or more of the voting securities, or the equivalent of at least one foreign business enterprise.

Answer: False (10 percent)
Difficulty: Hard
Section: Multinational Corporations

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Essay

107. The world marketplace is shrinking and changing. One of the vehicles that has been instrumental in this change is the General Agreement on Tariffs and Trade (GATT). Explain what GATT is and how it has affected international business.

Answer

The General Agreement on Tariffs and Trade (GATT) provides a forum for multilateral discussion among countries to reduce trade barriers. Nations meet periodically to review the status of world trade and to negotiate mutually agreeable reductions in trade barriers.

The main operating principle of GATT is the concept of Most Favored Nation (MFN). The MFN status meant that any country which was a member state to a GATT agreement and which extended a reduction in tariff to another nation would have to automatically extend the same benefit to all members of GATT. However, there is no enforcement mechanism. Trade barriers were lowered but services were largely unaffected.

Difficulty: Easy
Section: General Agreements on Tariffs and Trade

108. To improve on GATT the WTO was established. Explain what the WTO is, how it is different from GATT, and what specific functions the WTO is expected to perform.

Answer

The World Trade Organization (the WTO) is different from GATT in that it has statutory powers with authority to adjudicate trade disputes among nations. The WTO is the new legal and institutional foundation for a multilateral trading system. It provides the contractual obligations determining how governments frame and implement domestic trade legislation and regulations.

WTO is not just an extension of GATT. The GATT was a multilateral agreement with no institutional foundations. WTO is a permanent institution with its own secretariat. WTO is legally binding. The WTO dispute settlement mechanism, is faster, more automatic and therefore much less susceptible to blockages than the old GATT system. In 2001, WTO's ninth round of trade talks called the Doha Development Agenda (Doha Round) was launched in Doha, Qatar. In September 2003, the Doha Round failed because of unresolved difference between developed and the developing nations.

Difficulty: Medium
Section: World Trade Organization

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109. Some of the greatest challenges in trade in the next century will come in the areas of information technology and intellectual property. Describe these challenges, the mechanisms that are in place to protect one's intellectual property, and how trade in general will be affected.

Answer:

With the advent of the information age, firms are faced with new situations. Not only is it easy for individuals to make duplicates of many works or to re-use their content in new works, but the physical manifestation of content is almost irrelevant. The United States, in an attempt to protect intellectual property rights, has insisted that intellectual property rights be dealt with in GATT and the WTO. Technology based protection of electronic information through hardware, software, or a combination thereof in the form of encryption and digital signatures have been suggested as a means of circumventing the problem of unauthorized copying.

Controlling copying is a difficult problem. The solution may be in not controlling the copies but instead controlling the relationship with the customers through subscriptions or membership. There are other larger questions or hurdles to be overcome. One is the rise of a truly efficient market for information. Second, is the role of and attempts by governments to regulate international commerce.

Difficulty: Medium
Section: Value of Intellectual Property in Information Age

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110. It has been suggested that cooperative inter-relationships between countries (regional groupings) can be classified into five broad categories. Briefly summarize and describe each of these categories and indicate differences that may be present.

Answer

a. *Free Trade Area.* This form has a higher level of integration than a loosely formed regional cooperation and is a formal agreement among two or more countries to reduce or eliminate customs duties and non-tariff barriers among partner countries.
    i. NAFTA is an illustration.
    ii. The free trade area is not free of all trade barriers.
b. *Customs Union.* When members of a free trade area add common external tariffs to the provisions of the free trade agreement then the free trade area becomes the customs union (ASEAN is an example).
c. *Common Market.* A common market eliminates all tariffs and barriers to trade among members of the common market, adopts a set of external tariffs on non-members, and removes all restrictions on the flow of capital and labor among member nations.
d. *Monetary Union.* In this form, member nations move to a common currency and a central bank.
    i. The European Union has achieved this step.
e. *Political Union.* In this phase, new nations are created. Integration is achieved on a voluntary basis. A loose political union normally comes first (such as the British Commonwealth).

Difficulty: Hard
Section:

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