

## Chapter 2

### *Multiple Choice*

1. In 2004, the global annual trade in goods and services amounted to \$\_\_\_\_\_.
- a. \$500 billion.
  - b. \$800 billion.
  - c. \$1 trillion.
  - d. \$8 trillion.
  - e. \$11 trillion.

Answer: (c) Difficulty: (3) Knowledge: (F) Page: 32

2. Global economy is becoming more \_\_\_\_\_.
- a. regional.
  - b. local.
  - c. isolated.
  - d. transnational.
  - e. intertwined.

Answer: (e) Difficulty: (2) Knowledge: (F) Page: 34

3. 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 (GDP).
  - b. gross domestic income.
  - c. gross domestic spending.
  - d. gross domestic capital.
  - e. global domestic knowledge.

Answer: (a) Difficulty: (3) Knowledge: (A) Page: 34

4. When firms invest in manufacturing and distribution facilities outside their home countries, they add the stock of \_\_\_\_\_.
- a. global direct investment.
  - b. regional direct investment.
  - c. local direct investment.
  - d. foreign direct investment (FDI).
  - e. none of the above.

Answer: (d) Difficulty: (2) Knowledge: (A) Page: 37

5. \_\_\_\_\_ 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: (1) Knowledge: (F) Page: 38

6. 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: (1) Knowledge: (A) Page: 38

7. 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: (3) Knowledge: (A) Page: 38

8. 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: (2) Knowledge: (A) Page: 38

9. Country competitiveness is not a \_\_\_\_\_ thing.

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

Answer: (a) Difficulty: (2) Knowledge: (F) Page: 39

10. The World Economic Forum's Global Competitiveness Report placed two Asian Tigers (Taiwan and 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: (1) Knowledge: (F) Page: 40, Exhibit 2-4

11. In the country competitiveness report in 2008/09, three of the top ten countries are from \_\_\_\_\_ countries.

- a. South American
- b. African
- c. Asian
- d. Nordic
- e. None of the

Answer: (a) Difficulty: (2) Knowledge: (F) Page: 40, Exhibit 2-4

12. According to the textbook, Japan was expected to be ranked number \_\_\_\_\_ on the 2005 Country Innovativeness Ranking.

- a. one
- b. two
- c. three
- d. four
- e. five

Answer: (a) Difficulty: (2) Knowledge: (F) Page: 41, Exhibit 20-5

13. The United States was ranked number \_\_\_\_\_ on the 2005 Country

Innovativeness Ranking.

- a. one
- b. two
- c. four
- d. five
- e. six

Answer: (e) Difficulty: (2) Knowledge: (F) Page: 41, Exhibit 20-5

14. 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: (2) Knowledge: (F) Page: 42

15. 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: (1) Knowledge: (F) Page: 42

16. China's average growth rate in GDP has been over:

- a. 2 percent
- b. 4 percent
- c. 6 percent
- d. 8 percent
- e. 9 percent

Answer: (e) Difficulty: (2) Knowledge: (F) Page: 43

17. India's average growth rate in GDP has been over:

- a. 3 percent
- b. 5 percent
- c. 7 percent
- d. 9 percent

- e. 10 percent

Answer: (b) Difficulty: (1) Knowledge: (F) Page: 43

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

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

Answer: (e) Difficulty: (2) Knowledge: (F) Page: 43

19. Which of the following countries is NOT on the list of top 10 exporters?

- a. Korea
- b. Mexico
- c. China
- d. United States
- e. Both a and b

Answer: (e) Difficulty: (2) Knowledge: (F) Page: 35, Exhibit 2-2

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

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

Answer: (d) Difficulty: (2) Knowledge: (F) Page: 35, Exhibit 2-2

21. With which country does the U.S. have the largest trade deficit?

- a. Germany
- b. Japan
- c. Canada
- d. India
- e. China

Answer: (e) Difficulty: (2) Knowledge: (F) Page: 44

22. Why did Nokia lose market share in China?

- a. Products were outdated
- b. Products were too technical
- c. Local producers appeared with a cheaper, adequate phone
- d. Japan took away their market share
- e. None of the above

Answer: (c) Difficulty: (2) Knowledge: (F) Page: 44

23. Future trade flows are likely to move how?

- a. Among the Triad nations
- b. Between the Triad nations and the BEMs
- c. Among the BEMs
- d. Between the Triad nations and the developing world
- e. None of the above

Answer: (b) Difficulty: (2) Knowledge: (F) Page 43

24. 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: (1) Knowledge: (F) Page: 42

25. Which of the top 10 countries in competitiveness does NOT suffer from a lack of natural resources?

- a. Japan
- b. Netherlands
- c. Switzerland
- d. Denmark
- e. Canada

Answer: (e) Difficulty: (2) Knowledge: (F) Page: 40

26. Which country has shown the most progress in competitiveness since 2005?

- a. Hong Kong
- b. Belgium
- c. Germany
- d. Switzerland
- e. Japan

Answer: (a) Difficulty: (2) Knowledge: (F) Page: 40, Exhibit 2-4

27. New centers of innovative activity include which countries?

- a. Ireland
- b. Israel
- c. Singapore
- d. Taiwan
- e. All of the above

Answer: (e) Difficulty: (2) Knowledge: (F) Page: 41

28. The International Trade Organization (ITO) was formed 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: (2) Knowledge: (F) Page: 45

29. 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. the World Trade status.
- e. the Best Nation status.

Answer: (b) Difficulty: (3) Knowledge: (F) Page: 56 Page: 45

30. When GATT was successful in lowering tariff barriers to world trade, many nations created:

- a. cartels.
- b. keiretsus.
- c. joint ventures.
- d. nontariff barriers.
- e. boycotts.

Answer: (d) Difficulty: (1) Knowledge: (F) Page: 45

31. 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: (2) Knowledge: (A) Page: 46

32. 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: (3) Knowledge: (F) Page: 46

33. Perhaps the most important accomplishment of the latest GATT round was the establishment of:

- a. the World Trade Organization (WTO).
- b. the Asian Development Bank.
- c. the World Bank.
- d. the International Monetary Fund (IMF).
- e. the International Finance Corp. (IFC).

Answer: (a) Difficulty: (3) Knowledge: (F) Page: 46

34. The World Trade Organization (WTO) took effect on:

- a. January 1, 1994
- b. January 1, 1995
- c. January 1, 1996
- d. January 1, 1997
- e. January 1, 1998

Answer: (b) Difficulty: (3) Knowledge: (F) Page: 46

35. As of February 28, 2009, the World Trade Organization (WTO) has \_\_\_\_\_ member countries.

- a. 123
- b. 135



- c. 142
- d. 153
- e. 160

Answer: (d) Difficulty: (3) Knowledge: (F) Page: 46

36. The World Trade Organization's (WTO) ninth round of trade talks which were launched in November 2001 is 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: (2) Knowledge: (F) Page: 46

37. 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: (3) Knowledge: (A) Page: 46

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: (2) Knowledge: (F) Page: 48

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

- a. fifth

- b. sixth
- c. seventh
- d. eighth
- e. ninth

Answer: (e) Difficulty: (3) Knowledge: (F) Page: 49

40. 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: (2) Knowledge: (F) Page: 51

41. 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: (1) Knowledge: (A) Page: 51

42. \_\_\_\_\_ 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: (2) Knowledge: (A) Page: 52

43. One hurdle that used to protect information from being acquired easily was that it was unfungible. Unfungible means:

- a. information contained viruses.

- b. information was expensive.
- c. information could only be processed with proper equipment.
- d. information was not for the uninformed.
- e. it was difficult to replace one item with another.

Answer: (e) Difficulty: (3) Knowledge: (A) Page: 53

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

- a. demos.
- b. to new markets.
- c. to governments.
- d. upgrades or ancillary products.
- e. only to a chosen few.

Answer: (d) Difficulty: (1) Knowledge: (A) Page: 53

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: (d) Difficulty: (1) Knowledge: (A) Page: 54

46. 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: (2) Knowledge: (F) Page: 54

47. 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: (2) Knowledge: (A) Page: 54

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

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

Answer: (d) Difficulty: (1) Knowledge: (F) Page: 54

49. 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: (1) Knowledge: (A) Page: 55

50. 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: (3) Knowledge: (F) Page: 55

51. 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: (1) Knowledge: (A) Page: 55

52. The Free Trade Areas of the Americas (FTAA) was proposed in

- 
- a. December 1994.
  - b. December 1995.
  - c. December 1996.
  - d. December 1997.
  - e. December 1998.

Answer: (a) Difficulty: (3) Knowledge: (A) Page: 56

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: (2) Knowledge: (F) Page: 57

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: (2) Knowledge: (A) Page: 57

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: (2) Knowledge: (A) Page: 57

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: (3) Knowledge: (A) Page: 57

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: (3) Knowledge: (A) Page: 58

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: (1) Knowledge: (F) Page: 58

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: (3) Knowledge: (F) Page: 58

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: (2) Knowledge: (F) Page: 58

61. The Maastricht Treaty is a(n):

- a. economic union.
- b. development union.
- c. transnational union.
- d. political union.
- e. national union.

Answer: (d) Difficulty: (1) Knowledge: (F) Page: 58

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: (2) Knowledge: (F) Page: 58

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: (3) Knowledge: (A) Page: 58

64. 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: (3) Knowledge: (F) Page: 60

65. 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: (3) Knowledge: (F) Page: 58

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: (1) Knowledge: (F) Page: 60

67. MNCs that become global at their first inception are called:

- a. born last firms.
- b. born first firms.
- c. born again firms.
- d. born global firms.
- e. none of the above

Answer: (d) Difficulty: (1) Knowledge: (F) Page: 60

*True/False      Short Answers*

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

Answer: (True) Difficulty: (1) Knowledge: (F) Page: 46

69. Today, countries have become economically independent.

Answer: (False) Difficulty: (1) Knowledge: (F) Page: 34

70. In 2008/2009 Country Competitiveness Report, 5 of the top 10 countries are Asian countries.



Answer: (False) Difficulty: (2) Knowledge: (F) Page: 40, Exhibit 2-4

71. The Triad Regions of the world (North America, Western Europe, and Japan) collectively produce more than 80 percent of world GDP.

Answer: (True) Difficulty: (1) Knowledge: (F) Page: 42

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

Answer: (False) Difficulty: (1) Knowledge: (F) Page: 35, Exhibit 2-2

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

Answer: (True) Difficulty: (1) Knowledge: (F) Page: 35, Exhibit 2-2

74. FDI in services is controlled by U.S. firms.

Answer: (False) Difficulty: (2) Knowledge: (F) Page: 37

75. 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: (2) Knowledge: (F) Page: 45

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

Answer: (True) Difficulty: (2) Knowledge: (F) Page: 46

77. As of December 11, 2005, the World Trade Organization (WTO) had 149 member countries.

Answer: (True) Difficulty: (2) Knowledge: (A) Page: 46

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

Answer: (False) Difficulty: (3) Knowledge: (F) Page: 46

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

Answer: (True) Difficulty: (1) Knowledge: (A) Page: 46

80. Over the Internet, any piece of electronically represented intellectual property can be instantly copied anywhere in the world.

Answer: (True) Difficulty: (1) Knowledge: (A) Page: 51

81. 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: (3) Knowledge: (A) Page: 53

82. 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: (1) Knowledge: (F) Page: 54

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

Answer: (False) Difficulty: (1) Knowledge: (A) Page: 54

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

Answer: (False) Difficulty: (1) Knowledge: (A) Page: 55

85. 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: (2) Knowledge: (A) Page: 55

86. Regarding regional integration, South American markets are still less open than those of East Asia.

Answer: (True) Difficulty: (2) Knowledge: (F) Page: 56

87. FTAA stands for Free Trade Area of the Americas.

Answer: (True) Difficulty: (1) Knowledge: (F) Page: 56

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

Answer: (True) Difficulty: (2) Knowledge: (A) Page: 57

89. The 1993's Maastricht Treaty succeeded the Treaty of Brussels.

Answer: (False) Difficulty: (3) Knowledge: (F) Page: 58

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

Answer: (False) Difficulty: (1) Knowledge: (A) Page: 58

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

Answer: (True) Difficulty: (2) Knowledge: (A) Page: 58

92. Currently, Britain and France remain the principal opponents of ceding any part of the sovereignty of the nation-state to any future political union in Europe.

Answer: (True) Difficulty: (3) Knowledge: (F) Page: 58

93. Two-thirds of world trade in goods and services is controlled by multinational companies.

Answer: (True) Difficulty: (2) Knowledge: (F) Page: 59

94. 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) Difficulty: (3) Knowledge: (A) Page: 58

95. Any start-up firm becoming global at its first inception is called as 'born again firm'.

Answer: (False) Difficulty: (1) Knowledge: (F) Page: 60

### *Essay*

96. 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: (1) Knowledge: (A) Page: 45

97. 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: (2) Knowledge: (A) Pages: 46-49

98. 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: (2) Knowledge: (A) Pages: 51-54

99. 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.
  - 1). NAFTA is an illustration.
  - 2). 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.
  - 1). 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: (3) Knowledge: (F) Pages: 55-58