Some Ways Forward with Trade Barriers

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Trends in Trade Barriers

• 70 years ago, trade barriers were mostly tariffs
  – They had risen and fallen over the decades, and were high – averaging perhaps 40% after the Great Depression
  – Other barriers to trade, if they existed, were not noticed, in comparison with tariffs
Trends in Trade Barriers

• At the end of WWII, the winning countries cooperated to create new institutions.
  – IMF for exchange rates
  – World Bank for economic development
  – GATT for trade policies
Trends in Trade Barriers

- Under GATT, tariffs were negotiated downward among the developed countries, in a series of Rounds.
  - Tariffs among developed countries fell from 40% to 4%
  - New rules began to be adopted to deal with a few nontariff barriers
- Developing countries
  - Did not participate
  - Eventually saw the wisdom of lowering tariffs unilaterally
  - Their tariffs remain higher than developed countries
Trends in Trade Barriers

• The last completed GATT Round, the Uruguay Round, created the WTO
  – It includes many things
    • All of the GATT
    • Rules on traded services, GATS
    • Rules on intellectual property protection, TRIPs
  – Most important, WTO has an improved Dispute Settlement Mechanism, DSM
    • Countries can files complaints and decisions are enforced
    • Ultimate sanction is tariffs, but usually not needed
Trends in Trade Barriers

- The Doha Round
  - Begun in 2001, it has faltered and never been concluded
  - Unclear what will happen, but probably nothing meaningful

- What has happened instead
  - Proliferation of Free Trade Agreements, FTAs
  - Increased use of nontariff measures, NTMs
    - Nontariff barriers
    - Other policies that affect trade (subsidies)
Barriers I’ll talk about

• Non-tariff barriers
  – “Protectionist”
  – “Assistance”
  – “Non-Protectionist”

• Subsidies

• Tariffs, quotas, and tariff-rate-quotas
NTMs and Developing Countries

• Note that NTMs may hurt developing countries more than tariffs
  – Most developed-country tariffs are already low
  – Many NTMs are hardest on low income countries
My assumptions

• Multilateral trade negotiations won’t succeed.
  – Doha Round may end, with or without claimed success, but it will mean little.
  – No new round will occur or accomplish anything in foreseeable future.
My assumptions

• WTO will remain strong in spite of that, with Dispute Settlement Mechanism (DSM) functioning well.
• Proliferation of Free Trade Agreements (FTAs) will continue.
Proliferation of FTAs

Regional Trade Agreements (RTAs) Notified to GATT/WTO
Issues to address

- What are the barriers?
- How are they best dealt with under these assumptions?
“Protectionist” Policies

• “Protectionist?”
  – Policies whose avowed purpose is to help domestic industries at expense of foreign

• Types
  – Tariffs
  – Import quotas
  – Export subsidies
  – Local content requirement
  – Procurement requirement
  – Exchange-rate devaluation
“Protectionist” Policies

• How to deal with these?
• The GATT/WTO was designed to do some of this
  – Tariff bindings
  – Prohibitions
“Protectionist” Policies

• Aside on VERs = Voluntary Export Restraints
  – These were “prohibited” by WTO
  – They may be coming back:
    • Mar 20: Brazil persuaded Mexico to limit auto exports
    • Apr 10: Mexico persuaded China to limit footwear exports, to avoid CVD
  – Who will complain to the WTO?
“Assistance” Policies

• “Assistance?”
  – Policies whose avowed purpose is to help domestic industries
    • Not explicitly at expense of foreign
    • But often implicitly at their expense

• Types
  – Domestic subsidies
  – Bail-outs
  – Intellectual property protection
  – Resistance to exchange appreciation
“Assistance” Policies

• How to deal with these?
• These are harder, as countries reserve the right to provide assistance
• Response is to permit other countries to offset any harm to them from these policies, when feasible
  – E.g., Countervailing duties
  – This is not always an option, especially for an exporter
“Non-protectionist” Policies

• “Non-protectionist?
  – Avowed purpose is not to help domestic industries

• These claim benefit to
  – Health of people, plants, animals
  – Environment
“Non-protectionist” Policies

• Health and safety examples
  – Technical Barriers to keep out pests and disease
  – Geographical indications
  – Prohibition of genetically modified (GM) organisms

• Environment examples
  – Tuna/dolphin; shrimp/turtle
  – Carbon tariff
“Non-protectionist” Policies

• Distinctive feature:
  – Simply removing them is not optimal.
  – That would sacrifice their claimed benefit to health, etc.
  – Analysis and policy must quantify and respect these benefits, if legitimate.
“Non-protectionist” Policies

• Challenges
  – Evaluating the legitimacy of their non-protectionist purposes
  – Identifying alternative less discriminatory policies for those purposes
  – Separating and measuring their protectionist and non-protectionist effects
“Non-protectionist” Policies

• Policy heterogeneity
  – Trade is impacted when countries policies for the same purpose differ
  – Differences may be accidental
    • Different standards for the same purpose evolved out of different histories
    • Trade could be facilitated by
      – Harmonizing standards, or
      – Mutual recognition (done recently for US and EU “organic” foods)
“Non-protectionist” Policies

• Policy heterogeneity
  – But differences may also reflect unequal in cost and benefits
    • Low-income countries may choose lower standard due to cost.
    • Such differences should be respected, not removed.
“Non-protectionist” Policies

• My view
  – No general methodology will suffice for all such NTMs. Each must be addressed on its own unique merits and demerits.
  – This is already being done in the WTO DSM.
“Non-protectionist” Policies

• My view
  – DSM is not perfect, but it may be the best we can hope for.
    • Especially for NTMs that arise anew.
    • DSM is far better than we might have expected
“Non-protectionist” Policies

• DSM
  – Uses experts on the law
    • Panel
    • Appellate Body
  – Takes evidence from both sides
    • Should include experts on the substance of any policy
  – Therefore DSM should be able to do a good job of handling the unique features of each case
“Non-protectionist” Policies

• Other options for dealing with these?
  – FTAs
    • These can work well for
      – Harmonizing technical standards
      – Dealing with necessary standard heterogeneity
    • Problem
      – If FTAs center around US and EU, without FTA between US & EU, conflicts may persist between US- and EU-centered regimes
      – This can be serious for developing countries
        » Must they choose between US and EU?
“Non-protectionist” Policies

• Other options
  – Plurilateral agreements
    • Issue-specific agreements, especially including both US and EU, hold promise.
    • These work best if parties agree on fundamentals
      – Preventing disease: Yes
      – Avoiding GM foods: No
    • These can provide the basis for resolving disputes, even involving non-members
    • Once they set standards, non-members are likely to join.
Subsidies

• Types
  – On production
  – On exports

• Effects of both: depress world prices
  – Hurt foreign producers
  – Help foreign consumers

• Nevertheless, they are mostly condemned
  – except by beneficiaries (farmers)
Subsidies

• Can they be ended through negotiations?
  – Potentially yes, if negotiations are multilateral
    • But that’s unlikely, given state of Doha Round
  – Certainly not, if negotiations are bilateral or regional with those harmed
    • Unlike tariffs, subsidies cannot be removed with respect to only specific trading partners
Subsidies

• Can they be ended unilaterally?
  – Perhaps: “Austerity” makes subsidies an obvious target
  – Domestic interests should push for agriculture to at least share in the austerity
Subsidies

• Why not reduce them?
  – The political power of farmers
  – But perhaps they will be mollified if countries don’t do it alone

⇒ Need to seek coordinated reductions, outside of WTO, by EU, US, and Japan.

• Note: This will hurt some poor-country importers. Need to assist them.
Tariffs, etc.

• Tariffs remain very high in agriculture and textiles/apparel.

• In agriculture, accompanied by quotas and tariff-rate-quotas.
  – Note that tariff-rate-quotas can be made less harmful by either
    • Expanding the quota
    • Lowering the out-of-quota tariff

• Thus tariff reduction remains a very important objective.
Tariffs, etc.

• That they are high: After Uruguay Round is implemented,
  – “agriculture and food processing sector will still have twice the average tariffs of textiles and clothing—and nearly four times those for other manufactures.”
  • (Binswanger and Lutz 2000, drawing on Anderson et al. 1999)
Tariffs, etc.

• How can they be reduced?
  – Multilateral agreement? Not without Doha.
  – Unilaterally? Not likely, given
    • Power of protected (esp. farm) interests
    • Budgetary implications
Tariffs, etc.

• FTAs?
  – Yes, but these only cut tariffs on FTA partners.
  – Other disadvantages:
    • Sensitive sectors often excluded.
    • Tariffs outside remain high.
    • Even inside, rules of origin (ROOws) may undermine the cuts.
Tariffs, etc.

• A suggested alternative: Use FTAs to “Damp” the Tariff Bindings
  – Specifically, countries should agree to:
    ➢ Reduce upper limit on all tariffs by the fraction of trade covered by FTAs
  – As FTAs proliferate, limits on tariffs (tariff bindings) will fall, and eventually tariffs themselves will fall.
Conclusions

• Non-tariff measures
  – “Protectionist”
    ➢ Already covered by WTO
  – “Assistance”
    ➢ Permit CVDs
  – “Non-Protectionist”
    ➢ Leave to the WTO DSM.
    ➢ Negotiate in
      o FTAs
      o Plurilateral Agreements
Conclusions

• Subsidies
  ➢ Leave to domestic forces for austerity.

• Tariffs, quotas, and tariff-rate-quotas
  ➢ Harness their reduction to the proliferation of FTAs, via Tariff Damping.