Dangers and Opportunities for Developing Countries in the Current World Trading System

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The Issues

1. How should developing countries respond to the current disarray of the world trading system?
2. What can CGE modelers do to help?
Outline

• The Disarray
  – Doha Round impasse
  – Proliferation of preferential arrangements
  – Economic crisis and protectionist responses

• Options for developing countries:
  – Unilateral Liberalization
  – More and better FTAs
  – Use leverage to multilaterally liberalize
Doha Round Impasse
Doha Round Impasse

• Doha Round
  – Began at WTO Ministerial, Doha, Qatar, 2001
  – Emphasis on development:
    “Doha Development Agenda”
  – Issues
  • US and EU Agricultural subsidies and tariffs
  • Developing-country tariffs on manufactures
  • Market access for services into developing countries
Doha Round Impasse

• Stops, starts, and more stops
  – Cancún Ministerial failure 2003
  – Hong Kong Ministerial “success” 2005
  – July 2006: Doha Round Talks Suspended
  – June 2007:
    • Potsdam Meeting of G4: US, EU, Brazil, India
    • Meeting Failed
Doha Round Impasse

• Doha Round
  – July 2008:
    • Meeting in Geneva for “last chance”
    • Brazil broke from others, favoring a deal
    • India and China agreed to tariff reductions, but subject to “safeguards”
      – If imports rose more than 10%
      – US & EU wanted 40% threshold for safeguards
    • Meeting failed; Doha Round pronounced dead
Doha Round Impasse

- Doha Round
  - Will it revive? Or is it really dead?
  - Nobody knows
- Problems:
  - Previous (Uruguay) Round took 8 years and faltered several times before success
  - Problems:
    - Momentum has been lost
    - US TPA (Fast Track) expired in 2007
    - Obama was lukewarm on trade, but now…?
Doha Round Impasse

• **GTAP:**
  – Address the issues that are blocking agreement
    • Model the disputed safeguards
  – Tell us consequences of failure
    • Thanks: Bouët and Laborde
Proliferation of PTAs
Proliferation of Preferential Trade Agreements

• Natural byproduct of stalled negotiations
  – Happened in the 1980s: stalled Uruguay Round prompted
    • US-Canada FTA
    • NAFTA
  – FTAs are both
    • A substitute for multilateral liberalization
    • A tool for encouraging countries to engage multilaterally
      – (But “building block” vs “stumbling block” is debated)
Free Trade Agreements

Source: WTO
Proliferation of PTAs

• Are they good?
  – Standard arguments against: Trade Diversion
  – Our CGE models suggest they are OK, at least in terms of what they imply for trade
  – GTAP: What do other models say?
Proliferation of PTAs

– But they have other features that can be harmful
  • Rules of origin
  • Restrictive provisions for expansion
  • Sensitive sectors
  • Commitments other than trade
Proliferation of PTAs

• Rules of Origin
  – These are necessary in any FTA due to divergent external tariffs
  – Economics is little help in saying what these should be
  – In practice they can be highly discriminatory
  – Ideally, they should be simple and uniform
    • E.g., a common 50% content requirement
    • Needs to be common to avoid industry pressures
  – GTAP: Have ROOs been modeled?
Proliferation of PTAs

• Expansion
  – Normal to have provisions for adding countries to FTAs
    • Unfortunately, these require full negotiation, thus mean little
  – Need: “Docking Provision” (Claude Barfield)
    • Clear rules for accession into original FTA
    • “Would allow other nations in the region to join when they were ready”
  – GTAP: Do existing members gain from expansion?
Proliferation of PTAs

• Sensitive Sectors
  – Many FTAs exclude some “sensitive” sectors
    • Ones most threatened by trade
    • Thus they are sectors where trade would most benefit the country (GTAP: Is this right?)
  – Better would be
    • Use safeguards afterwards
    • Treat specially, but only by slowing liberalization
  – Liberalization must be certain & credible, to induce adjustment
Proliferation of PTAs

• Other Commitments
  – FTAs today are much more (and often also much less) than free internal trade in goods
    • Liberalization in services
    • International Investment rules
    • Intellectual property rights enforcement
    • Environmental standards
    • Labor rights
  – These are not minor: they may be the main motive of the US (& EU?)
Proliferation of PTAs

• Other Commitments
  – Unlike gains from trade, which are shared, gains from other commitments may not be
    • They may constitute a transfer from the weaker to the stronger power
  – Example:
    • Patent protection transfers wealth from poor to rich countries
    • IP in FTA may extract most of the gain from trade of the poorer partner
Protectionist Response to Crisis
Protectionist Response
What Has Happened to Trade?

• Trade
  – It has plummeted!

• Much of what I have to say here comes from, or is stimulated by, the papers in that (electronic) volume.
Figure 1 Collapse in world trade:
Sudden, severe, synchronised (change in monthly trade flows between October and December 2008, or latest data).

- Switzerland: -41%
- Italy: -26%
- Germany: -19%
- South Africa: -18%
- UK: -21%
- Mexico: -20%
- Turkey: -17%
- Brazil: -33%
- Australia: -22%
- France: -25%
- Japan: -18%
- China: -32%
- US: -23%
Protectionist Response

• Proliferation of Anti-Dumping
Anti-dumping cases, 2007-2008

Source: VOX, from Chad Bown, Global Anti-Dumping Database, World Bank forthcoming.
Protectionist Response

• Proliferation of Anti-Dumping
  – GTAP: Quantify the threat of antidumping, then model its effects
Protectionist Response

• Tariff increases
  – Russia, Jan 2009, cars and trucks
  – India, Nov 2008, certain steel products
  – South Korea, Mar 2009, oil
  – Mercosur, proposed but not yet (?) ratified
    (e.g., wine, peaches, dairy products, textiles, leather goods, wood furniture)
  – Ecuador on 900 items
Protectionist Response

• Nontariff barriers
  – Indonesia, Dec 2008, restricted ports of entry for electronics, garments, toys, footwear, and food and beverages
  – Argentina, non-automatic licensing for sensitive products (e.g., auto parts, textiles, TVs, toys, shoes, leather goods)
Protectionist Response
Measures taken from October 2008 - February 2009
(number of measures)

GTAP: Are these quantitatively important?
Recent Protectionism
Protectionist Response

• Subsidy increases
  – EU, Jan 2009, exports of butter, cheese, milk powder
Protectionist Response

• Auto Industry Supports
  – US
  – Canada
  – France
  – Germany
  – Russia
  – Australia
Protectionist Response

• Other possible signs of protectionism/nationalism
  – “Buy America” and similar provisions of stimulus package
  – US-Mexico trucking dispute
  – Bailouts
    • Of only domestic firms
    • Of banks, with domestic strings attached
  – Western Europe’s reluctance to help Eastern Europe
Protectionist Response

– Talk of renegotiating NAFTA, etc.
– Currency manipulation, and claims of manipulation
  • China stopped yuan appreciation Summer 2008
  • Switzerland intervening to prevent appreciation
– New capital controls
– “Labor protectionism” (pressure to lay off foreign rather than domestic workers)
Protectionist Response

– Tightened standards
  • India ban on Chinese toys
  • China restrictions on
    – Irish pork
    – Belgian chocolate
    – Italian brandy
    – British sauce
    – Dutch eggs
    – Spanish dairy products
Protectionist Response

• For more, see Global Trade Alert
  http://www.globaltradealert.org/
  – Independent monitoring of policies that affect world trade
  – Initiated June 8, 2009 by CEPR and others
Options:
Unilateral
Liberalization
Option: Unilateral Liberalization

- This is the simplest option
  - Ignore the Doha Round failure
  - Reduce tariffs unilaterally
- This is the right choice for countries where tariffs are high
  - As many have realized, often in times of crisis
- It is also the right choice for countries where only a few tariffs are high: reduce them
Option: Unilateral Liberalization

• What about reducing tariffs that are already low?
  – Are there gains from trade here? Certainly
  – But there are also gains from getting other countries to reduce tariffs
  – It may be best to keep low tariffs as bargaining chips
    • Would not be needed in multilateral negotiations
    • Very much needed in FTA negotiations
  – GTAP: Model this bargaining process
Option: Unilateral Liberalization

- Why size of tariff matters: Cost of tariff grows with its square:
Options:
Still More FTAs
Option: FTAs

- Existing FTAs:
  - Use them to resist new protectionism

- New FTAs:
  - Know and avoid their pernicious provisions
Options: Use Leverage
Option: Use Leverage

• Developing countries have growing leverage
  – They demonstrated this in Cancún
  – Their markets have expanded
  – US and EU are newly vulnerable, due to crisis
Option: Use Leverage

• Use the leverage to
  – Resist protectionism
  – Negotiate FTAs on improved terms
  – Restart and finish Doha Roun

• GTAP:
  – Quantify this leverage, if it really exists
  – Illustrate its usefulness