

# Some Ways Forward with Trade Barriers

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*For presentation at Renmin University*  
*June 7, 2012, Beijing*

# 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 file 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

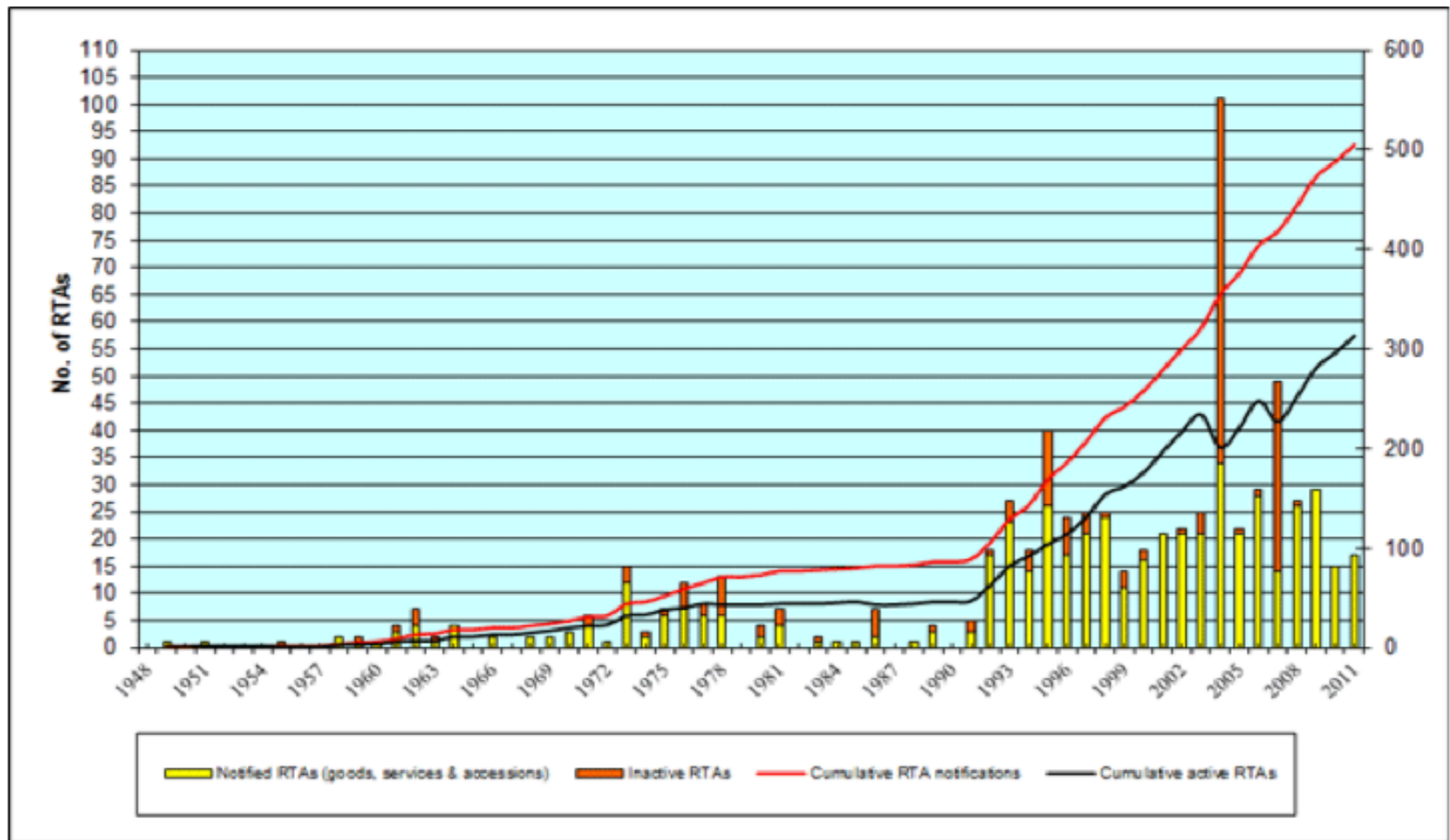
- Multilateral trade negotiations won't succeed.
  - Doha Round may end, with or without claimed success, but it will mean little.
  - No new round will occur or accomplish anything in foreseeable future.

# 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 (ROOs) 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
      - FTAs
      - 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.