

And GTAP
Researchers

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
 - 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

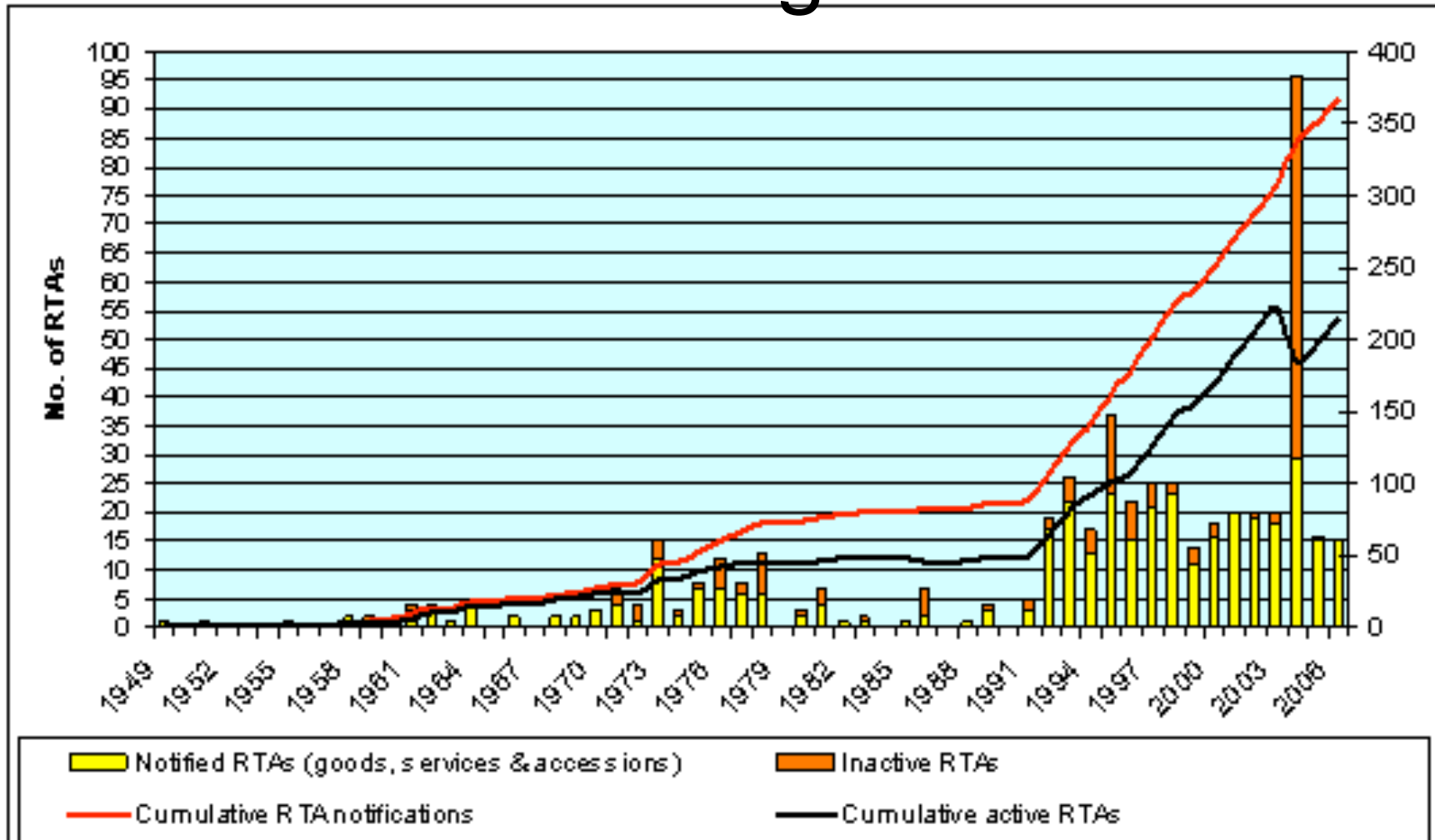
- GTAP:
 - Address the issues that are blocking agreement
 - Model the disputed safeguards
 - Tell us consequences of failure
 - Thanks: Bouët and Laborde

**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 is 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?)

Can these be modeled?

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

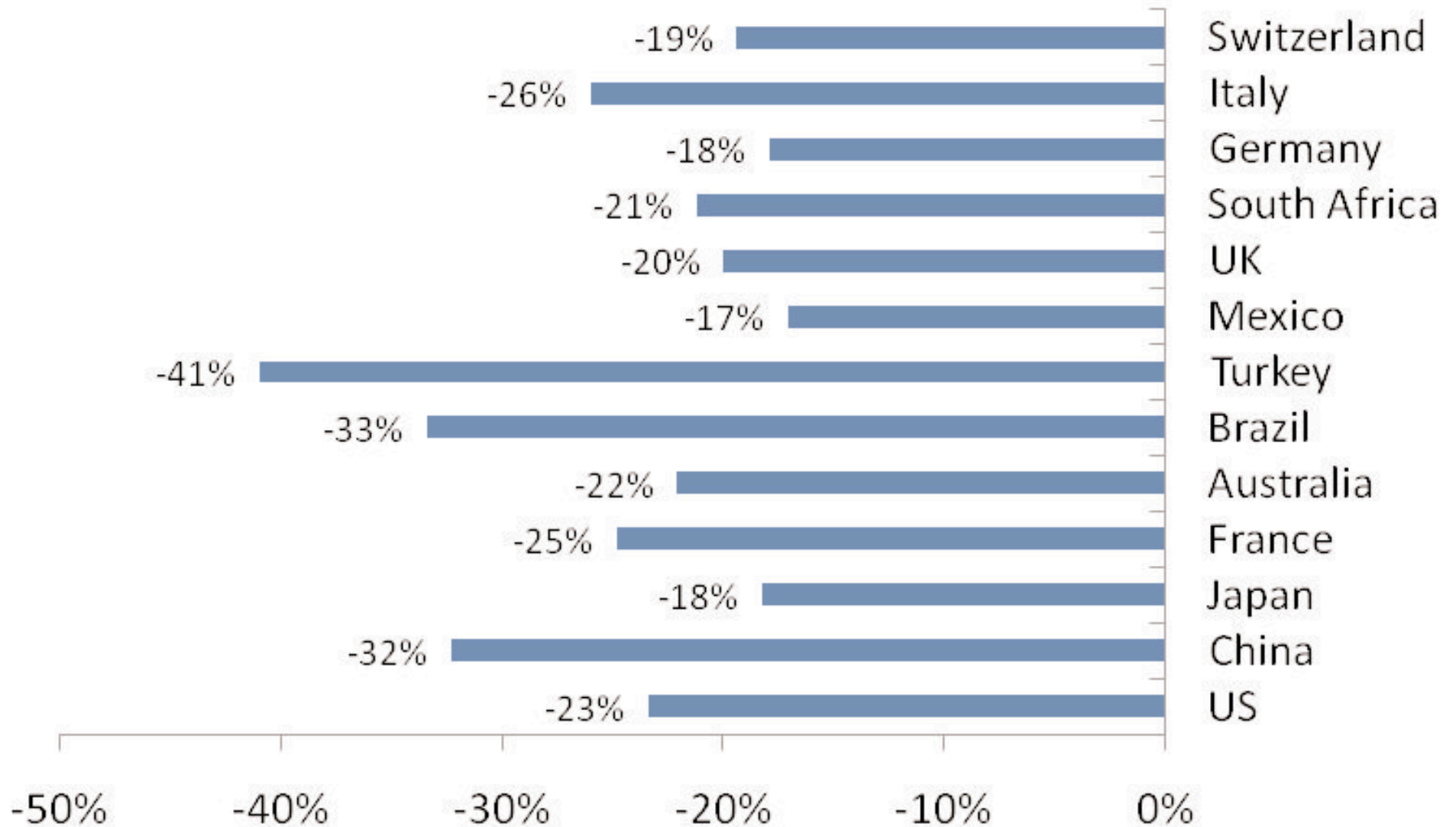
Protectionist
Response to
Crisis

Protectionist Response

What Has Happened to Trade?

- Trade
 - It has plummeted!
 - See Baldwin and Evenett, *The collapse of global trade, murky protectionism, and the crisis: Recommendations for the G20, 2009*
 - Much of what I have to say here comes from, or is stimulated by, the papers in that (electronic) volume.

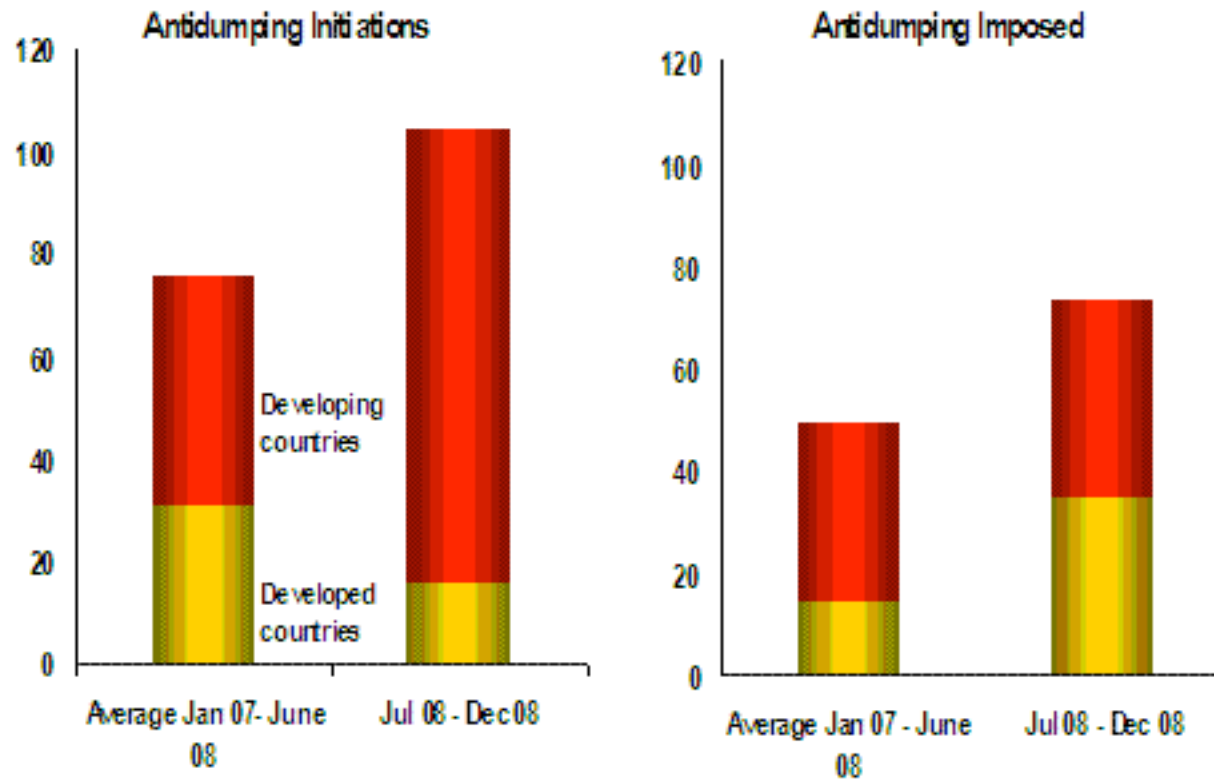
Figure 1 Collapse in world trade:
Sudden, severe, synchronised (change in monthly trade flows between October and December 2008, or latest data).



Protectionist Response

- Proliferation of Anti-Dumping
 - See Chad Bown, “Protectionism Is on the Rise: Antidumping Investigations,” 2009

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

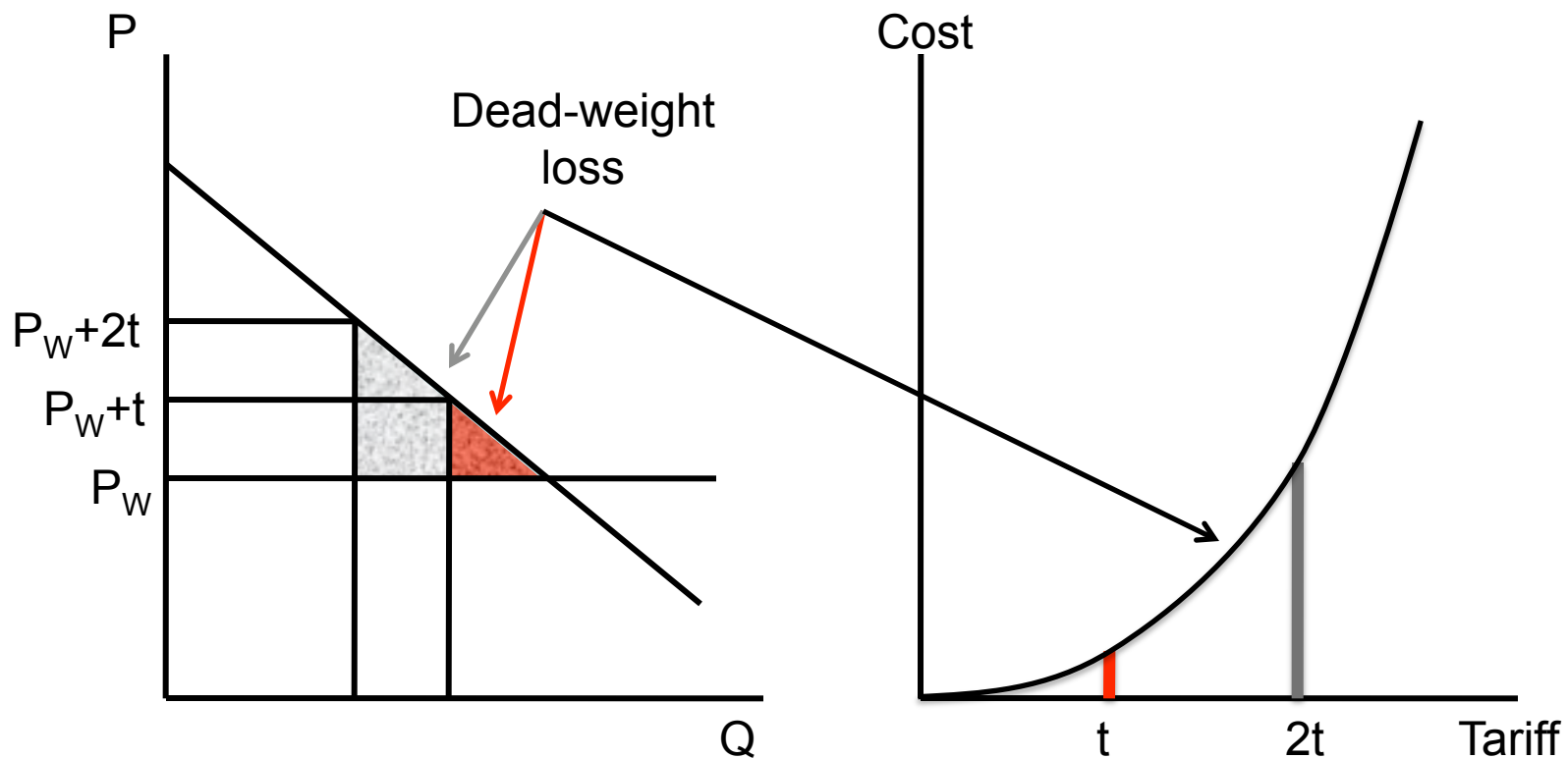
- This is the simplest option
 - Ignore the Doha Round failure
 - Reduce tariffs unilaterally
- This is the right choice for countries where tariffs are high
 - As many have realized, often in times of crisis
- It is also the right choice for countries where only a few tariffs are high: reduce them

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 Round
- GTAP:
 - Quantify this leverage, if it really exists
 - Illustrate its usefulness