

Twenty-First Century Trade Policy: Pushing the Limits of International Cooperation

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What did trade policy makers do *in the past*?



Begin in 1930

- Policy makers had to focus on opening their economies to trade

New York Times: June 18, 1930

What did trade policy makers do *in the past*?

From 1944 to 2014: Trade Liberalization and Trade Agreements

Multilateral Liberalization



WORLD TRADE
ORGANIZATION

Preferential Liberalization



Source: <http://www.kidsmaps.com/geography/Asia/Political/Map+of+the+Free+Trade>

...and some *Unilateral* Liberalization

In today's world with low tariffs and trade agreements, shouldn't trade policy economists now be extinct?

No! Tariff cutting is not the end of the story...



"[t]he lowering of tariffs has, in effect, been like draining a swamp. The lower water level has revealed all the snags and stumps of non-tariff barriers that still have to be cleared away."

– *New York Times* analogy made famous by the economist Robert E. Baldwin (1970, p. 2), at the end of the Kennedy Round of GATT negotiations

So what do trade policymakers do *today*?

Within the confines of existing trade agreements...

1. **Maintain** existing levels of openness
2. **Actively challenge** trading partners' failure to maintain openness – i.e., disputes
3. Negotiate new agreements to **deepen cooperation** and increase openness

Political-Economic Research

Why do governments voluntarily sign up for trade agreements?

1. To address international externalities – market power motive

- Aside: recent evidence includes Broda, Limão and Weinstein (*AER* 2008), Bagwell and Staiger (*AER* 2011), Bown and Crowley (*AER* 2013), Ludema and Mayda (*QJE* 2013)

2. Tying one's own hands – political economy motive

Reality

What does a trade agreement offer to a government in practice?

1. Forum for negotiations
2. Forum for transparency and monitoring
3. Forum for settlement of disputes

What Do Trade Agreements Offer?

Roadmap:

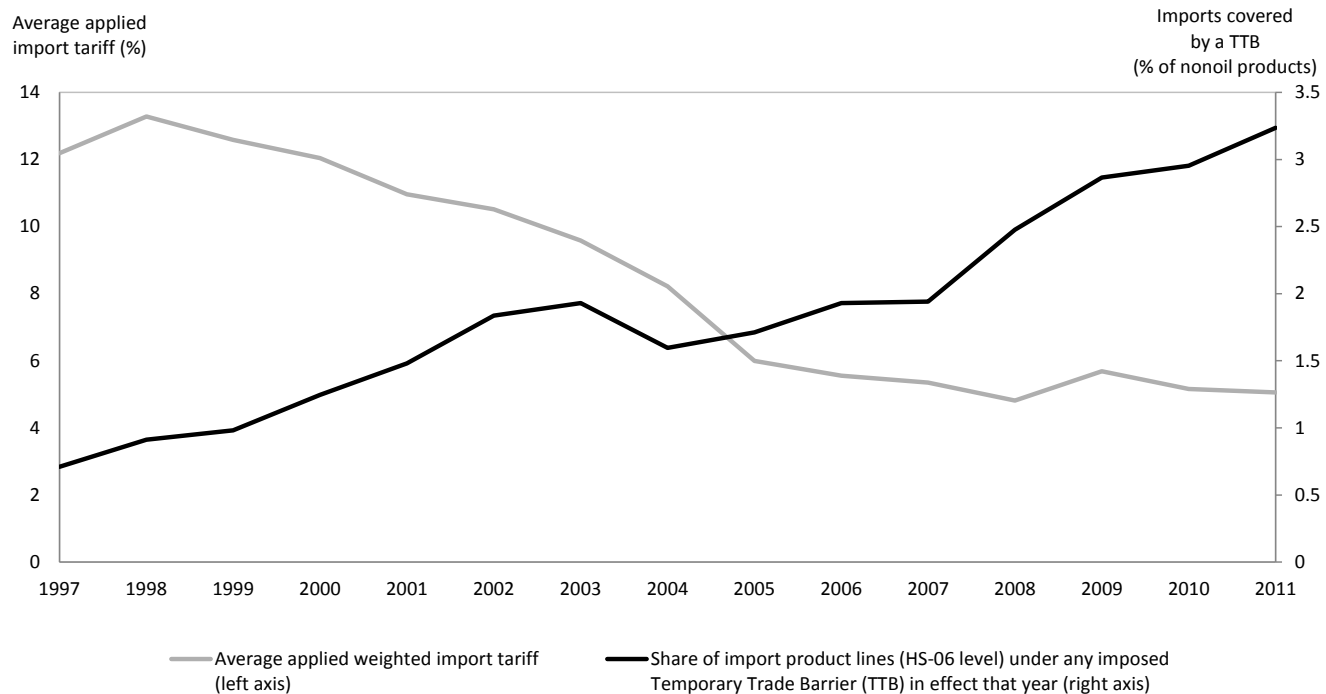
Implications for World Bank clients from research on...

1. Negotiations: **Liberalization**, Rules, but also **Exceptions**
2. **Transparency** and the Ability for Trade Policy Monitoring
3. The Settlement of **Disputes**

What do Trade Agreements Offer?

1. Negotiations: Liberalization, Rules, but also Exceptions

Emerging Economies' (G20) Tariffs versus Non-Tariff Barriers, 1997-2011



Sources: constructed with data from *World Development Indicators* and *Temporary Trade Barriers Database*. G20 emerging economies in this sample include Argentina, Brazil, China, India, Indonesia, South Africa and Turkey. See Bown (2013).

Implication: Exceptions are no longer **exceptional!**

What do Trade Agreements Offer?

1. Negotiations: Liberalization, Rules, but also Exceptions

Temporary Trade Barriers (TTBs)[†] have increased as applied tariffs have fallen...

Policy-imposing economy	Import Protection in 2012		Import Protection in 1998	
	Share of product lines covered by TTBs	Simple average MFN applied tariff	Share of product lines covered by TTBs	Simple average MFN applied tariff*
1 India	6.4	13.7	1.0	34.9*
2 Turkey	6.3	9.6	0.7	12.3
3 United States	5.5	3.4	4.4	6.0
4 Argentina	3.6	12.5	2.3	12.9
5 European Union	2.9	5.5	2.1	7.5
6 Peru	2.1	3.7	0.3	13.2
7 Brazil	1.9	13.5	0.9	14.6
8 Indonesia	1.7	7.0	0.2	9.5
9 China	1.4	9.6	<0.1	17.6*
10 Canada	1.2	4.3	1.9	4.8
11 Mexico	1.1	7.8	24.0	13.3
12 Colombia	1.0	8.8	0.3	11.7
13 Australia	0.9	2.7	0.5	5.3
14 Thailand	0.7	9.8	<0.1	16.9
15 South Africa	0.5	7.6	1.0	6.5*
16 South Korea	0.5	13.3	0.5	13.4
17 New Zealand	0.4	2.0	<0.1	4.4
18 Taiwan, China	0.3	6.1	0.1	9.0
19 Pakistan	0.3	13.5	<0.1	25.3*
20 Israel	0.3	5.7	0.3	6.5*

* Simple average MFN applied tariff for 1998 not available

Note: Non-oil imports only

What do Trade Agreements Offer?

1. Negotiations: Liberalization, Rules, but also Exceptions

Research to help us understand exceptions:

- *Question: does trade policy continue to be responsive to political-economic shocks once governments cut their import tariffs and legally bind them under a trade agreement?*

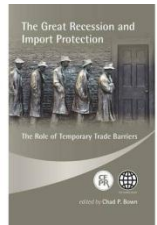
Yes, just under different policy instruments. Examples:

1. India: product level, 1990-2003 (Bown and Tovar, *JDE* 2011)
2. United States: sector level, 1997-2006 (Bown and Crowley, *AER* 2013)
3. Thirteen emerging economies: aggregate level, 1989-2010 (Bown and Crowley, *WBWP* 2013)

Implication: *Are there limits to international cooperation over trade policy?*

What do Trade Agreements Offer?

2. Transparency and the Ability for Monitoring



Example 1:

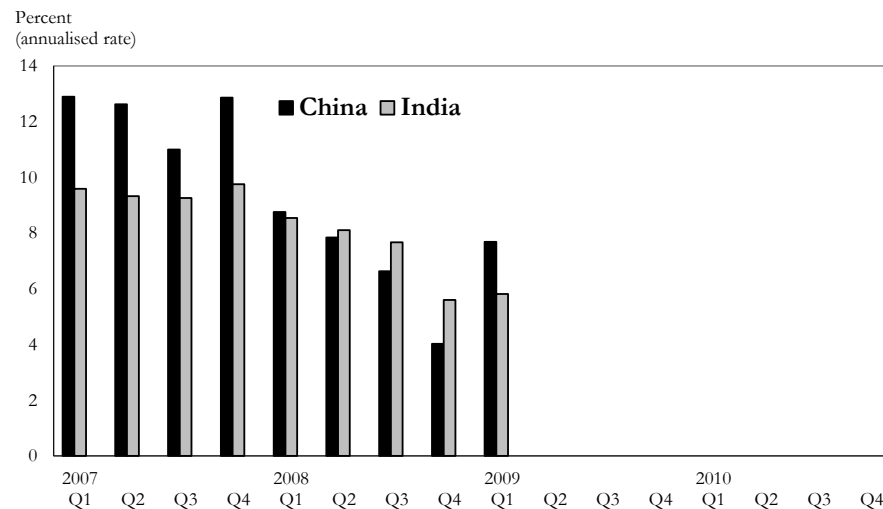
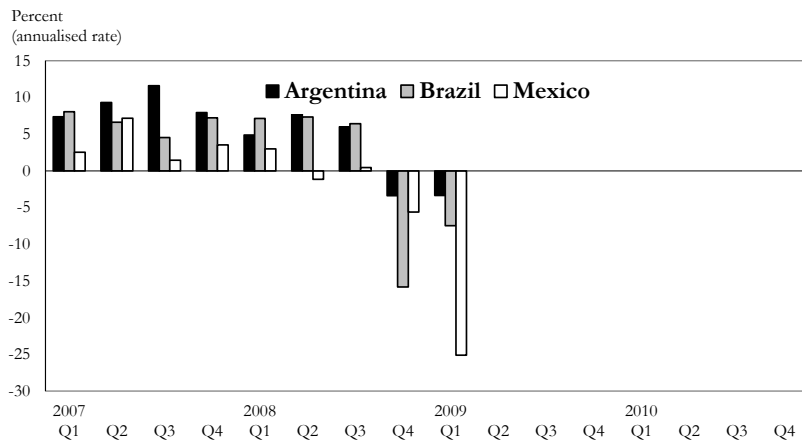
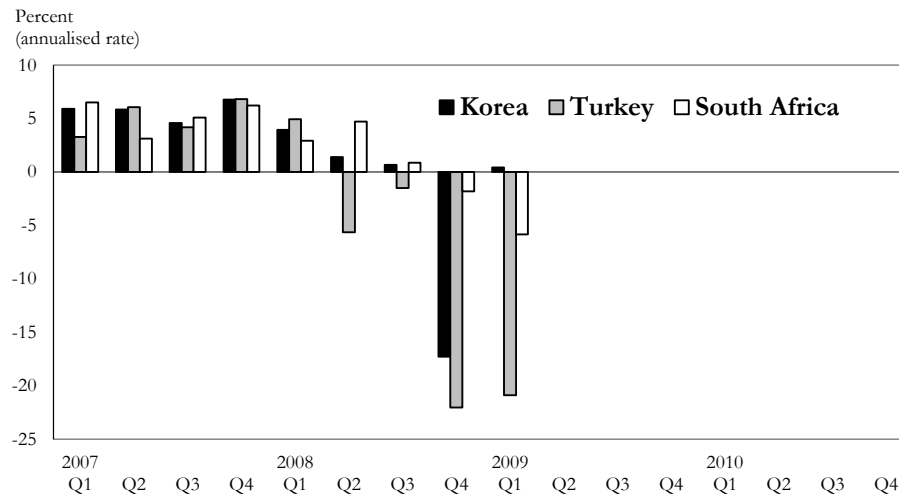
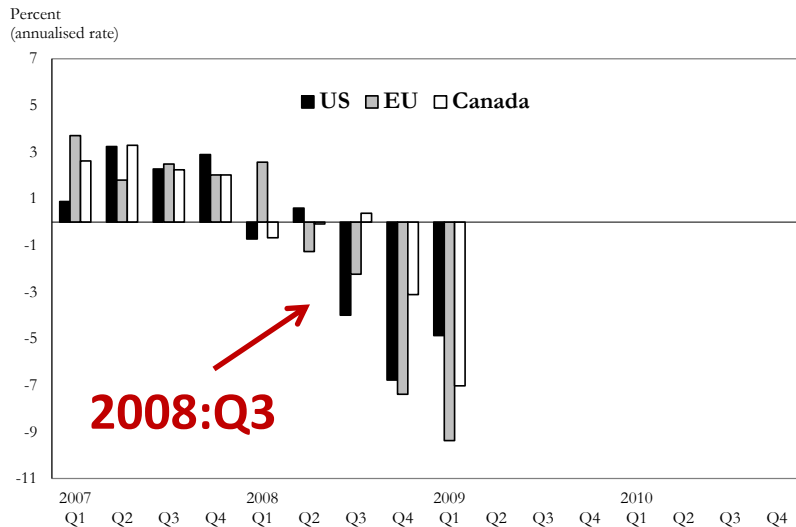
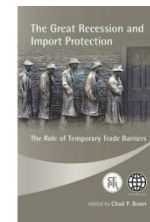
The Great Recession

What do Trade Agreements Offer?

2. Transparency and the Ability for Monitoring

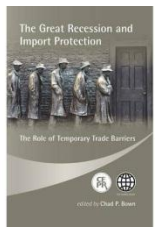
Example 1: The Great Recession

Macroeconomic Collapse: quarterly real GDP growth (annualized)



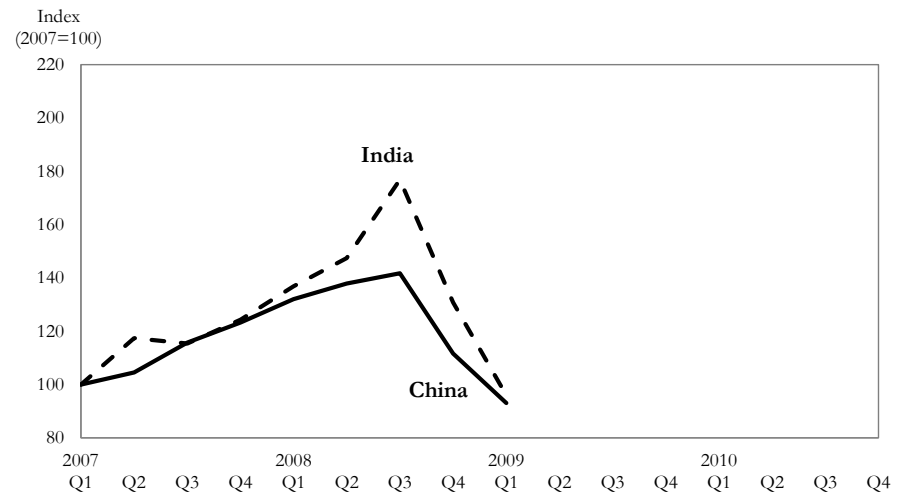
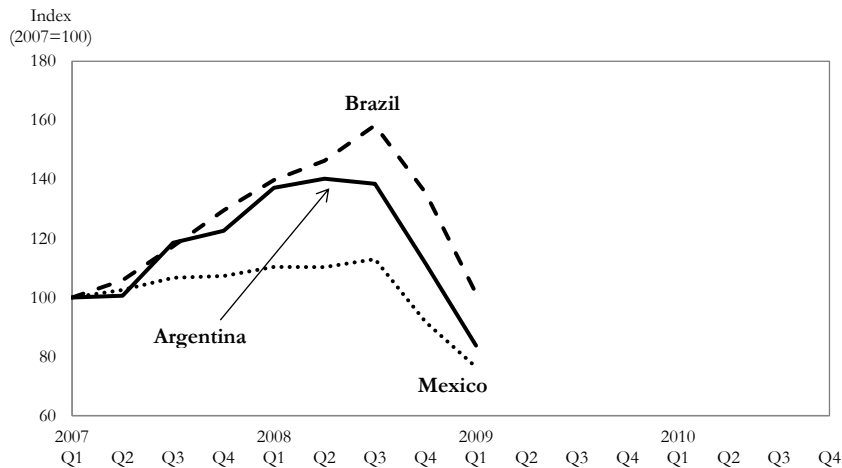
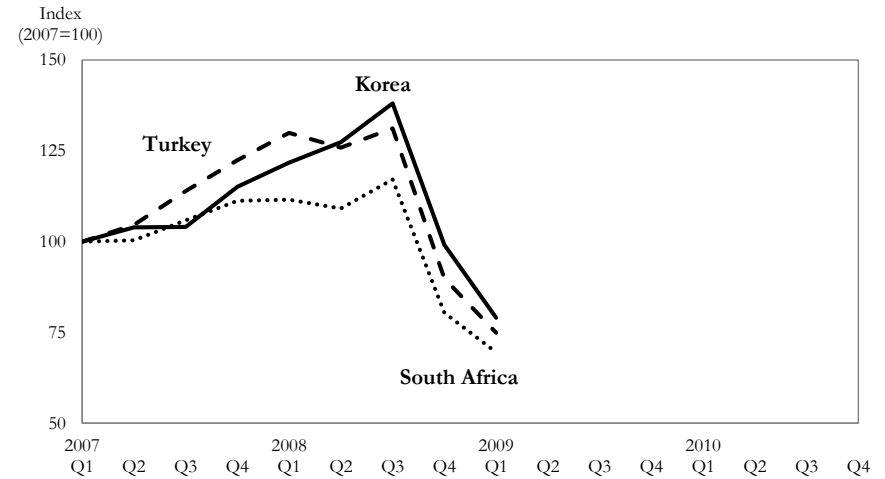
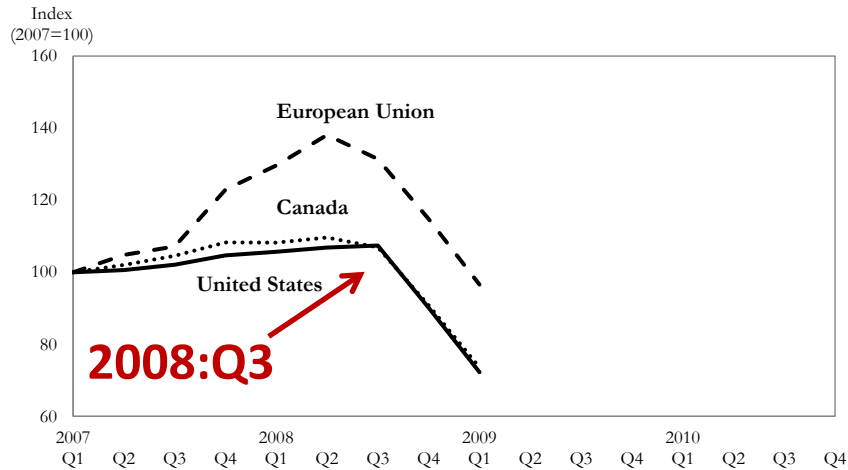
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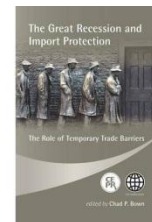


Example 1: The Great Recession

The Great Trade Collapse



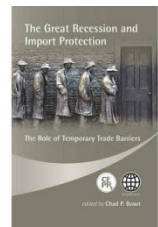
The Great Recession: Trade Policy Uncertainty



“We underscore the critical importance of **rejecting protectionism** and not turning inward in times of financial uncertainty. In this regard, within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing **World Trade Organization** (WTO) inconsistent measures to stimulate exports.”

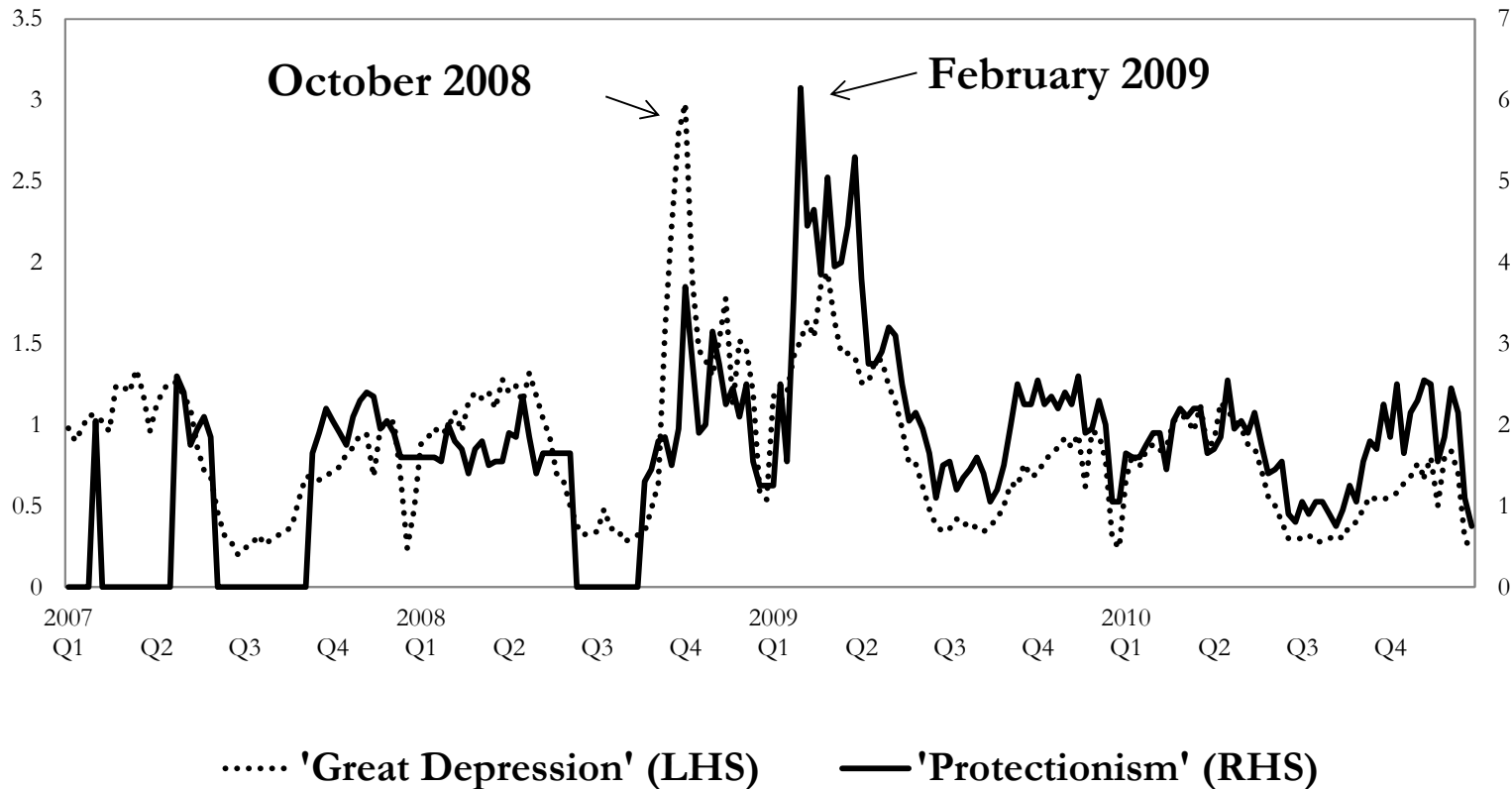
- *G20 Declaration, November 15, 2008, Washington, DC*

The Great Recession: Trade Policy Uncertainty



Google Search
volume index

Google Search
volume index



Source: Bown (CEPR/WB 2011) Figure 1.3

The Great Recession

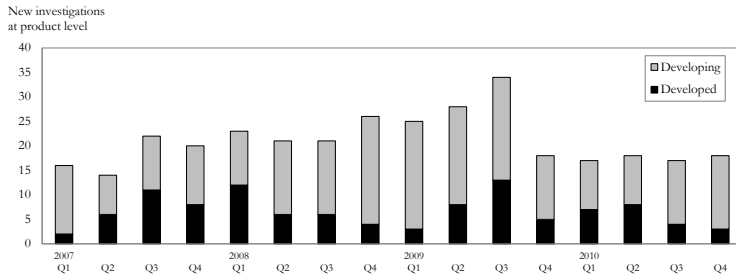
The World Bank's Provision of **Global Public Goods** and Real Time Trade Policy Monitoring

The screenshot shows the World Bank's website interface. At the top, there is a navigation bar with links for Home, Site Map, Index, FAQs, and Contact Us. Below this is a secondary navigation bar with categories like About, Countries, Data & Research, Learning, News, Projects & Operations, Publications, and Topics. The main header features the World Bank logo and the text "Trade and International Integration". A search bar is located to the right of the header. The breadcrumb trail indicates the current page is "Home > Data & Research > Research > Programs > Trade Research > Temporary Trade Barriers Database".

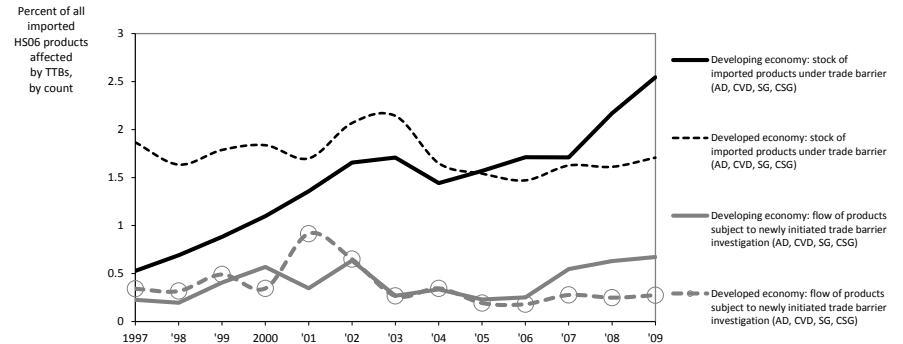
The main content area is titled "Temporary Trade Barriers Database". It includes a sub-header "Raw Data Files" with a list of databases: Global Antidumping Database (GAD), Global Countervailing Database (GCVD), China-Specific Safeguards Database (CSGD), WTO Disputes Database (DSUD), and Global Safeguards Database (GSGD). The main text describes the database as a freely available resource containing data on various trade barriers, including antidumping (AD), global safeguards (SG), China-specific transitional safeguard (CSG) measures, and countervailing duties (CVD). It mentions that the data covers over 95% of the global use of these instruments. A list of links is provided, including "Monitoring during the Global Economic Crisis", "Introduction and history", and "Working paper (PDF) describing data and sources".

On the left side, there is a vertical navigation menu with links for Home, About the Program, Subtopics, Publications, Core Team, Data & Statistics, Operational Support, Trust Funds, Trade Watch, Newsletter, Seminars, and Past Events. Below this menu is a "Site Tools" section with links for Site Map, Contact Us, Completed Projects, and Trade related terms.

The World Bank's Provision of Global Public Goods and Real Time Trade Policy Monitoring



Source: Bown (CEPR/WB 2011) Figure 1.5



Source: Bown (TWE 2011) Figure 4



Globalisation and trade

The nuts and bolts come apart

As global demand contracts, trade is slumping and protectionism rising

Mar 26th 2009

COMPARISONS to the Depression feature in almost every discussion of the global economic crisis. In world trade, such parallels are especially chilling. Trade declined alarmingly in the early 1930s as global demand imploded, prices collapsed and governments embarked on a destructive, protectionist spiral of higher tariffs and retaliation. Trade is contracting again, at a rate unmatched in the post-war period...



Protectionism Exposed

A new database tracks emerging threats to trade.

By CHAD P. BOWN, Aug. 5, 2009

In May, the United States slapped new tariffs on steel pipe imports from China. In June, China imposed new barriers on U.S. and European Union exports of adipic acid, an industrial chemical used to make nylon and polyester resin. In July, the EU also decided to restrict imports of steel pipe from China.

The important question now is, do these events foreshadow spiraling protectionism and tit-for-tat retaliation that threaten a global trade war? Or is trade policy always like this, and we're just noticing more now, given the global slowdown and heightened fears of Smoot-Hawley-style protectionism?



Obama must resist the anti-trade mobs

By Chad Bown, August 28, 2009

The Obama administration's first real test on trade policy has arrived. The US must decide whether to impose new import restrictions on Chinese tyres under what is known as its "China safeguard" law.

This decision is not just a test of President Barack Obama's support for free trade. History could well record it as the defining moment when the multilateral trading system was able – or not – to withstand the crisis-provoked protectionist forces that currently threaten to bring it down.

The World Bank-sponsored Global Antidumping Database suggests that, since the economic turmoil began, countries have been ganging up to use World Trade Organisation rules in an almost mob-like response to restrict imports from China. The tyres case could make this far, far worse...



Free-Trade Greenshoots

There are signs that governments are resisting the temptation to impose protectionist measures.

By CHAD P. BOWN, Nov. 18, 2009

For those who worry about a return of the Great Depression's high tariffs and trade wars, the last several months have been troubling. Figures from the World Bank's Global Antidumping Database released last month show that industry requests for trade barriers globally are up 30% this year to date compared to the same period last year. Yet along with this latest bad news come some trade-policy greenshoots that suggest the global economy may still stay on a protrade path...

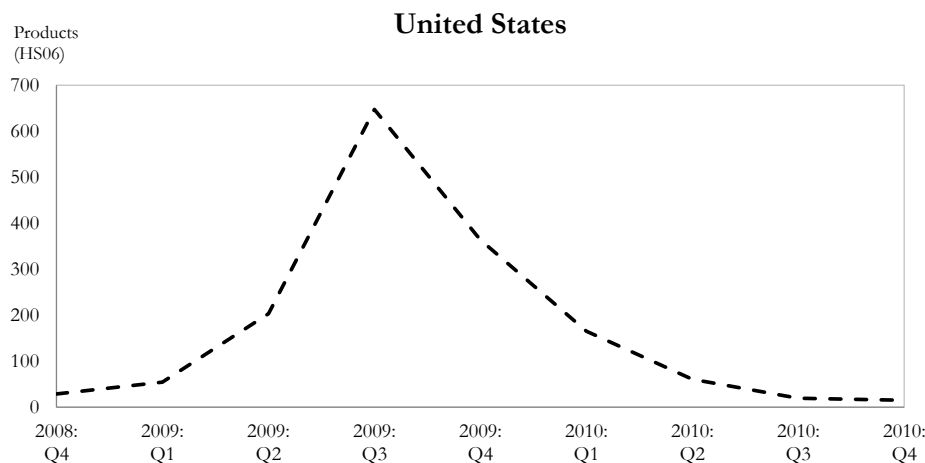
The Great Recession:

Research: Why was everyone worried about “protectionism” in 2008/9?

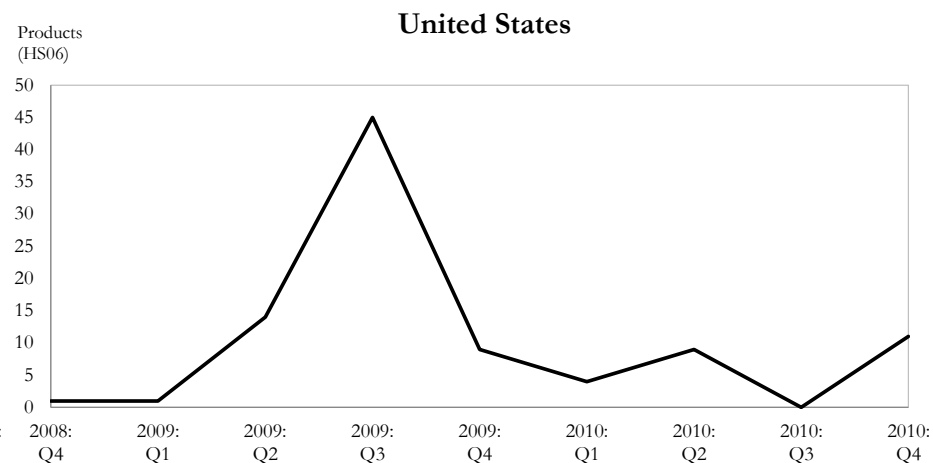
Predicted Import Protection
(based on historical behavior, 1989-2008)

vs.

Realized Import Protection
(based on the data)



-- Prediction from pre-crisis sample only (total products = 1558)



— Actual (total products = 94)

Source: Bown and Crowley (*JIE* 2013) Figure 4

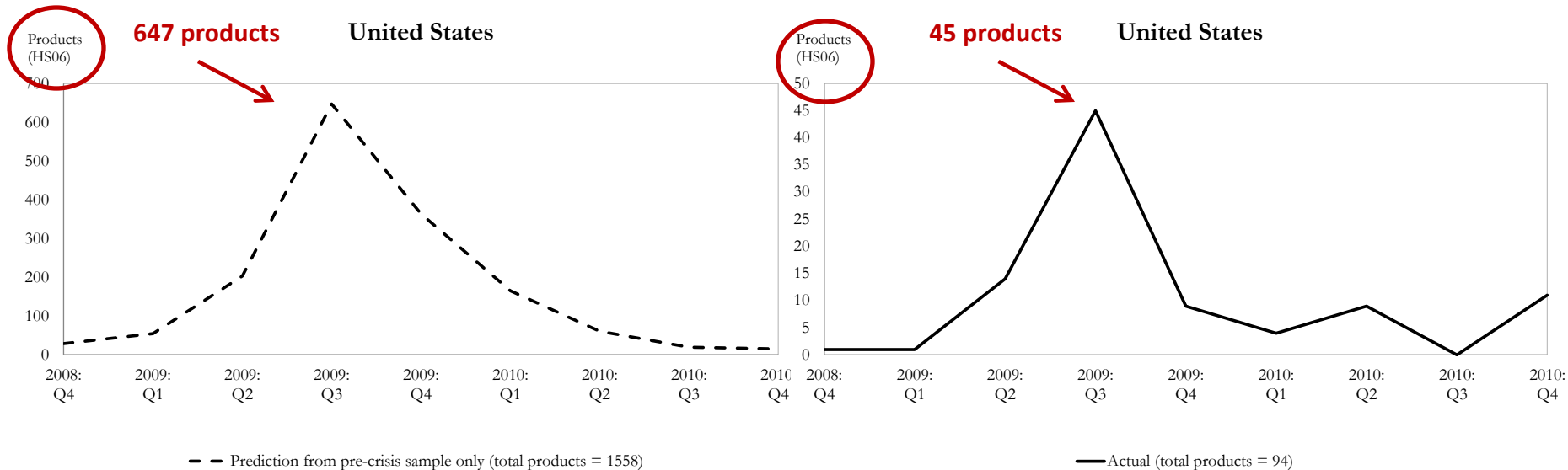
Our model gets the “timing” correct!

The Great Recession:

Why was everyone worried about “protectionism” in 2008/9? (cont.)

Predicted Import Protection
(based on historical behavior, 1989-2008)

vs. **Realized Import Protection**
(based on the data)



...just not the magnitude (oops)

Implication: Something *changed* during the Great Recession.

Why didn't more protection arise?

What do Trade Agreements Offer?

2. Transparency and the Ability for Monitoring

Example 2:

Which Exporters are adversely affected by the growing global use of TTBs?

What do Trade Agreements Offer?

2. Transparency and the Ability for Monitoring

Example 2: *Which Exporters are adversely affected by the growing global use of TTBs? (cont.)*

Exporting country	TTB-affected share of total exports in 2012 to...		
	...All countries	...High income economies	...Emerging economies
1 Turkmenistan	15.6	0.0	21.1
2 Moldova	9.2	11.0	0.0
3 Uzbekistan	7.3	0.0	9.6
4 Russia	4.9	6.1	3.5
5 Ukraine	4.5	6.0	1.9
6 South Korea	4.0	2.9	4.7
7 China	3.9	4.3	2.9
8 Thailand	2.5	2.7	2.2
9 India	2.4	3.6	2.0
10 Syria	2.4	0.0	7.0

Note: Non-oil exports only

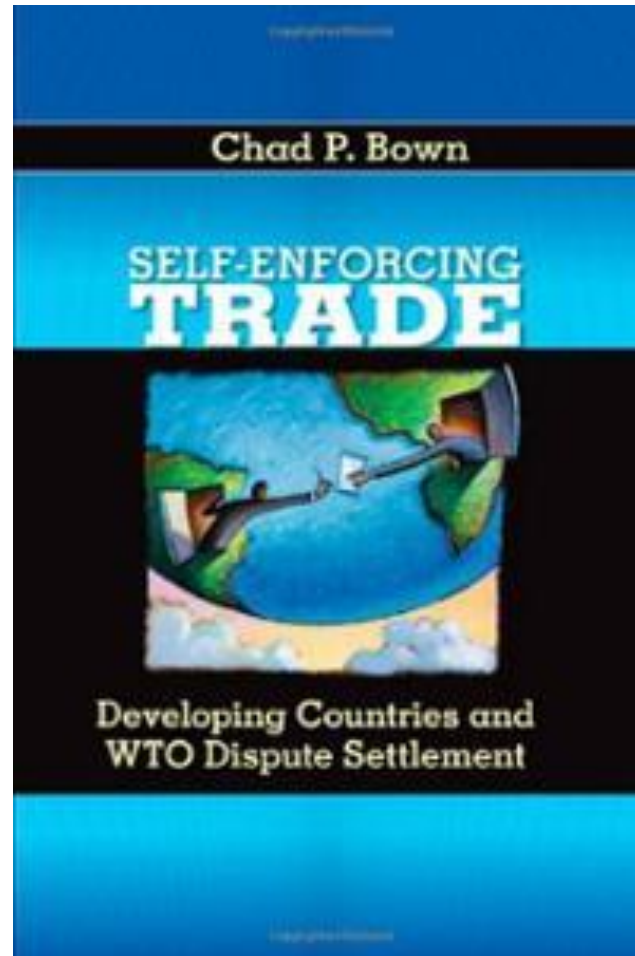
Exporting country	TTB-affected share of total exports in 2012 to...		
	...All countries	...High income economies	...Emerging economies
11 Kuwait	2.2	0.0	2.8
12 Vietnam	2.1	2.7	0.7
13 Mexico	1.7	1.9	0.3
14 Macedonia	1.7	1.8	0.0
15 Kenya	1.6	0.0	8.7
United Arab Emirates	1.5	4.4	0.3
16 Indonesia	1.5	1.0	2.1
18 United States	1.4	0.6	2.6
19 Kazakhstan	1.4	2.9	0.6
20 Armenia	1.4	1.5	0.0

Note: Non-oil exports only

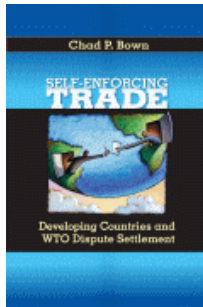
Source: updated from Bown (JWT 2013) Table 2

What do Trade Agreements Offer?

3. The Settlement of Disputes



3. The Settlement of Disputes



FINANCIAL TIMES

April 16, 2014 5:20 pm

Russia threatens US with WTO action over Crimea sanctions

By Kathrin Hille in Moscow and Shawn Donnan in London



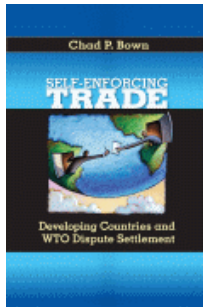
← No!!!

Russia has threatened to take the US to the World Trade Organisation over sanctions imposed in the context of the [Ukraine](#) crisis.

If Moscow went ahead, it would mount the first formal challenge to trade sanctions in the global trade body. Such a move would also add to [growing friction](#) between Russia and other WTO members less than two years into its membership of the trade club.

What do Trade Agreements Offer?

3. The Settlement of Disputes



Typical dispute involves a government offering too much import protection

- Unfortunately, not via something simple like a tariff increase...

Examples of (in)famous WTO disputes...

EC – Banana Regime

(US, Ecuador, Guatemala, Honduras, Mexico, Panama)



David Brown, 2011, *The Independent*

EC – Beef Hormones

(US, Canada)

EC – GMOs

(US, Canada, Argentina)



Dave Simonds, 2012, *The Economist*

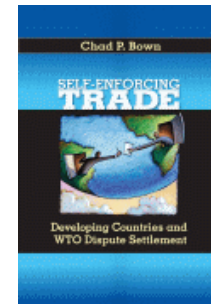
US – Steel Safeguards

(EU, Japan, Brazil, China, Korea, ...)



Chip Bok, October 2006

3. The Settlement of Disputes

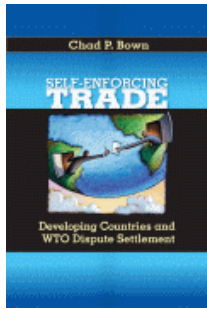


Recently initiated WTO disputes...

- **Russia** — *Recycling Fee on Motor Vehicles* (EU, Japan; 2013)
- **EU** — *Cost Adjustment Methodologies and AD* (**Russia**, 2013)
- **Pakistan** — *AD/CVD Investigations on Certain Paper Products* (**Indonesia**, 2013)
- **India** — *Measures Relating to Solar Cells and Solar Modules* (US, 2013)
- **Colombia** — *Measures on Textiles, Apparel and Footwear Imports* (**Panama**, 2013)
- **Peru** — *Additional Duty on Imports of Certain Agricultural Products* (**Guatemala**, 2013)
- **Ukraine** — *Taxes on Distilled spirits* (**Moldova**, 2011)
- **Moldova** — *Environmental Charge* (**Ukraine**, 2011)
- **Armenia** — *Measures Affecting Cigarettes and Alcohol* (**Ukraine**, 2011)
- **South Africa** — *AD on Frozen Meat of Fowls* (**Brazil**, 2012)
- **Turkey** — *Safeguard on Cotton Yarn* (**India**, 2012)
- **China** — *Measures Relating to Production/Export of Apparel/Textiles* (**Mexico**, 2012)

What do Trade Agreements Offer?

3. The Settlement of Disputes

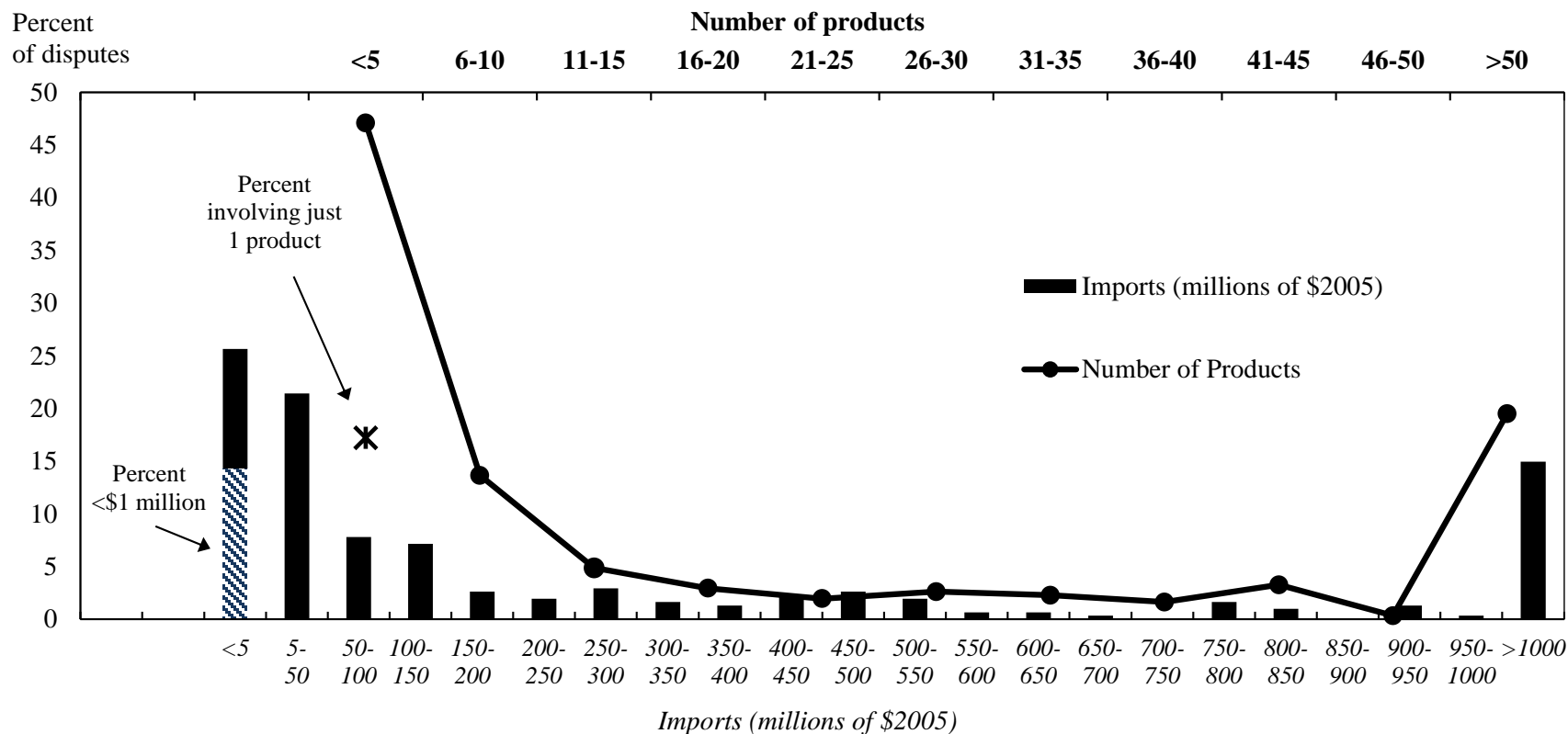


Why is a functioning dispute settlement system important for developing countries?

- Maintains **open** markets
- Encourages **rules-based** system
- **Contains the fallout**

Policy concern about access to this system for developing countries: **costs**

Research: How much “trade” are countries fighting over when they invoke WTO dispute settlement?



Source: Bown and Reynolds (2014) Figure 2

What do Trade Agreements Offer?

3. The Settlement of Disputes

Why is dispute settlement important to World Bank clients?

1. Trade flow changes and hence economic adjustment
2. Jurisprudence that affects domestic policymakers' access to "policy space"

Regarding 2., examples of legal-economic research assessing WTO legal rulings:

- *Dominican Republic – Safeguard Measures* (Costa Rica, El Salvador, Guatemala, Honduras)
- *Brazil – Retreaded Tyres* (EU)
- *EC – Steel Fasteners* (China)
- *Mexico – Olive Oil* (EU)
- *US– Softwood Lumber V/Zeroing* (Canada)
- *US – AD on Oil Country Tubular Goods/Sunset Reviews* (Mexico)

Implication: changing jurisprudence can affect how governments **maintain openness** if it alters the meaning of existing trade agreement commitments

How can World Bank research **help today's** trade policymakers?

-or-

How can we collaborate more effectively with policy makers to empower them to better **extract** the **benefits from international agreements?**

How can World Bank research help today's trade policymakers?

Liberia:

Diagnostic Trade Integration Survey (DTIS) Update 2013

Background evaluation

- Post-civil conflict, what has Liberia's trade policy been?

Prospective policy question of current interest

- What should be Liberia's long-term trade policy strategy?

How can World Bank research help today's trade policymakers?

Turkey:

Assessment of the Customs Union with the EU

Background evaluation: trade irritants

- Despite the EU-Turkey customs union, they do not have a perfectly synchronized trade policy, either toward each other or toward third countries

Prospective policy question of current interest

- Make political-economic sense of bilateral frictions, improve transparency, and reform institutions to maintain Turkey-EU cooperation

Conclusions/Lessons Learned/Going Forward

Can we push against the perceived limits of further international cooperation?

- Advising **trade** policymakers requires knowledge of law, economics, and politics
- Advising **domestic** policy makers requires knowledge of trade agreement commitments and obligations
- The future of trade policy is at its intersection with domestic (regulatory) policy – i.e., “**non-tariff measures**” (NTMs)
 - What are the economic efficiency motivations to negotiate cooperation and “deep” international agreements over NTMs – international externalities? Tying one’s own hands?
- Because evidence-based advice in this area is extremely limited, new **joint UNCTAD/DECTI non-tariff measure data collection project**