Issues of Manufactures Liberalization and Administered Protection in the Doha Round

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Abstract

This article focuses especially on the positions that the developing countries should take in their own interests on the issues of manufactures liberalization and administered protection. A series of recommendations are set forth with supporting argument: (1-2) for market access, both developed and developing countries should commit to reducing their most restrictive trade barriers, using a formula approach with limited exceptions; (3) negotiated tariff reductions should be phased in over a period of ten years in equal incremental installments; (4) adjustment assistance should be provided by a system of wage insurance and subsidized by transfers from developed countries; (5) the rules for safeguards, countervailing duties, and anti-dumping should be redrafted to focus their use on cases of legitimate economic justification and to discourage their use as protectionist devices; (6) the U.S. and EU should devise and implement a program of comprehensive but declining import restrictions on imports from China consistent with China’s terms of WTO accession and eliminated by 2008; (7) WTO rules governing Preferential Trading Arrangements should be revised to insure that they contribute to the liberalization and simplification of the multilateral trading system; (8) preference granting countries should provide assistance to countries experiencing the erosion of preferences due to multilateral liberalization; (9) the WTO system of dispute resolution should remain in place; and (10) special and differential assistance, if granted, should not exempt countries from the provisions for their own market liberalization.

Developing countries should participate actively and constructively in the negotiations to further their own interests. Developing countries may be at a disadvantage in the negotiating process, due to their resource limitations and inexperience in negotiations. Offsetting such disadvantages, however, are their large numbers and the compelling case for meeting their needs. What is needed is leadership and cooperation as for example with the Group of 20 and other coalitions together with a willingness to listen and be flexible on the part of their developed country counterparts.

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KEYWORDS: manufactures, Doha, WTO
INTRODUCTION

The Doha Round of multilateral trade negotiations in the World Trade Organization (WTO) has been billed from the start as the “Doha Development Agenda (DDA),” with the promise in the Doha Ministerial Declaration to “place [developing countries’] needs and interests at the heart of the Work Programme adopted in this Declaration.”\(^1\) The reason for this emphasis was in part the perception that previous rounds had neglected the interests of developing countries or, in the case of the Uruguay Round, had brought developing countries on board with promises that were misleading or not likely to be kept. After the December 1999 Seattle and the September 2003 Cancún Ministerial Meetings, in which negotiations foundered in part on the conflicting objectives of developed and developing countries, there is a question of whether and how the DDA negotiations will be able to achieve the objectives set forth in the November 2001 Doha Declaration especially from the standpoints of the developing countries.

In this article we address what we believe to be the most important issues in the Doha Round involving manufactures liberalization and administered protection. Our analysis and recommendations are based primarily on the understanding of the economics of international trade that has been developed over the last two centuries and is widely taught in the universities of the world, and also on the research in recent years dealing with specific aspects of trade negotiations in general and of the Doha Round in particular.

It is important to emphasize that developing countries are a diverse group, and that any change in policy may be beneficial for some of them while it hurts others. This is inevitable, and should be attended to by institutions other than the WTO that are capable of providing country-specific assistance. The WTO itself must provide a structure within which countries can prosper, and that is what our recommendations are directed toward.

Since our article is intended to be a quick and accessible read for those involved in or attempting to influence the negotiations, we present it in the form of recommendations, buttressed by only the briefest of explanations and references to the literature. Those who seek a more complete discussion can consult that literature. In our discussion to follow, we focus especially on the positions that we believe the developing countries should take in their own interests on the issues of manufactures liberalization and administered protection. We hope that, if the expressed intent of the Doha negotiations to foster economic development is more than window dressing, negotiators for the industrialized

\(^1\) WTO (2001, para. 2).
countries too will favor these positions, even when they may run counter to some of the domestic interests that they represent.

MARKET ACCESS

RECOMMENDATION 1: Both developed and developing countries should commit to reducing their most restrictive trade barriers, including the elimination of all quotas and the substantial reduction of their highest import tariffs, and also the rationalization of tariff escalation and rules of origin\(^2\) that are biased against developing country exports.

ARGUMENT: For various reasons the highest trade barriers that exist today are predominately on imports of the products most readily exported by developing countries, in particular apparel. Because these products tend to be labor intensive, such barriers undermine the ability of developing countries to pursue their comparative advantage as labor-abundant countries, thus adding to the already massive handicaps that these countries often bear. At the same time, the trade barriers in the developing countries themselves are often more restrictive than those in the developed countries and cover a much wider variety of products. These barriers also interfere with the abilities of the developing countries to trade with each other. And more importantly, they impose costs both on their own industrial users and on final consumers of these products. Like any meaningful liberalization, reducing these trade barriers will stimulate strong resistance in the countries that commit to do it. But efforts should be focused on overcoming that resistance, and perhaps on providing compensation to those domestic interests who will be hurt by it, rather than on resisting the liberalization itself. It is such resistance to liberalization that has led the world to its current regime of trade that, although it is liberal to an unprecedented degree, nonetheless remains restricted in those industries most important to the export success of developing countries.

RECOMMENDATION 2: Tariff cuts are best accomplished by means of a tariff-cutting formula that all countries apply in almost all sectors, with only a limited number of exceptions. Although the choice of formula is less important than the vigor with which it is applied, a formula that cuts large tariffs more than small ones has several advantages over a formula that cuts all tariffs equally. In

\(^2\) Escalation is the common pattern of higher tariffs on processed goods than on semi-processed goods and inputs, a pattern that creates effective protection on final goods that is higher than nominal protection and that makes it particularly difficult for developing countries to expand into final-goods production. Rules of origin are necessary in free trade areas (FTAs), in which the member countries retain different external tariffs, in order to determine whether a good qualifies for tariff-free treatment within the FTA. These rules take many forms and often discriminate against developing countries.
addition, some countries may want to completely eliminate those tariffs that are already very small, rather than just making them smaller, but that can be left to the discretion of countries to decide on their own and need not be incorporated into the formula.

ARGUMENT: The use of a formula for tariff cuts has become standard procedure in multilateral trade rounds ever since the membership in the GATT reached a point where exclusively bilateral negotiated tariff cuts, extended to others on a most-favored-nation (MFN) basis, became too cumbersome and tended to exclude those countries that were too small or too poor to attract others to negotiate with them. Given the particular need in the Doha Round to include developing countries in the tariff-cutting process, use of a formula is necessary.

The simplest formula would be a proportional cut in all tariffs by some percentage, and that would not be a bad thing, since it would move the world unambiguously in the direction of freer trade. However, a formula such as the Swiss formula from the Tokyo Round, which cuts large tariffs more than small ones, has certain advantages.\(^3\) One is that, for a given average tariff reduction, the formula reduces the dispersion of tariff rates across countries and sectors, and this is likely to be beneficial for country and world welfare. A second advantage is that the distortionary effect of a tariff tends to rise quadratically with its size, so that the welfare benefits of reducing large tariffs are larger than reducing small ones. And finally, a third advantage is that routine use of such formulae in trade rounds reduces the disincentive for countries to cut tariffs unilaterally between rounds.

Because the welfare costs of tariffs rise quadratically with their size, the welfare benefits of eliminating tariffs that are already very small are negligible. There is therefore no need for the multilateral system to require that such small tariffs be reduced to zero. But this ignores the administrative costs of administering tariffs, which for very small tariffs may be larger than the tariff revenue. It is therefore in the interests of countries even from the narrow perspective of their budgets to eliminate such tariffs. Because of this, it seems that the decision to do so can be left up to them.

IMPLEMENTATION

RECOMMENDATION 3: It is customary and appropriate to allow countries several years in which to implement any commitments they make that will entail difficulties of adjustment. This is true of tariff reductions, and may be especially so for developing countries that commit to significant reductions in their highest tariffs. A period of ten or even fifteen years to accomplish this adjustment would

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\(^3\) See Francois et al. (2004) for a more detailed discussion of alternative tariff cutting formulae.
not be excessive. However, it is essential that this not be simply a delay of tariff reductions, but rather an extended period during which tariffs are reduced regularly and predictably, so that markets may anticipate the needed adjustments and undertake them in advance. A simple scheme would require that all negotiated tariff reductions be phased over a period of ten years in ten equal incremental reductions.

ARGUMENT: Tariff reductions inevitably require some reallocation of resources out of the protected import competing sectors. This reallocation is both costly and painful, since it normally responds to market signals that reduce wages, employment, and profits of incumbent industries. By slowing this process down, some of the adjustment can be accommodated within the normal turnover of the industry, reducing some of these costs substantially. More importantly, when it is made clear well in advance that these adjustments will have to take place, workers and firms can redirect their energies toward expanding sectors and avoid some of these costs completely. But this requires that the tariff reductions be expected and believed.

A tempting option here is simply to postpone the tariff reductions in their entirety to the end of a phase in period, as was largely done, in effect, with import quotas in the Uruguay Round Agreement on Textiles and Clothing. The problem here is that, without experiencing any liberalization early in the phase in period, those who will be affected may come to doubt that adjustment will be needed, or even that tariffs will actually be reduced. By reducing them in equal increments throughout the phase in period, the realistic need for adjustment should become evident.

RECOMMENDATION 4: Some form of adjustment assistance should be provided to workers and firms in developing countries who are displaced by imports as a result of tariff reductions. A suitable program would consist of wage insurance, and should be subsidized by transfers from developed countries.

ARGUMENT: The need for adjustment assistance for workers and firms displaced by trade has been recognized in developed countries for several decades. The need is if anything greater in developing countries, where workers and firms have fewer resources of their own to serve as a cushion. The need is especially severe when the required adjustment includes relocation of workers from rural to urban areas. Trade adjustment assistance has a long but not very illustrious history in the developed world, where programs have more often helped workers to not adjust than to adjust, and programs in developing countries will need to avoid these pitfalls. The approach that is now most often recommended by economists, though so far seldom used, would be a system of wage insurance that temporarily replaces a portion of any decline in wages that a
trade-displaced worker experiences in moving into alternative employment. This will work within the manufacturing sector, but it will often not work for agricultural workers whose previous wage is difficult to ascertain. For the latter, wage insurance could be based on an assumed benchmark agricultural wage.

ADMINISTERED PROTECTION

RECOMMENDATION 5: The rules for administered protection – safeguards, countervailing duties, and anti-dumping – should be redrafted to focus their use on cases of legitimate economic justification, but to discourage their use as protectionist devices that limit market access.

ARGUMENT: It is widely acknowledged among economists that most if not all uses of anti-dumping laws, and many uses of safeguard and countervailing duty laws, are not justified by inappropriate or harmful behavior on the part of foreign exporters. Rather, these uses of administered protection have become the tools of choice for industries seeking protection for conventional (self-interest) reasons in a world where legislated protection is constrained by the GATT/WTO. Unfortunately, even though the amount of trade covered by actual administered protection is small compared to trade covered by MFN tariffs and other barriers, the threat of action under these laws is pervasive and affects trade much more widely. This threat, even where no actions are taken, discourages trade and fosters collusion among world suppliers, thereby reducing world welfare. Like so many trade barriers, the costs of administered protection may be especially severe for developing countries that are often its targets. These costs include not only the usual production and consumption costs of trade restrictions, but also the costs of participating in the legal proceedings involved. Even more unfortunately, the trend today seems to be for developing countries to enact such laws of their own, thus not only further restricting their own trade, but also wasting their own resources on the administration of these laws. Some means needs to be found to reverse this trend, perhaps by limiting the criteria in the WTO for action under these various forms of administered protection.

RECOMMENDATION 6: The U.S. and EU should devise and implement a program of comprehensive but declining import restrictions on exports from

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4 See Kletzer (2004).
5 Appropriate uses of these laws would include: facilitating adjustment to injurious import surges (safeguards); offsetting the distortionary effects of those subsidies that are not themselves corrections for market distortions (countervailing duties); and prevention of dumping that is plausibly predatory – that is, dumping intended to secure a dominant market position and permit later price increases (anti-dumping). See Deardorff (1987, 1989), and Finger and Zlate (2005).
6 See Deardorff and Stern (2005) for an “Introduction and Overview” to a symposium of papers marking A Centennial of Antidumping Legislation and Implementation.
China, consistent with the negotiated terms of China’s WTO accession and leading steadily and predictably to the elimination of these restrictions by 2008.

**ARGUMENT:** The negotiations of China’s WTO accession correctly anticipated that large trade flows might result and lead to market disruptions requiring some form of safeguards protection. What was not anticipated, it seems, was the suddenness with which trade would expand and the political and economic disruptions that would be caused, not just by the trade itself but also by the policy responses to it. This has been disruptive not just for China and the US/EU, but also for other developing countries whose exports compete with China’s. To minimize these disruptions and uncertainties, we recommend that policies be put in place that will be more predictable, so that both exporters and importers in all of these countries can go on about their business with greater confidence.

**PREFERENTIAL ARRANGEMENTS**

**RECOMMENDATION 7:** WTO rules governing the formation of Preferential Trading Relationships (PTRs) should be revised to insure that they contribute to the liberalization and simplification of the multilateral trading system.

**ARGUMENT:** Article XXIV of the GATT was drafted when PTRs were envisioned as a small number of largely isolated groups of countries, rather than the proliferation of overlapping free trade areas and customs unions that we see today. Free trade areas especially, with their complex rules of origin and with their tendency to be formed between pairs of countries, contribute to a trading system that discourages the multilateral sourcing of supply chains that constitutes much of the promise of modern technology and globalization. Furthermore, many PTRs today are negotiated in overlapping “hub and spoke” arrangements that limit trade among the spokes, and these spokes are most often occupied by developing countries, so that trade patterns among them are distorted. What is needed is an amendment to Article XXIV that would govern the expansion of the membership in these arrangements, as well as the relationships among overlapping PTRs, so as to assure that their proliferation moves the world toward, and not away from, more liberal world trade.7

**RECOMMENDATION 8:** Although it is hard to see how this can be a part of any multilateral agreement, countries that have granted trade preferences that are now being undermined by multilateral liberalization should recognize that they

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7 See Bhagwati et al. (1999) for several analyses of whether regionalism helps or hinders the progress toward multilateral liberalization. After comparing multilateral and regional liberalization scenarios, we – in Brown et al. (2003, p. 827) – conclude that “realisation of the very significant benefits of multilateral liberalisation may be jeopardized by pursuing these [regional] arrangements.”
have an obligation to assist those countries whose preferences are eroded. That assistance should be included in the programs of adjustment assistance discussed above, but the responsibility for funding that assistance should rest with the former preference-granting country.

ARGUMENT: Trade preferences extend the effects of tariff protection to suppliers in the preferred country, typically a neighbor state or former colony with a special relationship to the preference-granting country. The effect of extending that protection is to foster the existence and expansion of the protected industry, up to a level at which its costs are above comparable producers on world markets by the amount of the preference. That margin is an indication of how painful it will be for these suppliers when the preference is removed, but it is also a measure of how much demanders in the preference-granting country have been paying, implicitly, in subsidy to the favored producers. When multilateral tariffs are reduced and these preferences are eroded, the gain to these demanders and to their country is larger than this subsidy, and they should be able to provide at least this much to assist adjustment.

DISPUTE RESOLUTION

RECOMMENDATION 9: We recommend no changes in the WTO system of dispute resolution.

ARGUMENT: The system established in the Uruguay Round is far from perfect, and it is easy to cite aspects of it that do not work well. Numerous suggestions have been tabled that might improve it, and we are sympathetic to many of them. However, there does not yet seem to be anything close to a consensus in favor of any of these, and until there is, we favor leaving well enough alone. The WTO mechanism is certainly succeeding in one sense: countries are using it. And while they do not always abide by the decisions that emerge from that mechanism, the outcomes are respected in enough cases to sustain the system. Countries that ignore its rulings at least accept that they are in violation and may be the target of authorized retaliation.

SPECIAL TREATMENT

RECOMMENDATION 10: The Doha Round should provide “special and differential treatment” of developing countries, and especially of the least developed countries, but this treatment should entail assistance with bearing the costs and fulfilling the obligations of the agreement, not exemption from the provisions for their own market liberalization.

ARGUMENT: The phrase “special and differential treatment” in the old GATT too often meant exempting developing countries from liberalizing their own trade. The phrase appears again in the Doha Declaration, though without
specifying what it will mean in this case.\textsuperscript{8} It is to be hoped that, this time around, it will not mean continued protection, but rather acknowledgement of the adjustment costs of liberalization and a plan to provide assistance with bearing those costs. Such assistance is likely to include longer periods of time to comply with WTO rules, but it must also include financial and technical assistance.

CONCLUSION

This article has touched only on what we take to be the major issues affecting developing countries in the Doha Round, and then only with regard to manufactures liberalization and administered protection. There are many other issues of importance to them, and the issues addressed here also involve many details that we have not been able to include. It is essential that developing countries participate actively and constructively in the negotiations to further their own interests. They cannot rely on the best intentioned developed countries to do this for them, since these countries will inevitably find themselves making compromises in favor of their own interests and in response to powerful pressures from their constituents. Developing countries are at a disadvantage in the negotiating process, due to their resource limitations, and in many cases due also to their inexperience in negotiations. Offsetting these disadvantages, however, are their large numbers and the compelling case that can be made for meeting their needs. What is needed is leadership and cooperation on their part, and a willingness to listen and be flexible on the part of their developed country counterparts.

With regard to the former, we find encouraging the emergence at Cancún of what is now called the Group of 20 developing countries, even though it may have contributed at the time to the collapse of the negotiations. With regard to the latter, it is also encouraging that the U.S. and EU, in the two years since the Cancún impasse, have agreed to some of the steps that they resisted at that time. Further progress will require that both groups, the developing countries very definitely included, be willing to back off from positions on which they have, until now, been intransigent.

REFERENCES


\textsuperscript{8} WTO (2001, para. 44).


