

WTO Accession and Trade Policy Uncertainty

Seminar on WTO Accessions Rules, February 5, 2019



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Part 0 : Brexit

Trade Policy Uncertainty

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Part 1 :
Trade Agreements and Policy Uncertainty

Economic Rationale for Trade Agreements

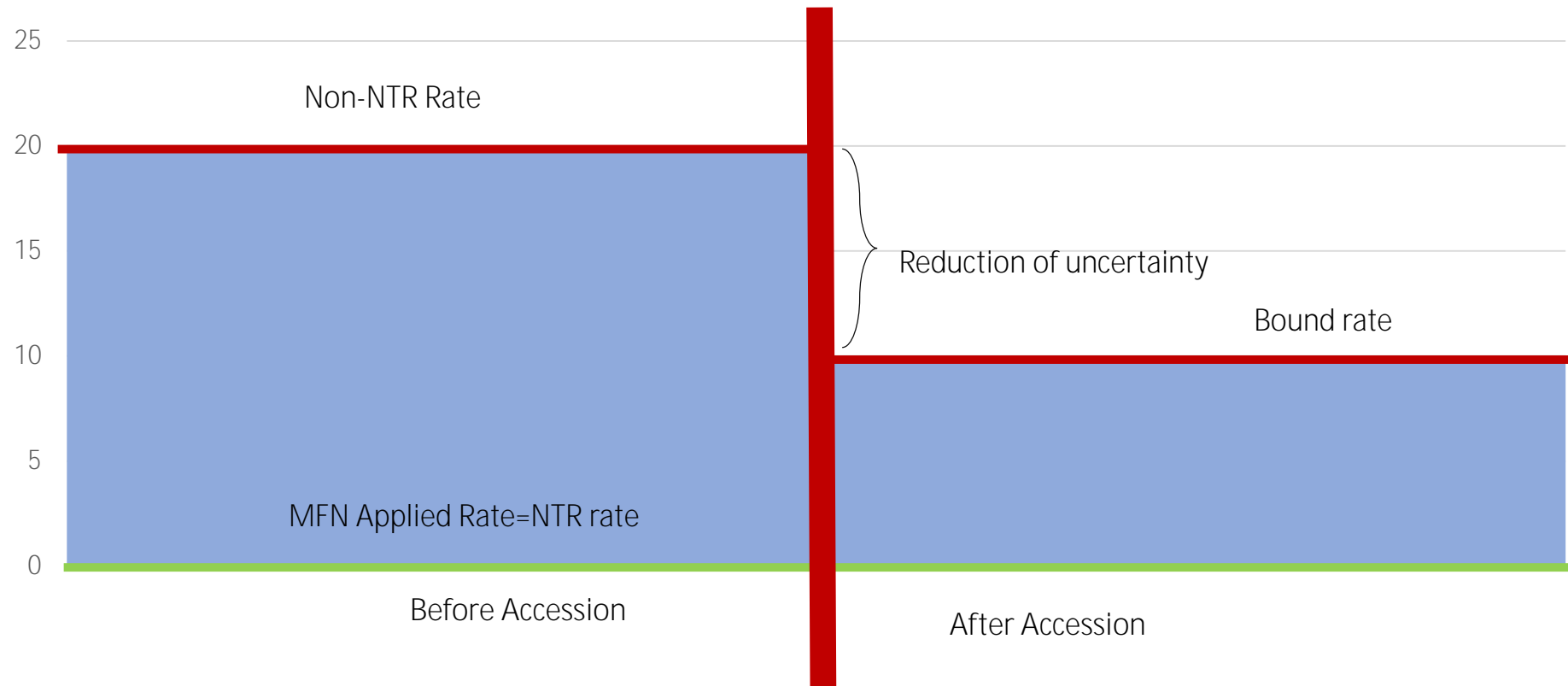
1. The terms-of-trade externality. Agreement neutralises effect of unilateral trade policies on world price (Bagwell and Staiger 1999, 2002).
2. Firm relocation externality (Ossa 2011).
3. Reduction of trade policy uncertainty externality (Limão and Maggi 2015).
4. Commitment motive. Being able to credibly commit to a policy despite future domestic pressures. (Maggi and Rodriguez-Claire 1998).

Reducing uncertainty

- How do bindings reduce uncertainty?
- What is the cost of uncertainty?

How do binding reduce uncertainty?

Example: China's accession to WTO and the Permanent Normal Trade Relations



What is the cost of uncertainty?

IHS-Markit global PMI new export orders, Jan. 2010-Mar. 2018
(Index, base=50)



Note: Values greater than 50 indicate expansion while values less than 50 denote contraction.

Source: IHS Markit.

Since raising tensions among major

- An index of export orders has fallen from 54.1 in January to 50.9 in April
- An index of policy uncertainty based on news has risen to 154.9 in April from 110.2 in January. (Baker, Bloom, and Davis, 2016)

What is the cost of uncertainty?

- Why uncertainty about trade policy can have trade effects?
 - Firms worldwide report that policy uncertainty is a top constraint in doing business (World Bank Development Report 2005).
 - It leads investors and traders to delay investments and other trading decisions (Bernanke 1983, Dixit 1989).
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investments but is faced with uncertainty.
 - Extensive or Intensive margin?
 - Investment to enter a new market
 - Investment to upgrade capacity, investment by more firms to enter the market
- Economists estimates significant effects on trade
 - Osnago et al. (2018) show that the current system of commitments boosts trade by between 10 and 30 percent, compared with a world where at any moment tariffs could be raised to an arbitrarily high level (prohibitive level).

Trade Policy Uncertainty

Kyle Handley (2011, 2014) shows that in an environment where trade policy reacts to shocks, the establishment of WTO binding commitments, even if they are set at levels above the applied MFN tariffs

Examples of Uncertainty Reductions

Handley (2014)

Part 2 :
Measuring Trade Policy Uncertainty
Reduction due to WTO Accession

Bindings Create Policy Certainty

A Definition

- Uncertainty faced by an exporting firms has two components:
- 1. Likelihood tariffs in destination increase (range: 0-1)
- 2. If they increase, range of possible future tariffs (range: 0-max)
- max = binding in trade agreement OR prohibitively high (no trade)
- Pre-accession = prohibitive / prohibitive = 1
- Post-accession = bound / prohibitive = from 0 to 1
- At product level, TPU reductions not correlated with tariff reductions

Definition:

Prohibitive Tariff = $\text{Tariff} + (1 + \text{Tariff}) / \text{Import Demand Elasticity}$
(Nicita, Olarreaga, Silva, 2018)

Import Demand Elasticity data from Kee,

MEMBER	Average Prohibitive Tariff
China	191
Chinese Taipei	160
Estonia	124
Latvia	358
Mongolia	131
Nepal	178
Russian Federation	219
Saudi Arabia	185
FYR Macedonia	178
Ukraine	317

China	2001	86.1
Chinese Taipei	2002	92.4
Estonia	1999	87.4
Latvia	1999	89.7
Mongolia	1997	84.3
Nepal	2004	75.7
Russian Federation	2012	85.9
Saudi Arabia	2005	76.9
FYR Macedonia	2003	92.8
Ukraine	2008	92.8

Source: WTO IDB and Historic Bindings Database

Note: Data on import demand elasticity limits the number of members listed above.

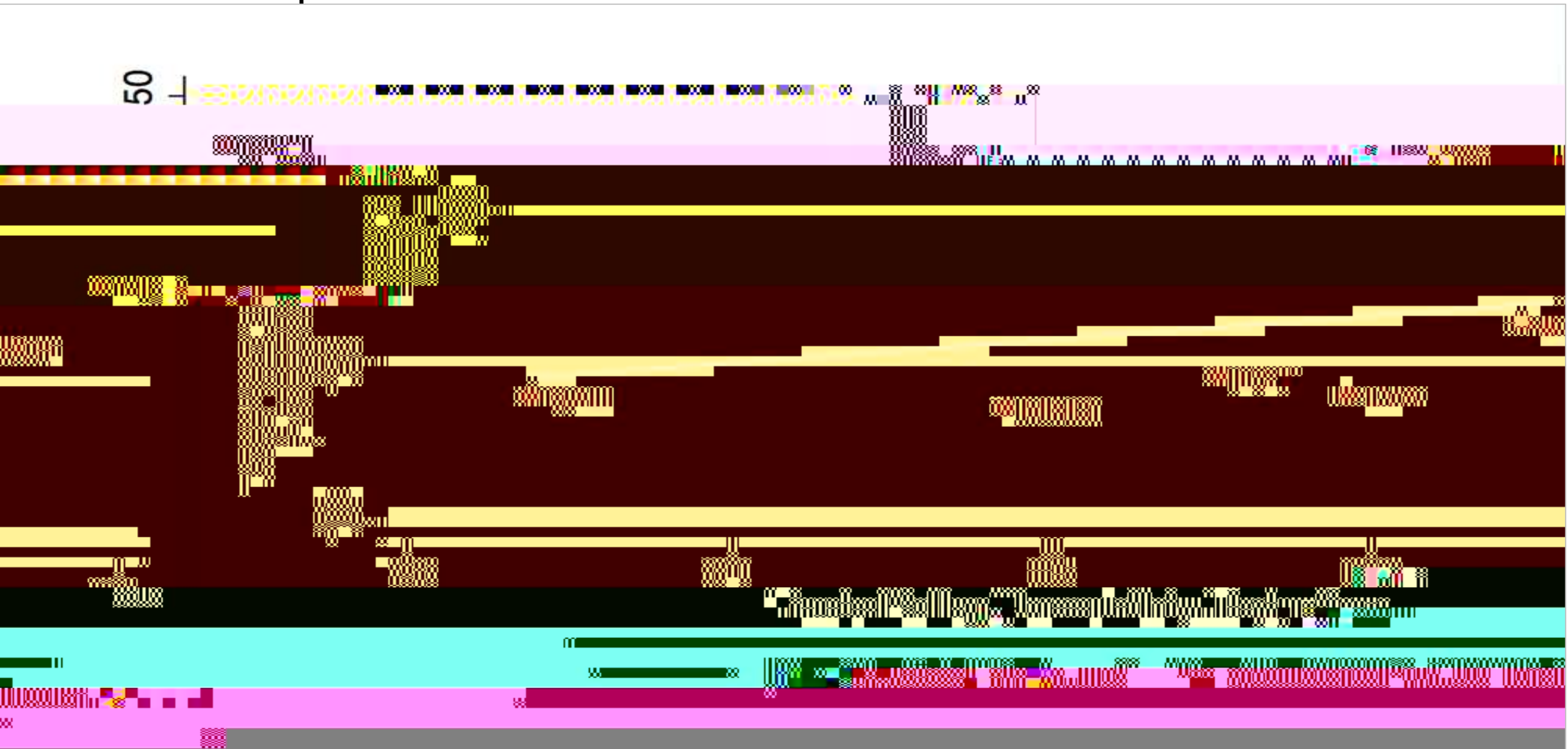
Table 1: Reduction in trade policy uncertainty faced following WTO Accession

Partner	Reference Year	Trade Policy Uncertainty (TPU) Reduction
Australia	2000	81.9
Canada	2000	91.3
Japan	2000	89.4
United States of America	2000	90.7

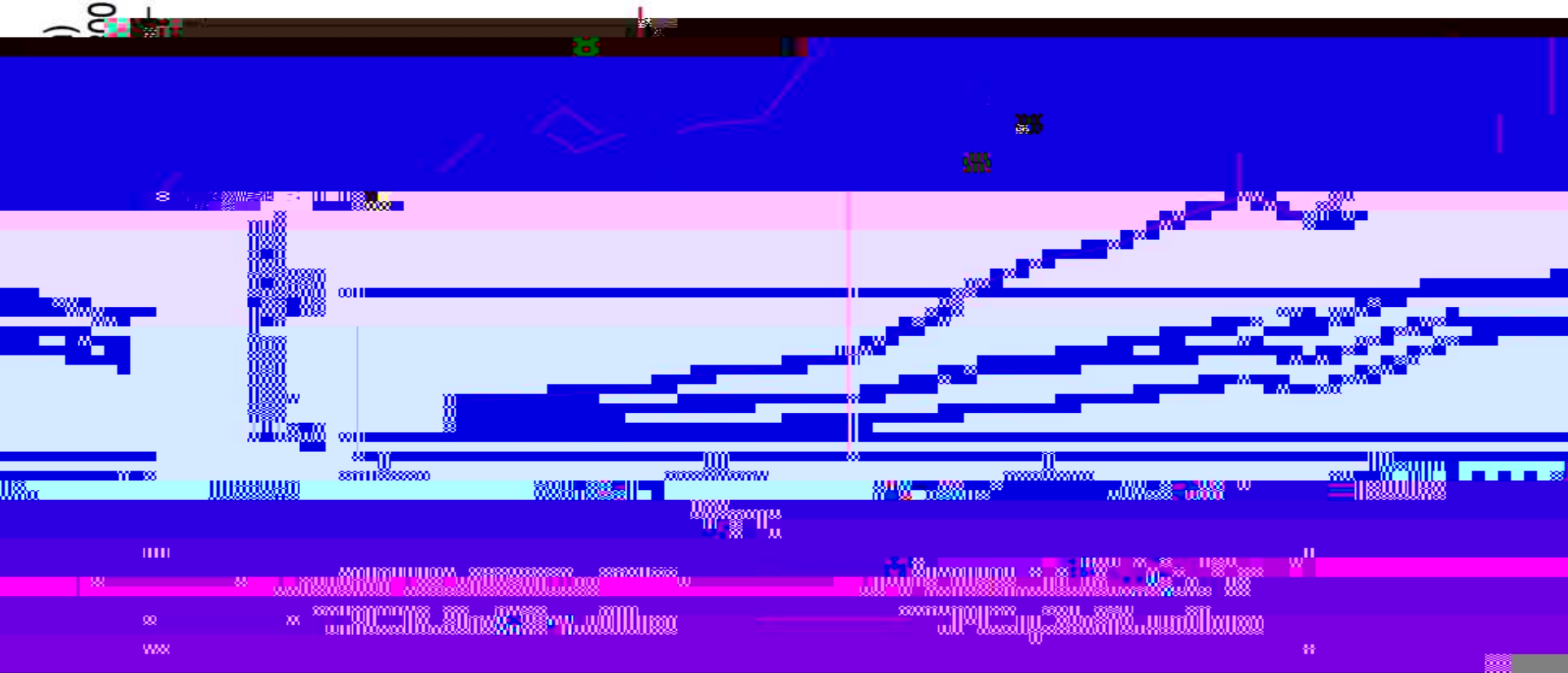
Part 3 :
TPU and Exports to Acceded Members

Exports to Acceded Members Have
Increased Post-Accession

Export Growth is Correlated with TPUR



Also at the product level

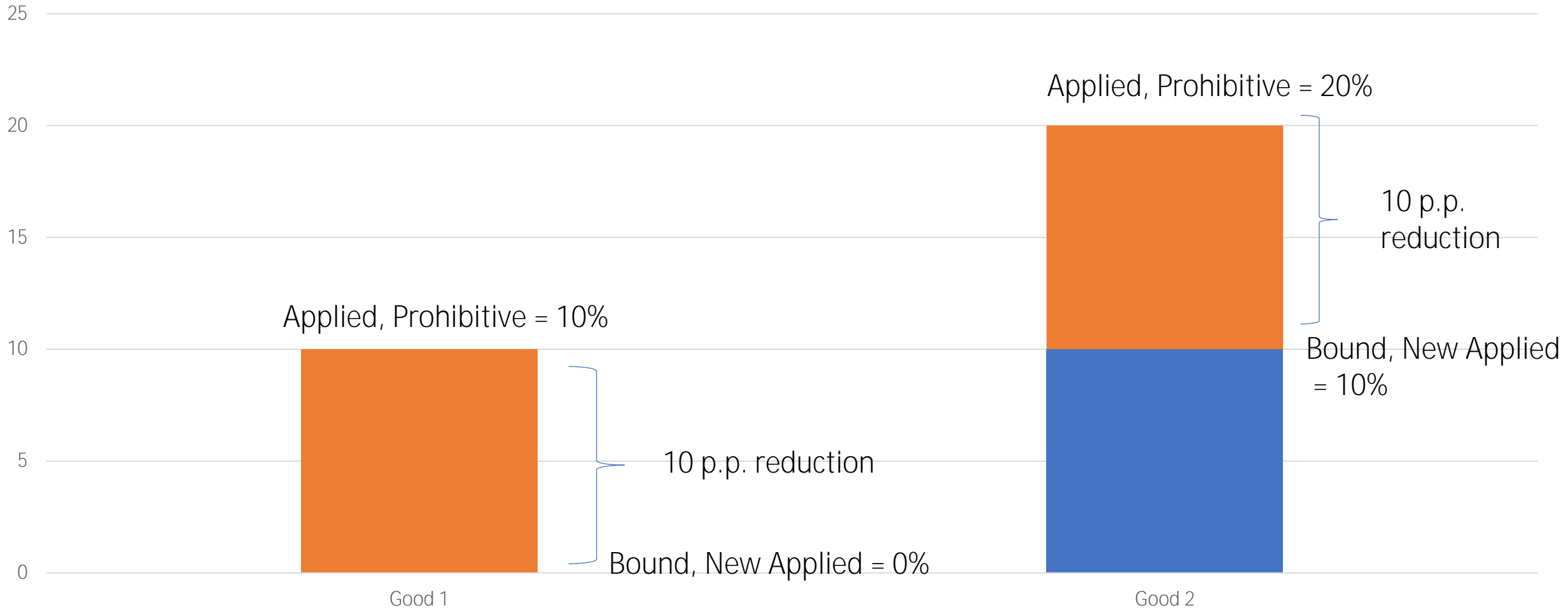


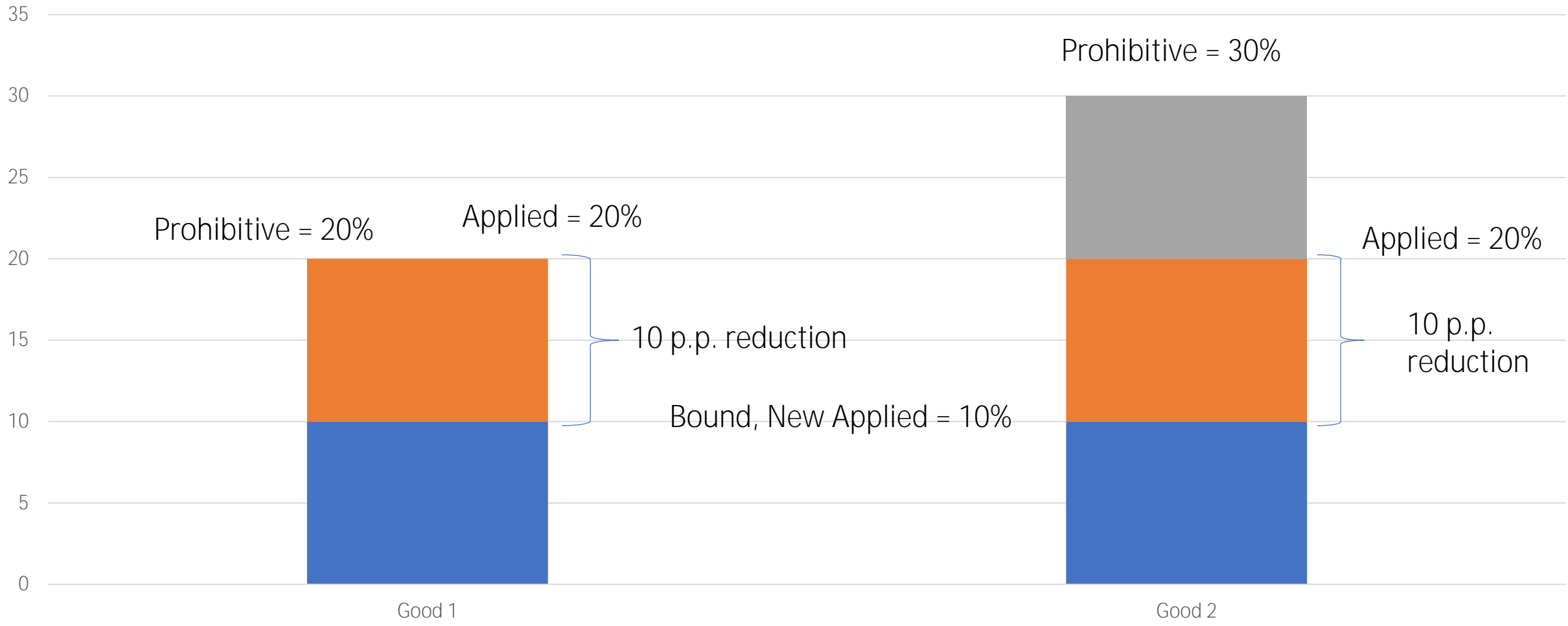
Thank you for your attention!

Comments, Questions?

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Appendix





Prohibitive = 20%

Applied = 20%

10 p.p. reduction

Bound, New Applied = 10%

Prohibitive = 30%

Applied = 20%

10 p.p. reduction

Good 1

Good 2

