Quantifying GATT Trade Liberalization

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Motivation

Large-scale tariff reductions within the framework of the General Agreement on Tariffs and Trade (GATT) have come as a result of a series of eight rounds of negotiations that began in 1947. Most of the literature that attempts to understand this phenomenon is theoretical,[1] in large part because data availability has been a major barrier to empirical research on this massive dismantling of trade barriers. Bown and Irwin (2017) have documented the available data, finding it to be frustratingly sparse. They find data on the tariffs that are actually charged at the border—i.e. applied tariffs. These are at most disaggregated to the level of ten broad sectors.

As little as we know about applied tariffs in this context, we know even less about the negotiated tariff bindings. Somewhat surprisingly, data on the tariff commitments made by the GATT signees has not been widely available, preventing empirical studies on the workings of the GATT and the dynamics of this important episode of trade liberalization. One notable exception [**add here on Bagwell, Staiger and Yurukoglu**].

Both having more industrial detail about tariffs and having this detail on the negotiated tariffs is important. First, the negotiated tariff commitments allow us to study the political constraints that led to the GATT agreements. The negotiated tariffs are the cleanest data that exist for all negotiating parties since they are not complicated by the various processes that determine applied tariffs. Second, often the most important object in terms of policymaking is the gap between the negotiated tariff and the applied tariff, the so-called "water" in the bindings [**Add citations here–Kuenzel, Pelc, Busch**]. Even if we know what the applied tariffs were, we can't know how much water is in the bindings if we don't also know the negotiated tariff caps.

[1]See, for instance, the literature that seeks to explain the gradual nature of this liberalization, e.g. Devereaux (1997) and Chisik (2003) who focus on exporters; Mussa (1986), Staiger (1995) or Mehlum (1998) on the import-competing story; or Zissimos (2007) on the role of the 'withdrawal of equivalent concessions' rule.

What we do

We have been able to locate the original documents that contain the consolidated GATT tariff schedules at the end of each of the nine round of negotiations.[2] To date, we have digitalized and standardized the tariff data for the United States for the first five GATT rounds for the United States. We have done the same for the tariff schedule that was in effect before the start of the GATT—the so-called Smoot Hawley tariffs.

Work is underway to add the Kennedy, Tokyo and Uruguay rounds for the U.S. and all rounds for several other countries. Our preliminary findings reported herein are for the U.S. data on Smoot Hawley tariffs through the Dillon round. In standardizing the tariff lines across rounds, we end up 2972 lines.

Results

We find that from the Smoot-Hawley tariffs in 1930 to the last phase in of the Dillon Round in 1964, both specific and *ad valorem* tariffs were cut roughly in half. The mean *ad valorem* tariff binding decreases from 38.6% in 1930 to 19.1% in 1964. For *ad valorem* tariffs the medians are quite close to the means: the median drops from 35% to 15%. *Ad valorem* tariffs cover roughly two-thirds of tariff lines.

Things look a bit different for specific tariffs. The mean specific tariff binding decreases from 47.68 cents in 1930 to 24.4 cents in 1964, while the median bindings are much smaller, dropping from 6 cents to 3 cents. Specific tariffs are present for roughly half of tariff lines. About 450 lines have both an *ad valorem* and specific tariff in a given round.

In terms of the time pattern of liberalization, we can confirm a well-known stylized fact: the largest proportional cuts took place between the Smoot-Hawley tariffs and the first round of the GATT in Geneva: average tariffs, both specific and *ad valorem*, were reduced by about 30%. From Geneva I to Annecy, the reduction in means was much smaller at about 4% with the reduction in medians being about 10%. Annecy saw small tariff cuts on average in large part because this round was focused on accession: countries like the United States that had joined in Geneva only negotiated with those countries that were newly acceding in the Annecy Round.

In percentage terms, the Torquay round saw cuts about half the size of those in Geneva 1947. Geneva 1956 saw percentage cuts closer to those in Annecy, and for the first time these were phased in–over three years in the case of Geneva 1956. The cuts in tariff averages in the Dillon round were once again about 10%, but the median for specific tariffs did not decrease while the median *ad valorem* tariff decreased by about 15%.

These headline numbers hide important variations in magnitude and speed of liberalization across types of products. This will be explored in detail in the paper, but a few interesting details are in order here.

[2]**Some of these were digital copies, and some we could find only in hard copy.**

2. Which products/industries suffer from large tariff cuts and which industries/products continue to receive protection?

3. Were tariffs cut gradually across the board, or was there variation in the speed with which tariffs were cut across products? If there is variation, can we find an explanation for that variation?

4. Which types of products had ad-valorem versus specific tariffs, and how did this change over time? What role did the presence of specific tariffs, combined with inflation, have in reducing the total level of tariff protection?

References

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