

WHEN TRADE AS AID ISN'T: GSP, THE GATT/WTO AND TRADE

Jennifer L. Tobin and Marc L. Busch

Georgetown University

*Presentation at IPES
November, 2014*

DOES MEMBERSHIP IN THE WTO INCREASE TRADE?

- Rose (2004): NO
- Tomz, Goldstein and Rivers (2007):
 - ▶ YES, but it depends on the type of membership
- Subramanian and Wei (2007): Depends on income status
- ...

⇒ WTO → Makes GSP nondiscriminatory
→ Perverse effect of GSP
→ Undermines benefits of WTO

DOES MEMBERSHIP IN THE WTO INCREASE TRADE?

- Rose (2004): NO
- Tomz, Goldstein and Rivers (2007):
 - ▶ YES, but it depends on the type of membership
- Subramanian and Wei (2007): Depends on income status
- ...

⇒ WTO → Makes GSP nondiscriminatory
→ Perverse effect of GSP
→ Undermines benefits of WTO

DOES MEMBERSHIP IN THE WTO INCREASE TRADE?

- Rose (2004): NO
- Tomz, Goldstein and Rivers (2007):
 - ▶ YES, but it depends on the type of membership
- Subramanian and Wei (2007): Depends on income status
- ...

⇒ WTO → Makes GSP nondiscriminatory
→ Perverse effect of GSP
→ Undermines benefits of WTO

DOES MEMBERSHIP IN THE WTO INCREASE TRADE?

- Rose (2004): NO
- Tomz, Goldstein and Rivers (2007):
 - ▶ YES, but it depends on the type of membership
- Subramanian and Wei (2007): Depends on income status
- ...

⇒ WTO → Makes GSP nondiscriminatory
→ Perverse effect of GSP
→ Undermines benefits of WTO

DOES MEMBERSHIP IN THE WTO INCREASE TRADE?

- Rose (2004): NO
- Tomz, Goldstein and Rivers (2007):
 - ▶ YES, but it depends on the type of membership
- Subramanian and Wei (2007): Depends on income status
- ...

⇒ WTO → Makes GSP nondiscriminatory
→ Perverse effect of GSP
→ Undermines benefits of WTO

PRIMER ON GSP

- New Delhi 1968
 - ▶ Extant nonreciprocal trade preferences were discriminatory
- 23 GSP program by 1976
- 1979: GATT's Enabling Clause

- Perversity of GSP: GSP undercuts free trade in developing countries because it leaves them politically vulnerable to protectionism.

GSP AND NON-DISCRIMINATION

- GSP not a legal obligation
- Conditional
 - ▶ Commercial
 - ▶ Political
- US GSP Suspension:
 - ▶ Workers Rights: Nicaragua (1987), Paraguay (1987), Romania (1987), Chile (1988), Sudan (1991) and Belarus (2000)
 - ▶ IPR Violations: India (1992), Argentina (1997) and Ukraine (2001)
 - ▶ Noncompliance with arbitration settlement: Argentina (2012)

TRADE POLITICS UNDER A NONDISCRIMINATORY GSP

- WTO Membership
 - ▶ Gives recipients a say in GSP's rules (enabling clause)
 - ▶ Offers access to informal and formal dispute settlement.
- GSP is nondiscriminatory, but only for members of the WTO

TRADE POLITICS UNDER A NONDISCRIMINATORY GSP

- WTO Membership
 - ▶ Gives recipients a say in GSP's rules (enabling clause)
 - ▶ Offers access to informal and formal dispute settlement.

- GSP is nondiscriminatory, but only for members of the WTO

HYPOTHESIS

⇒ The marginal effect of WTO membership on trade flows will be lower for GSP recipients than for non-GSP recipients

RESEARCH DESIGN

- Model
 - ▶ Traditional Gravity Model of Trade (directed dyads)
- Dependent Variables
 - ▶ Imports into, and exports from, GSP-eligible countries
- Independent Variables
 - ▶ WTO
 - ▶ GSP
 - ▶ $WTO * GSP$

DIRECTED DYADS-EXPORTS

Model	Dyad Fixed Effects	Country Fixed Effects	Random Effects
GATT/WTO	0.172*** (0.012)	-0.132*** (0.017)	0.175*** (0.012)
GSP	0.184*** (0.024)	0.327*** (0.023)	0.219*** (0.024)
GATT/WTO*GSP	-0.431*** (0.024)	-0.022 (0.021)	-0.426*** (0.023)

DIRECTED DYADS-IMPORTS

Model	Dyad Fixed Effects	Country Fixed Effects	Random Effects
GATT/WTO	-0.0421*** (0.0114)	0.0469*** (0.0157)	-0.0420*** (0.0111)
GSP	0.307*** (0.0224)	0.309*** (0.0209)	0.291*** (0.0216)
GATT/WTO*GSP	-0.239*** (0.0222)	-0.0155 (0.0193)	-0.213*** (0.0215)

AVERAGE MARGINAL EFFECTS ON EXPORTS

WTO Membership by GSP		
WTO	On GSP	No GSP
	-0.259***	0.173***
	0.023	0.012

GSP by WTO Membership		
GSP	On WTO	No WTO
	-0.247***	0.185***
	0.017	0.024

AVERAGE MARGINAL EFFECTS ON IMPORTS

WTO Membership by GSP		
WTO	On GSP	No GSP
	-0.282***	-0.042***
	0.021	0.011

GSP by WTO Membership		
GSP	On WTO	No WTO
	0.068***	0.308***
	0.016	0.022

□

REPLICATION: ROSE (2004)

Model	Dyad Fixed Effects	Dyad Fixed Effects	Country Fixed Effects	Country Fixed Effects
Both in GATT/WTO	0.127*** (0.020)	0.177*** (0.020)	0.136*** (0.024)	0.177*** (0.024)
One in GATT/WTO	0.060*** (0.017)	0.040** (0.017)	0.037** (0.019)	0.018 (0.019)
GSP	0.175*** (0.011)	0.350*** (0.106)	0.525*** (0.011)	1.252*** (0.119)
Both in WTO*GSP		-0.299*** (0.107)		-0.840*** (0.120)
One in WTO*GSP		0.024 (0.106)		-0.559*** (0.120)

REPLICATION: TGR (2007)

Model		Interaction	Post 1970
Both Formal Members	0.341*** (0.035)	0.406*** (0.035)	0.391*** (0.046)
Formal Member and Non-member Participant	0.381*** (0.037)	0.366*** (0.038)	0.305*** (0.056)
Both Non-member Participants	0.447*** (0.07)	0.455*** (0.07)	0.145 (0.158)
One Formal Member	0.200*** (0.03)	0.190*** (0.03)	0.155*** (0.042)
One Non-member Participant	0.173*** (0.04)	0.176*** (0.04)	0.058 (0.069)
GSP	-0.098*** (0.019)	0.387*** (0.117)	0.423*** (0.118)
Both Formal Members *GSP		-0.590*** (0.118)	-0.478*** (0.119)
Formal Member and Non- member Participant *GSP		-0.338*** (0.123)	-0.232* (0.126)
One Formal Member *GSP		-0.338*** (0.118)	-0.198* (0.119)
One Non-member Participant *GSP		-0.335* (0.181)	-0.347* (0.190)

REPLICATION: SUBRAMANIAN AND WEI (2007)

	Country Fixed Effects	Country Fixed Effects	Dyad Fixed Effects	Dyad Fixed Effects
Developed WTO Member	0.438*** (0.035)	0.488*** (0.038)	0.244*** (0.033)	0.286*** (0.036)
Developing WTO Member	-0.094*** (0.029)	-0.067** (0.030)	-0.447*** (0.045)	-0.321*** (0.061)
GSP	0.686*** (0.026)	0.753*** (0.033)	-0.169*** (0.043)	-0.101** (0.048)
Developing WTO*GSP		-0.131*** (0.040)		-0.209*** (0.069)

CONCLUSIONS

- In the debate over whether the WTO increases trade, a crucial variable has been hiding in plain sight: GSP
- If “trade as aid” was to work in any meaningful sense, GSP would have to be nondiscriminatory, not just nonreciprocal
 - ▶ GATT/WTO provided check on discrimination
 - ▶ But also locked in a domestic political economy counter to liberalization.
- Not saying WTO is bad for developing countries
 - ▶ But it does have differential effects for GSP recipients
- Preventing non-discrimination in trade may sometimes backfire

CONCLUSIONS

- In the debate over whether the WTO increases trade, a crucial variable has been hiding in plain sight: GSP
- If “trade as aid” was to work in any meaningful sense, GSP would have to be nondiscriminatory, not just nonreciprocal
 - ▶ GATT/WTO provided check on discrimination
 - ▶ But also locked in a domestic political economy counter to liberalization.
- Not saying WTO is bad for developing countries
 - ▶ But it does have differential effects for GSP recipients
- Preventing non-discrimination in trade may sometimes backfire

CONCLUSIONS

- In the debate over whether the WTO increases trade, a crucial variable has been hiding in plain sight: GSP
- If “trade as aid” was to work in any meaningful sense, GSP would have to be nondiscriminatory, not just nonreciprocal
 - ▶ GATT/WTO provided check on discrimination
 - ▶ But also locked in a domestic political economy counter to liberalization.
- Not saying WTO is bad for developing countries
 - ▶ But it does have differential effects for GSP recipients
- Preventing non-discrimination in trade may sometimes backfire

CONCLUSIONS

- In the debate over whether the WTO increases trade, a crucial variable has been hiding in plain sight: GSP
- If “trade as aid” was to work in any meaningful sense, GSP would have to be nondiscriminatory, not just nonreciprocal
 - ▶ GATT/WTO provided check on discrimination
 - ▶ But also locked in a domestic political economy counter to liberalization.
- Not saying WTO is bad for developing countries
 - ▶ But it does have differential effects for GSP recipients
- Preventing non-discrimination in trade may sometimes backfire

CONCLUSIONS

- In the debate over whether the WTO increases trade, a crucial variable has been hiding in plain sight: GSP
- If “trade as aid” was to work in any meaningful sense, GSP would have to be nondiscriminatory, not just nonreciprocal
 - ▶ GATT/WTO provided check on discrimination
 - ▶ But also locked in a domestic political economy counter to liberalization.
- Not saying WTO is bad for developing countries
 - ▶ But it does have differential effects for GSP recipients
- Preventing non-discrimination in trade may sometimes backfire

CONCLUSIONS

- In the debate over whether the WTO increases trade, a crucial variable has been hiding in plain sight: GSP
- If “trade as aid” was to work in any meaningful sense, GSP would have to be nondiscriminatory, not just nonreciprocal
 - ▶ GATT/WTO provided check on discrimination
 - ▶ But also locked in a domestic political economy counter to liberalization.
- Not saying WTO is bad for developing countries
 - ▶ But it does have differential effects for GSP recipients
- Preventing non-discrimination in trade may sometimes backfire