

“Maybe Not So Open: Democracy and Tariff Flexibility”

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## Starting Point: more democratic governments have more open trade policies

Democracies trade more, especially with each other

Bliss and Russett 1998; Mansfield, Milner and Rosendorff 2000

Democracies sign more liberalizing trade agreements

Remmer 1998; Mansfield, Milner and Rosendorff 2002

Democracies have lower average tariffs:

Milner and Kubota 2005; Kono 2006

Basic logic:

1. All governments face special interest pressure for trade protection (higher tariffs).
  2. But the mass public tends to favor more open trade policies (lower tariffs).
  3. More democratic governments are more responsive to the preferences of the mass public.
- ∴ More democratic governments have lower tariffs.

## This Argument/Evidence incomplete in terms of trade/tariff policy

Does not account for special interest pressure in more democratic regimes.

If trade protection can be treated as a domestic private good, then we must account for it.

Two ways to account for special interest pressure in more democratic regimes:

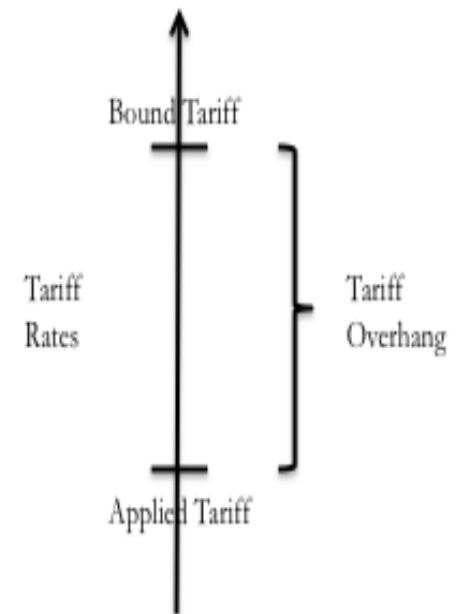
1. The restrictive use of a secondary trade policy instrument: NTBs (Kono 2006)

But NTBs take time to construct and may not be possible for all products

2. Movement in the primary trade policy instrument: tariffs

Possible with binding tariff overhang,

a form of tariff flexibility



# Who Needs Tariff Flexibility?

## Non-Democracy

Face *only* special interest pressure  
(usually for trade protection)

## Democracy

Face special interest pressure for protection  
*and* voter pressure for trade openness

## Expectations?

Higher average tariffs

Lower average tariffs

Fewer NTBs

More NTBs

Lesser binding overhang

Greater binding overhang

Lesser upward tariff movement

Greater upward tariff movement

## New Hypotheses:

H1: More democratic governments are associated with greater binding overhang.

H2: More democratic governments make greater use of their binding overhang, raising applied rates.

To test: we collect applied and bound tariff rates at the 6 digit product level

WTO: “the most detailed level that can be compared internationally”

$N \approx 6$  million country/product/years 1996-2012

Control for country size and level of economic development,  
also include product, country, and year fixed effects

Descriptive Stats using 6 digit product codes

Variable:	Mean	Std. Dev.	Min	Max
<i>Applied Tariff</i>	7.73	18.63	0	3000
<i>Bound Tariff</i>	21.64	30.94	0	3000
<i>Tariff Overhang</i>	13.91	23.43	-1461	2400

## Tariff Models at the 6 Digit Product Level

DV:	<i>Applied Tariff</i>	<i>Tariff Overhang</i>	<i>Tariff Overhang</i>	<i>Applied Tariff</i>
LDV			0.980* (0.002)	0.989* (0.001)
<i>Polity</i>	-0.224* (0.005)	0.227* (0.005)	-0.073* (0.002)	0.075* (0.002)
<i>GDPln</i>	-3.34* (0.06)	3.40* (0.08)	-0.465* (0.016)	0.500* (0.016)
<i>GDPpcln</i>	-0.054* (0.024)	0.053* (0.014)	-0.053* (0.003)	0.054* (0.003)
R <sup>2</sup>	0.14	0.69	0.99	0.98
N	5,925,657	5,925,657	5,917,759	5,917,759

Estimates include 5707 Product, 135 Country, and 17 Year Fixed Effects.

Cell entries are OLS coefficients with robust standard errors in parentheses.

\* indicates  $p < .05$  (two tailed).

## (How) does this matter?

1. Provides a more complete story of trade policy, especially in democracies.

2. Suggests that democracies may not be so open

not just in terms of secondary trade policy instruments (e.g. NTBs)

but also in terms of the primary trade policy instrument: tariffs.

3. Tariff flexibility is costly (Pelc 2013).

If governments use their tariff flexibility, then it means higher tariffs with reduced international trade.

Even if governments do not make use of their tariff flexibility, its mere existence has a negative effect on international trade stemming from price uncertainty and muddled expectations.