

Global Value Chains, Tariffs and Non-Tariff Measures in Agriculture and Food

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Discussion

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Theoretical Framework

International supply networks and the 'effective rate of protection'

- Other things being equal, an increase in **foreign outsourcing**, leading to a lower domestic value added content of final goods, raises the **'effective rate of protection' of existing tariffs on final goods.**
- How does this result affect the political economy of trade liberalization?
- Is this effect considered among the factors affecting **governments' incentives to change existing tariffs?**

Market structure and the role of trade intermediaries

- Blanchard-Bown-Johnson (2021) [BBJ] assume “that the mapping from final goods prices to the vector of quasi-rents is well-defined and can be represented by **elasticity terms** ... which describe how changes in the price of a final good are passed through to value-added inputs” and state that “These elasticity terms will depend on **various (unmodeled) supply side primitives (e.g., production structure, market frictions, market power, etc.)**.”
- To what extent does this simplifying assumption affect the results of the model, if **global supply chains** are characterized by **strong asymmetries in market power**?
- Even in the agricultural sector, the paper acknowledges that “the expansion of the production networks has been dominated by **modern food processors and retailers**, that have become **progressively more integrated vertically** (Balié et al. 2018).”

Market structure and the role of trade intermediaries

- **Trade intermediaries** play an important role in **agricultural supply chains**, affecting **spreads** between buyer and seller prices **simultaneously in many countries** (Porto et al., 2011; McCorrison, 2012; Hoekman and Shepherd, 2015)
 - **Trade intermediaries** perform all the activities required to match demand and supply, and **reduce transaction costs with respect to direct exchange** between producers and consumers (Spulber, 1999)
 - However, their **market power** makes so that **changes in world commodity prices are imperfectly transmitted to consumer prices** (Morisset, 1998) (Shepherd, 2004 for the coffee value chain)
 - Sexton et al. (2007) stress that when food processing and retailing firms have market power, **developing countries exporters will benefit less from tariff liberalization.**
 - Francois and Wooton (2010) show that without policy interventions aiming at limiting their market power, **trade intermediaries are the main beneficiaries of tariff cuts.**
- To what extent is this complex **network structure of market power** reflected in the simple **bilateral framework** of the BBJ model?
- How to consider the **complementarity between trade liberalization policies and competition policies in the distribution service sector** affecting the market power of trade intermediaries?

Country size and the terms-of-trade effect of trade policies

- The **terms-of-trade argument for protection** is relevant only for **large countries** and should be integrated with an assumption about the **risk of retaliation** from partner countries
 - How government incentives over trade policy are affected by differences in country size?
 - And by expectations about possible retaliations?
- In other words, for any given value of bilateral trade, **does the BBJ model differentiate between the case of two equal-size countries and that of asymmetrical partners?**

The network structure of international trade and production chains

- BBJ assume that "GVCs often feature a high degree of **input specificity** and **lock-in between buyers and suppliers** (Antràs and Staiger 2012)"
- This assumption is useful to justify their focus on ***bilateral*** trade policies
- However, in the real world there is a certain degree of **substitutability across different input suppliers**
- Hence, a full-fledged **general-equilibrium specification of the network structure of international supply chains** should be used
- There is an analogy with the **problem of multilateral resistance in the gravity model of trade**: the relative intensity of trade between two countries does not depend only on the costs of their bilateral transactions, but also on the entire matrix of multilateral trade costs.

Empirical Strategy

The role of MFN tariffs

- The paper, following BBJ, assumes that **MFN tariff rates represent an upper bound** on applied bilateral tariffs
 - However, the language used at p. 18 («the minimum between the preferential or MFN tariff») conveys the idea that the MFN tariff could be lower than the preferential tariff.
 - And the specification of equation 3, unlike that of equation 2, explicitly refers to the preference margin, allowing for the possibility of changes in MFN tariffs.
- Indeed, **MFN tariffs tend to move downwards**, leading to a **gradual erosion of preference margins**.
- So, a **lower preference margin could be the result of either an increase in applied bilateral tariff (given the MFN tariff) or a reduction of the MFN tariff (given the preferential tariff)**, making its interpretation more difficult.
- Moreover, the difference between bound and applied MFN tariffs («**water in the tariffs**») could be exploited by governments to meet demand for protection
 - So, applied bilateral tariffs could become higher than MFN tariffs (temporary trade defense measures are an example, as explained by BBJ).
 - In principle, even MFN tariffs could be raised, provided that they remain below their bound levels
 - Moreover, some tariff rates remain unbound

Non-tariff measures

- The most serious problem of the paper seems the following one: whereas **tariff preferences** clearly express the degree of relative liberalization agreed **bilaterally** between the importing country and each of its trading partners in the PTA, **regulatory distances** express their difference in terms of non-tariff protection **towards the rest of the world**.
- The paper acknowledges that regulatory distance is “far from ideal, as ... it is not fully a variable under the control of the country of interest” (which, however, could be said also for tariff preferences).
- However, the problem looks more serious than this, as **a reduction of the regulatory distance can be the result of either an increase or a fall in the degree of protection**, depending on the initial situation (protection in country i being lower or larger than in country j).
- So, for example, it is difficult to say if an increase in the DVA content of foreign production, which is expected to lower bilateral protection, will lower or raise the regulatory distance.
- Note how the issue is tackled in the description of results (p. 26): “Domestic value-added negatively affects the country’s incentive to increase **NTMs heterogeneity vis-à-vis trading partners**”. So, the meaning of this distance is completely different than that of tariff preferences.
- To find **an equivalent**, the first equations should have been run with **bilateral differences in MFN tariffs** as the dependent variable.

Possible extensions

- Temporary trade barriers (following BBJ)
- Local content requirements
- Domestic support measures
- Trade facilitation agreements
- Other measures of bilateral trade costs