

The Bank, the Fund, and the GATT:

Which Promoted Developing Country Trade Reforms the Most?

Douglas A. Irwin



Dartmouth

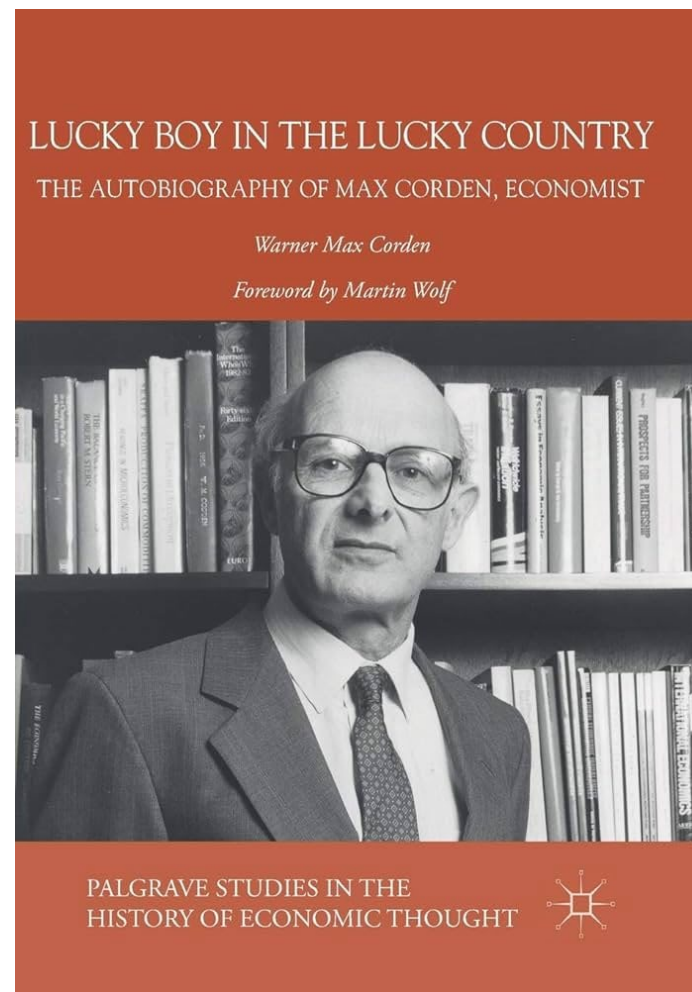


PIIE

PETERSON INSTITUTE FOR
INTERNATIONAL ECONOMICS

NBER
NATIONAL BUREAU OF ECONOMIC RESEARCH

Max Corden (1927-2023)



Corden (1957)

THE CALCULATION OF THE COST OF PROTECTION¹

I

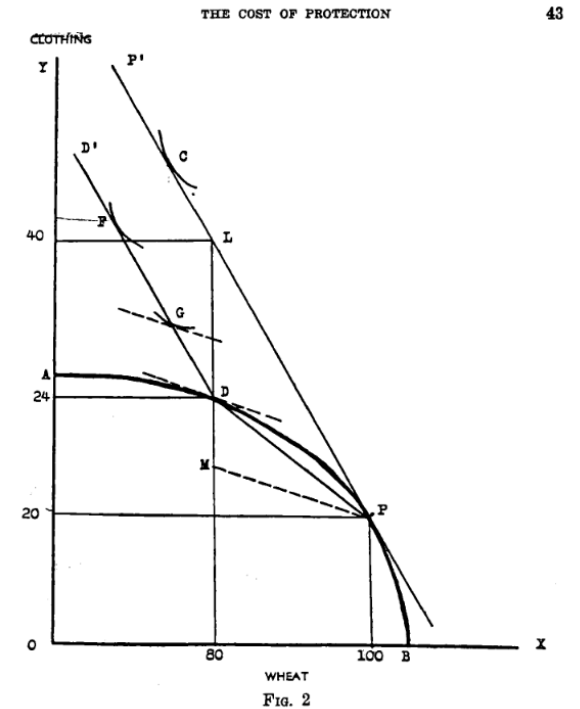
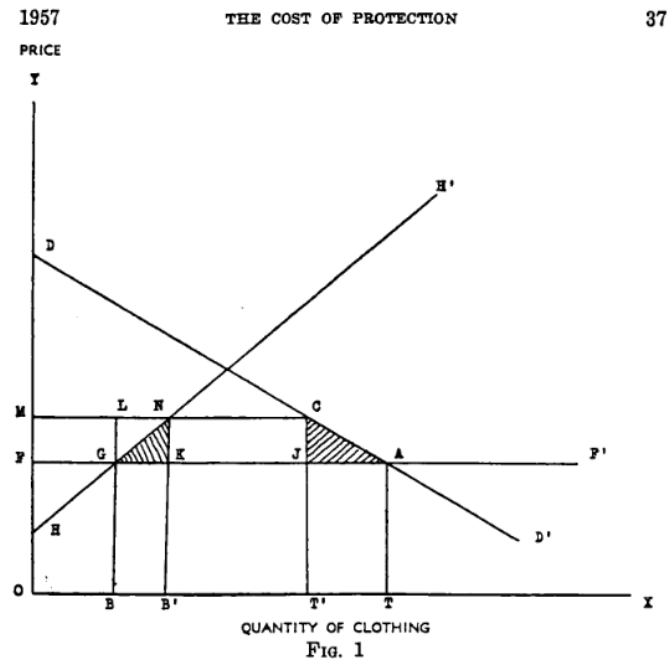
The Brigden Report and the Measurement of Excess Cost

The report on the Australian tariff produced in 1929 by a committee of economists headed by Professor Brigden² made two original contributions to economic thought and method. First, it developed a peculiarly Australian case for protection based on a distribution of income argument. Secondly, it attempted a thorough and detailed measurement of the "excess cost" of protection. It is this second aspect of the report which will be discussed in this paper.

The committee's calculations were exceedingly complex and involved many bold approximations. But the object here is not to consider the practical statistical techniques or the reasonableness of the various approximations but rather the fundamental principles of the whole exercise.

To the Brigden committee the "excess cost" of the tariff was the excess of the market value of the protected output over the cost of equivalent imports.³ Protected output was that output which would cease if the tariff were removed, while the exchange rate, wages in real terms and other factor prices in money terms remained constant.

Two questions must then be answered. First, given that the volume of protected output is known, can the difference between the market value of protected output and the cost of equivalent imports be regarded as the excess cost of protection, and if it cannot, is it likely to overstate or understate the true "excess cost"? Secondly, how should the volume of protected output—the output which would not survive under free trade—be determined, and is the Brigden committee's method—with its assumptions of constant exchange rates and real



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Number 3

THE STRUCTURE OF A TARIFF SYSTEM AND THE EFFECTIVE PROTECTIVE RATE

W. M. CORDEN*

Australian National University

THE theory of tariff structure is concerned with the effects of tariffs and other trade taxes in a system with many traded goods. It allows for the vertical relationships between tariff rates derived from the input-output relationships between products, an aspect until recently completely neglected in the literature of international trade theory. Early contributions to the theory of tariff structure, developing the idea of the effective protective rate with respect to the policies of particular countries, have come from Barber (1955) for Canada, Humphrey (1962) for the United States, and the present author (1963) for Australia.¹ Johnson's (1965) exposition is the fullest available so far and also explores many implications. Empirical

* This paper has benefited greatly from comments by H. W. Arndt and H. G. Johnson. I am indebted also to members of seminars at the L.S.E., Oxford, M.I.T., Yale, Brookings, Chicago, Berkeley, and Stanford, who commented on an earlier presentation of some of the main ideas.

¹ Barber's article represents the pioneering contribution on this subject. It is perhaps not surprising that the main idea can be found, treated briefly, in J. E. Meade (1955).

contributions in which calculations of effective rates have been made on a large scale are by Balassa (1965) and Basevi (in press).² The present paper builds on this earlier work. In particular, in Part I the general equilibrium implications of the effective-protective-rate concept are spelled out, its relation to equilibrating exchange-rate adjustment is shown, and non-traded goods are introduced explicitly into the model. Part II suggests a variety of applications and extensions of the concept. The effective protective rate is a new measure which has considerable possibilities for the study of systems of protection. I have attempted here to show what it means, how it can be used, and how calculations of it must be interpreted when there is substitution between inputs.

It will be assumed in most of this paper that (1) the physical input-output coefficients are all fixed, (2) the elasticity

² A recent Australian official committee has made some calculations of effective protective rates and has given the concept some prominence in Australia (see *Report of the Committee of Economic Enquiry* [1965]).

TRADE POLICY AND ECONOMIC WELFARE

W.M.Corden

THE THEORY OF PROTECTION

W. M. Corden

DIRECTIONS IN DEVELOPMENT

Boom, Crisis, and Adjustment

The Macroeconomic Experience
of Developing Countries, 1970-90
A Summary

J. M. D. LITTLE
RICHARD N. COOPER
W. MAX CORDEN
SARATH RAJAPATIRANA



OCCASIONAL PAPER

54

Protection and Liberalization: A Review of Analytical Issues

by W. Max Corden

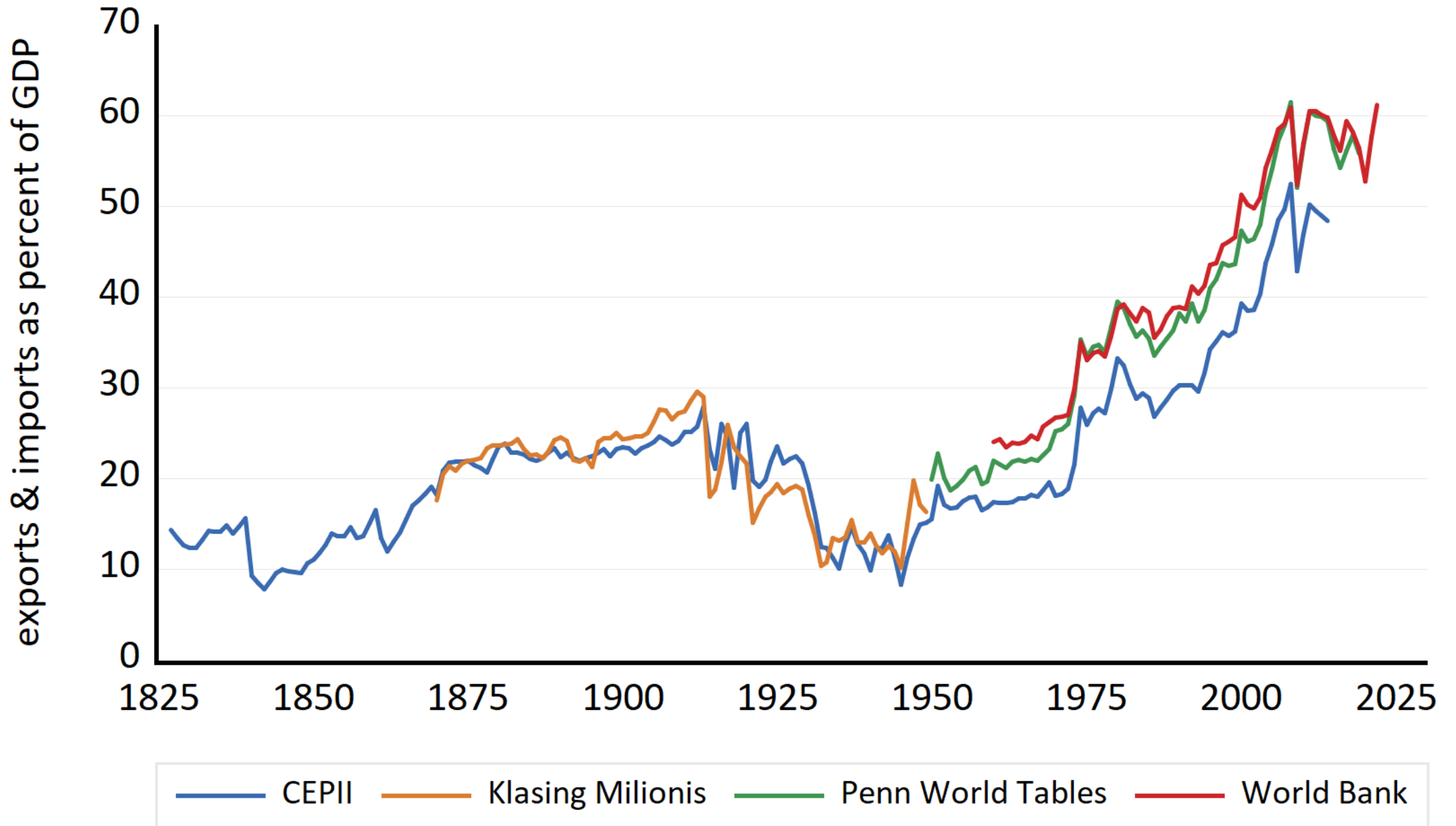


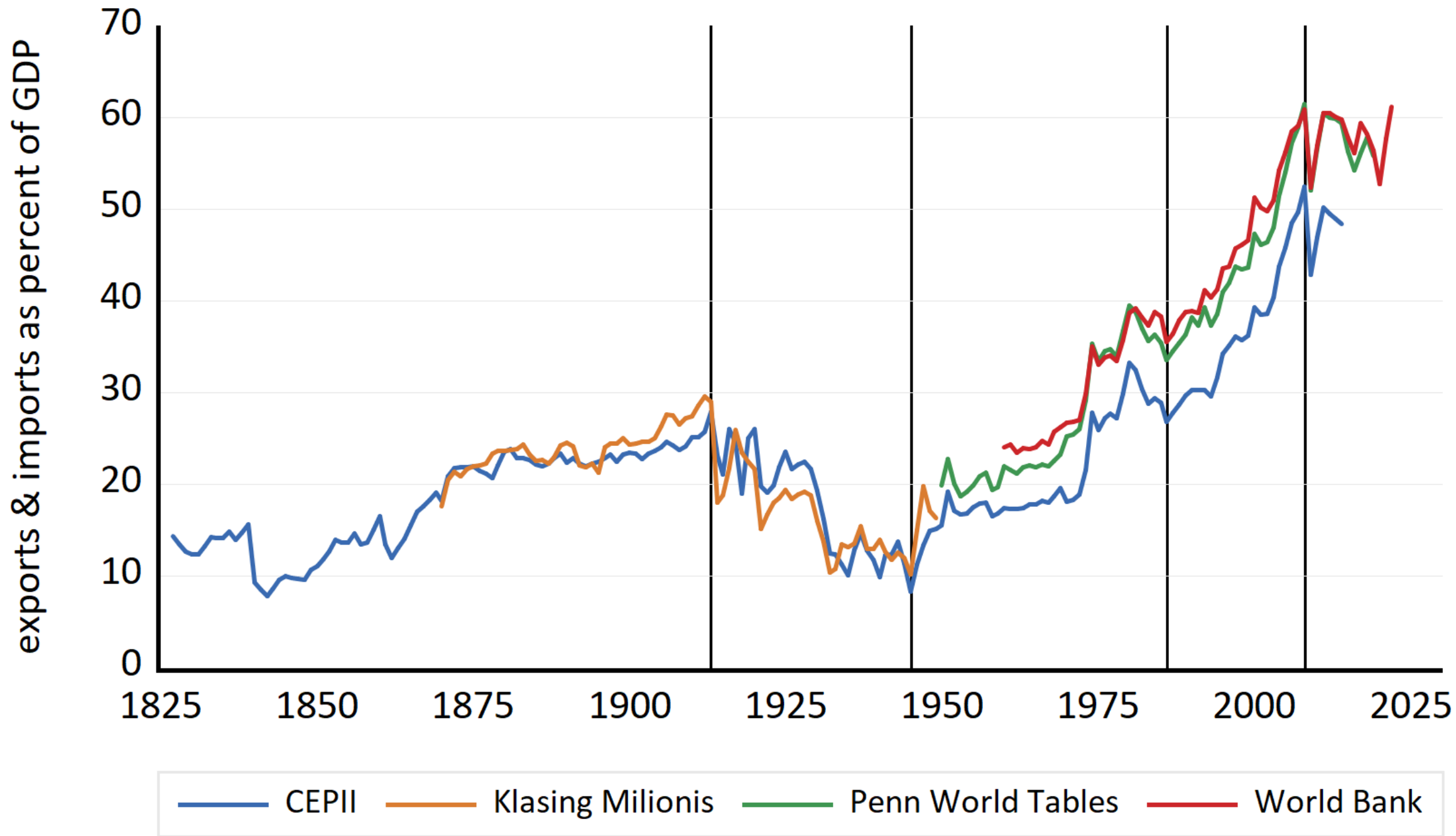
International Monetary Fund
Washington, D.C.
August, 1987

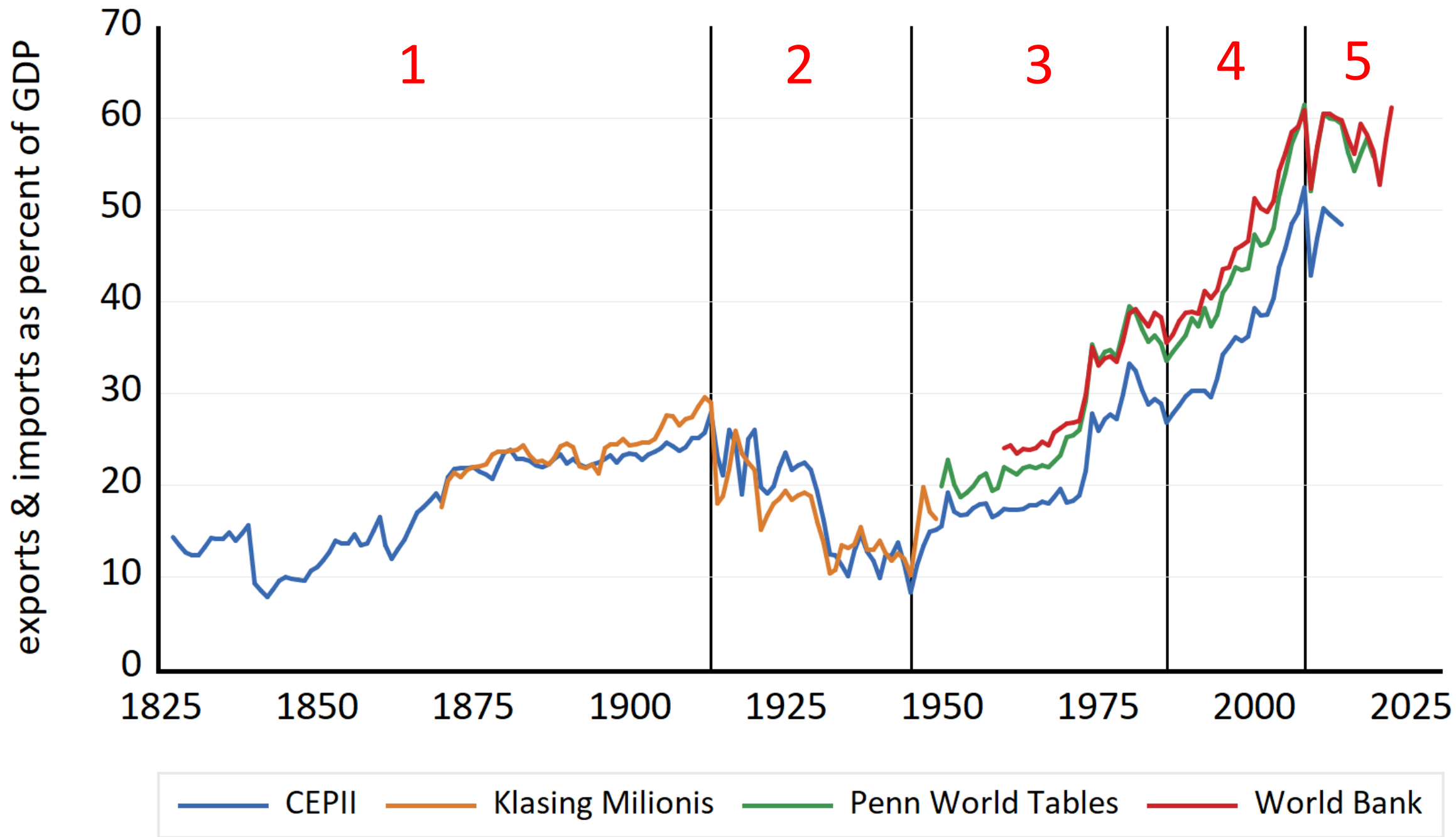
THE URUGUAY ROUND

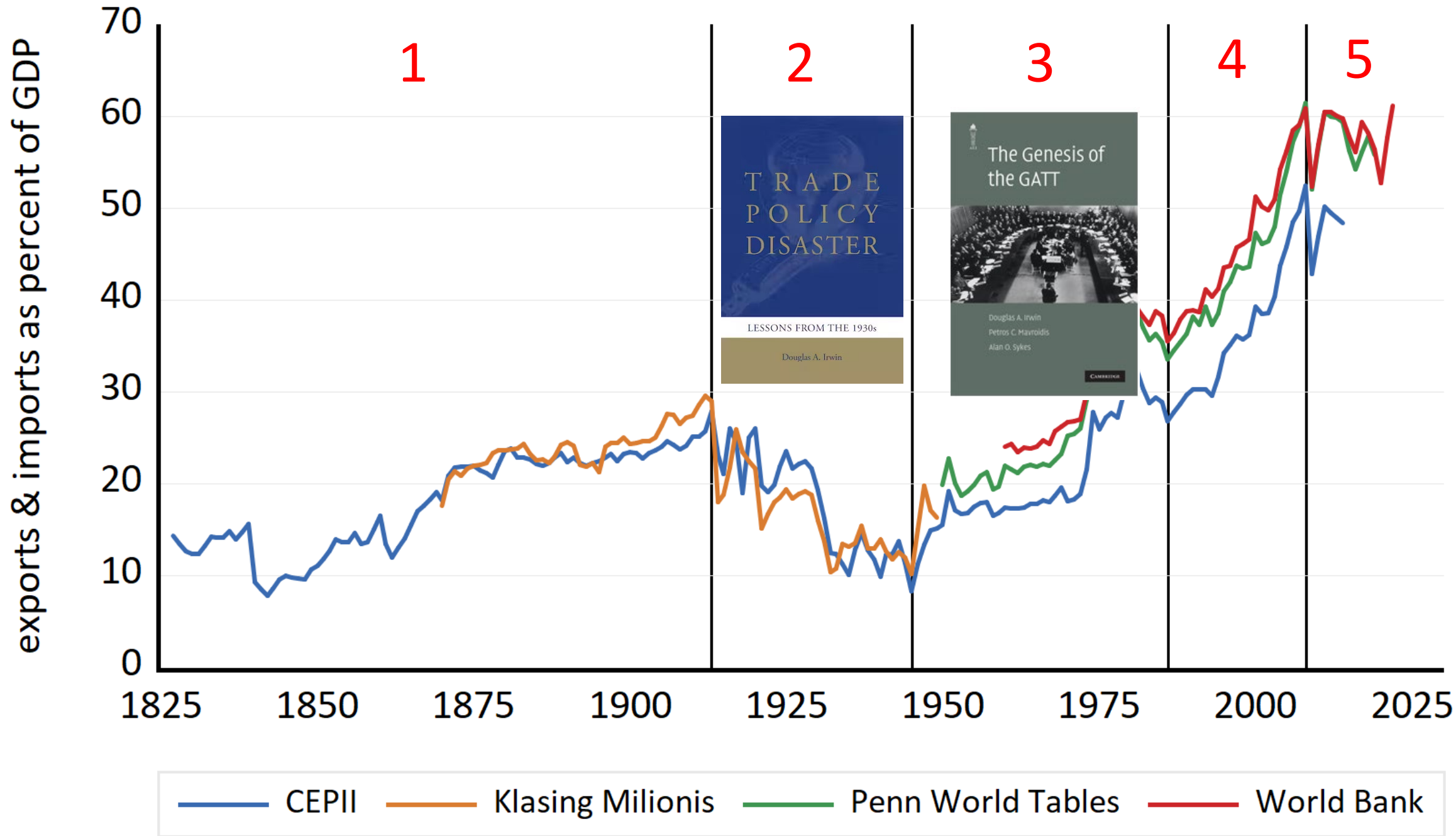
*A Preliminary Evaluation
of the Impacts of the Agreement
on Agriculture
in the OECD Countries*

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9786~~









exports & imports as percent of GDP



exports & imports as percent of GDP






1985

World in the time of the Cold War

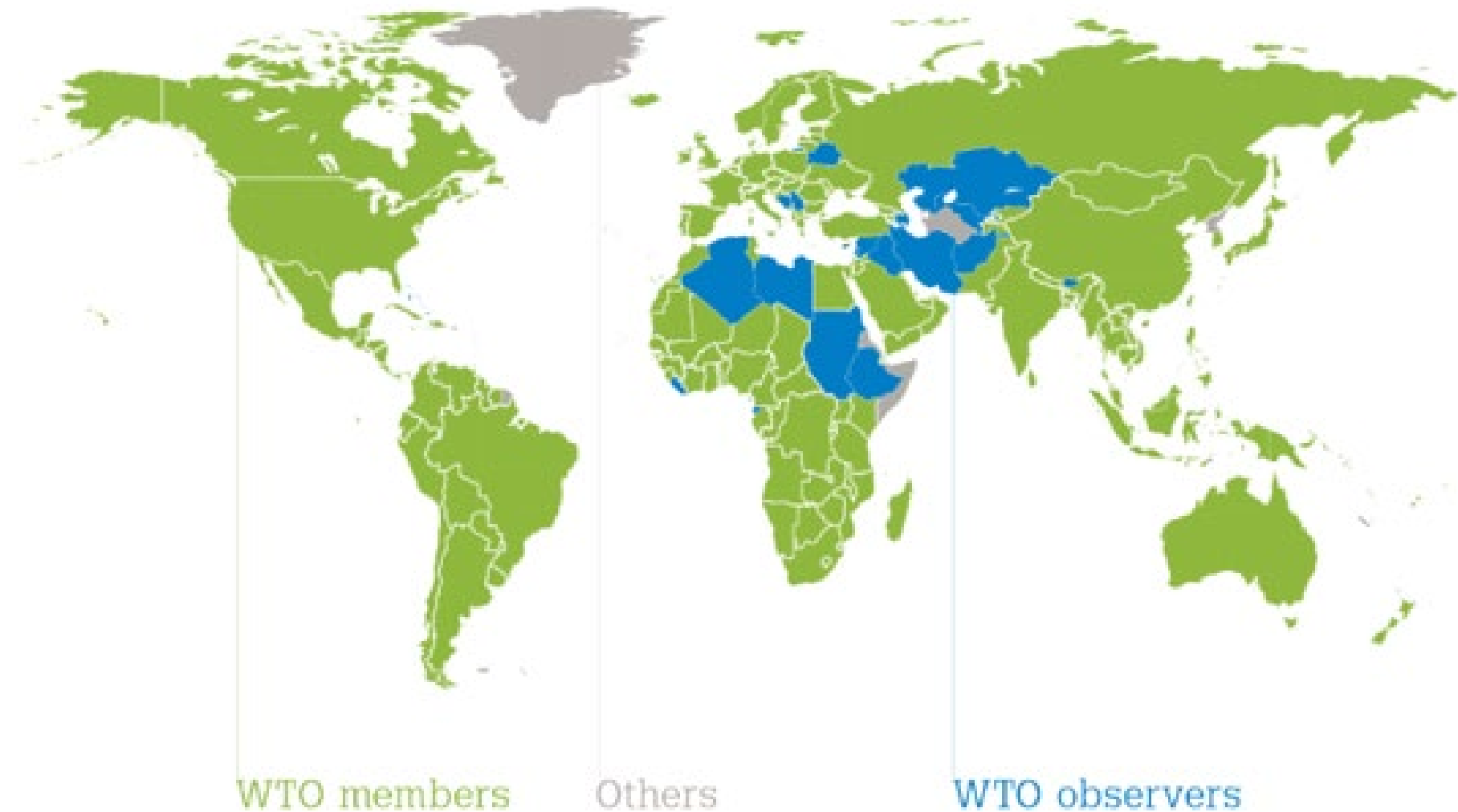
GeoDuchy | Three-world model, based on ideology not economy



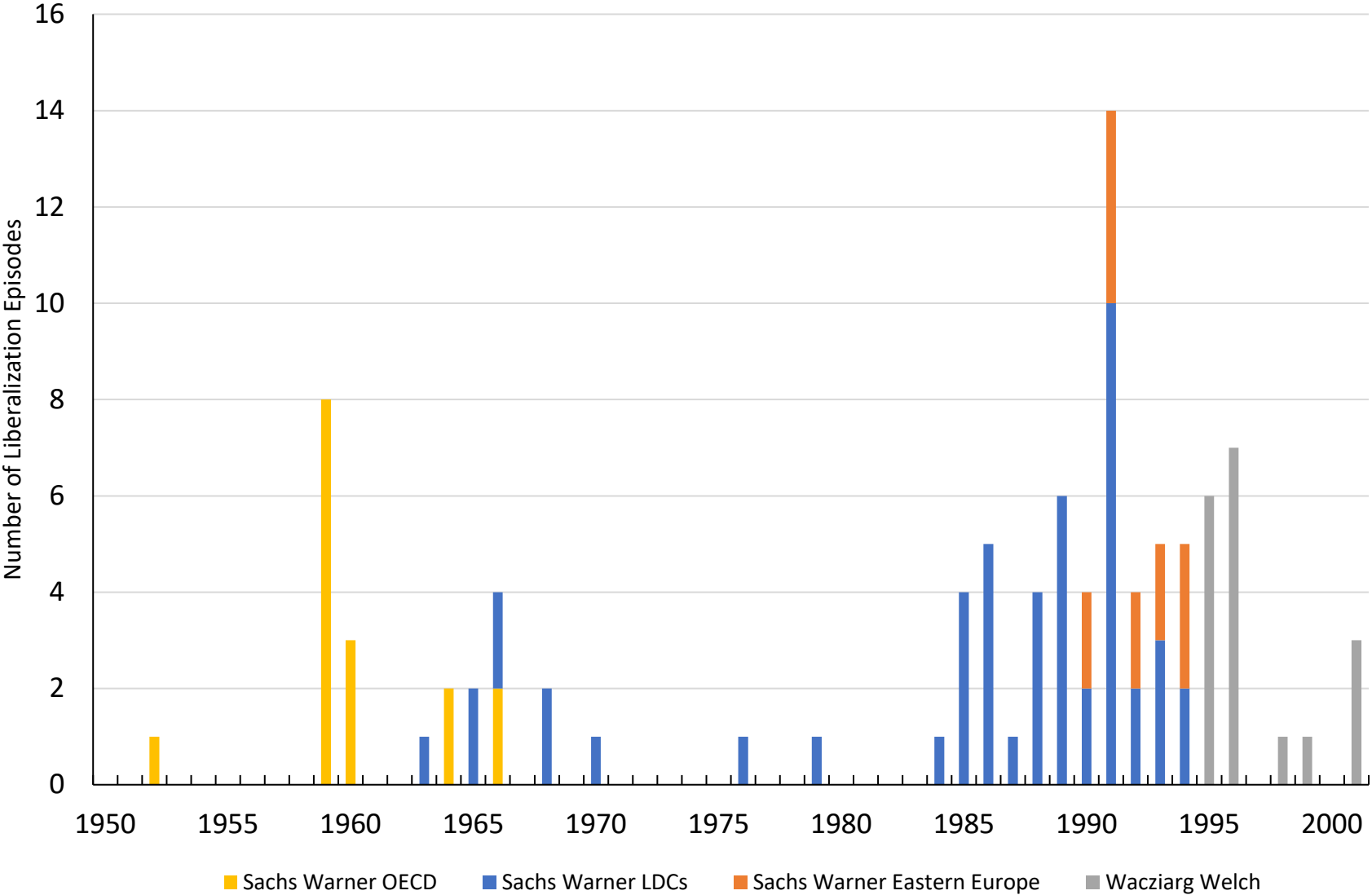
Name:	Establishment:
 First World NATO and Allies	Washington DC, USA
 Second World USSR and Allies	Moscow, USSR
 Third World Non-Aligned countries	Belgrade, Yugoslavia

1995

WTO members and observers



Trade openings



The trade policy three-step

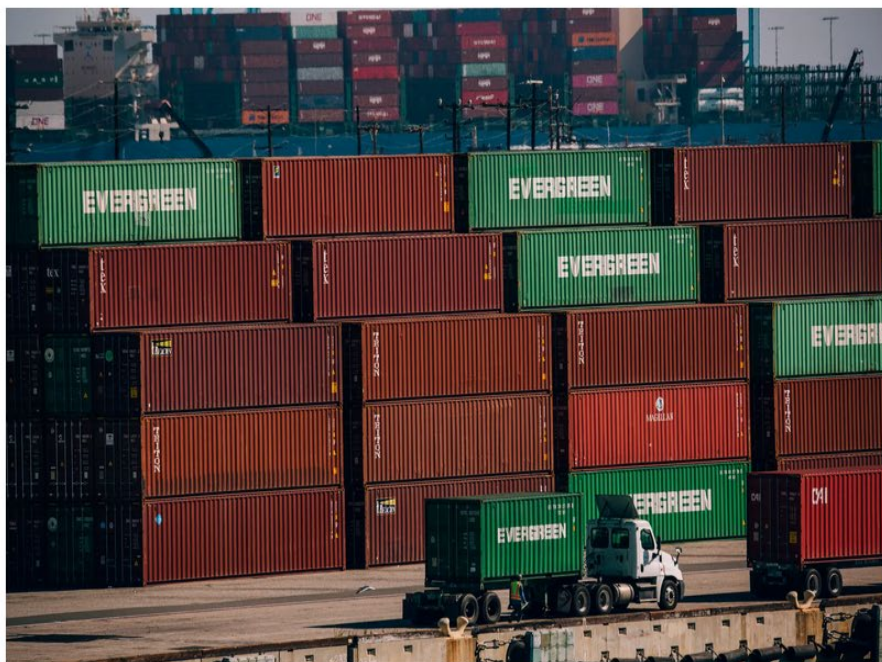
1. Devalue currency, establish & maintain realistic exchange rate
2. Replace QRs with tariffs
3. Reduce level and dispersion of tariffs

Why move to freer trade?

1. Domestic producer interests (Grossman-Helpman 1994)
2. Changing production incentives (Baldwin 2010)
3. International institutions (IMF, World Bank, GATT/WTO)
4. Unilateral government undertaking
 - Circumstances: role of ideas, economic crises, technocratic reform teams, etc.

Honey, Who Shrunk the World?

Aug. 20, 2021



Coley Brown for The New York Times



By Paul Krugman
Opinion Columnist

What happened in much of the developing world during the era of hyperglobalization was a drastic turn toward outward-looking policies. What caused that trade policy revolution and hence helped cause hyperglobalization itself?

The immediate answer, which may surprise you, is that it was basically driven by ideas.

Rodrik (2014): “Because of their neglect of ideas, political economy models often do a poor job of accounting for policy change.”

1818 H Street, 700 19th Street,
or Rue de Lausanne 154:
Who Gets Credit for Developing
Country Trade Reform?

International Institutions



**THE
WORLD
BANK**



WORLD TRADE
ORGANIZATION

Objective is trade . . .

- GATT – to promote trade “by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce” (Preamble).
- World Bank – “to promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members” (Articles of Agreement I:3).
- IMF - “to promote international monetary cooperation . . . to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members” (Articles of Agreement I:1-2).



UNITED NATIONS
UNCTAD



**TRADE AND
DEVELOPMENT**
REPORT 2018

POWER, PLATFORMS AND
THE FREE TRADE DELUSION



Who is the world's most dominant athlete?

- *New York Times*: “the most dominant athlete in any sport in the country”
- Hint: 25 world titles
- Hint: Net worth: \$300,000

Alan Francis



The New York Times

Perfection in the Horseshoe Pit



Alan Francis, a 40-year-old purchasing manager, has won 15 world titles in horseshoes.

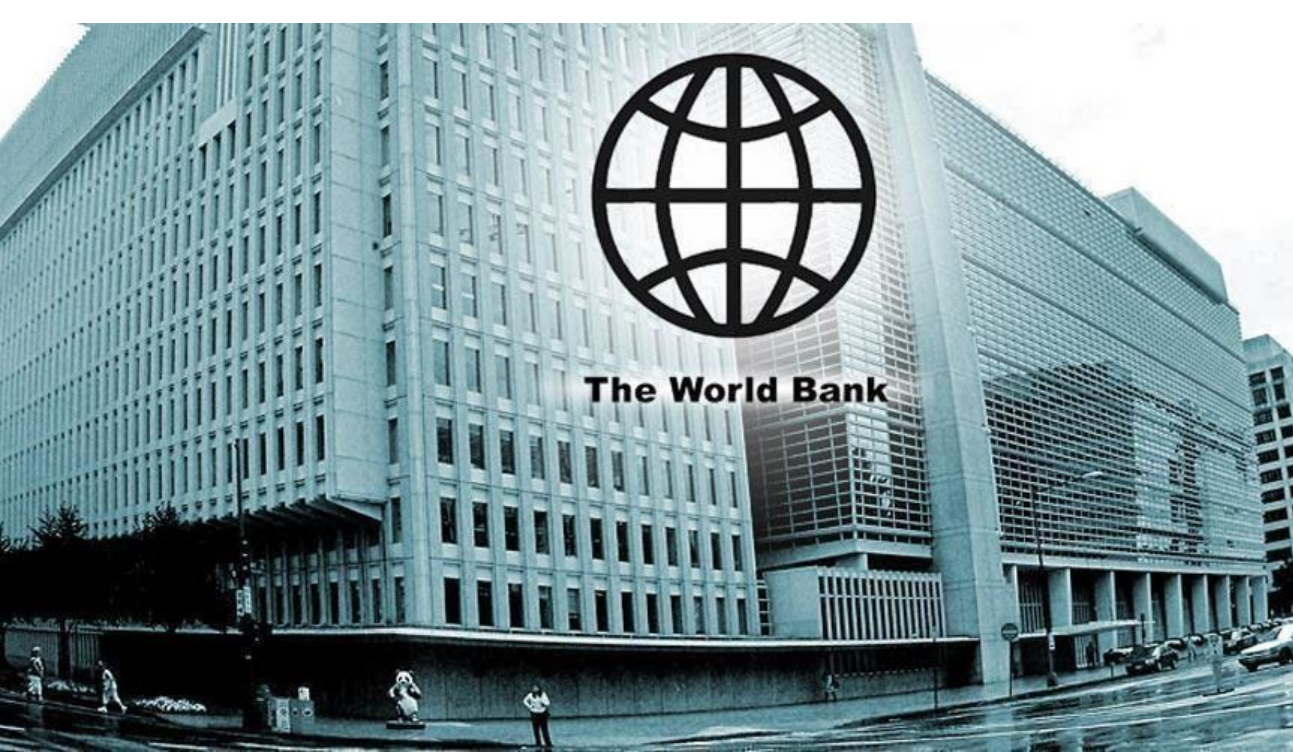
Doug Benz for The New York Times

By **John Branch**

July 20, 2010

DEFIANCE, Ohio From behind a neat, ranch-style house on Melody Lane came the clinking and clanking rhythm of iron striking iron.

Alan Francis stood more than a dozen long-legged strides from an inch-thick stake drilled deep into tacky clay. Perhaps the most





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WTO OMC

WORLD TRADE ORGANIZATION
ORGANISATION MONDIALE DU COMMERCE
ORGANIZACIÓN MUNDIAL DEL COMERCIO

GATT's impact on developing country policy

- Rules

- Article XII – balance of payments justification for QRs
- Article XVIII(b) – QRs for economic development

- Tariff reductions

- Exempt until Uruguay Round

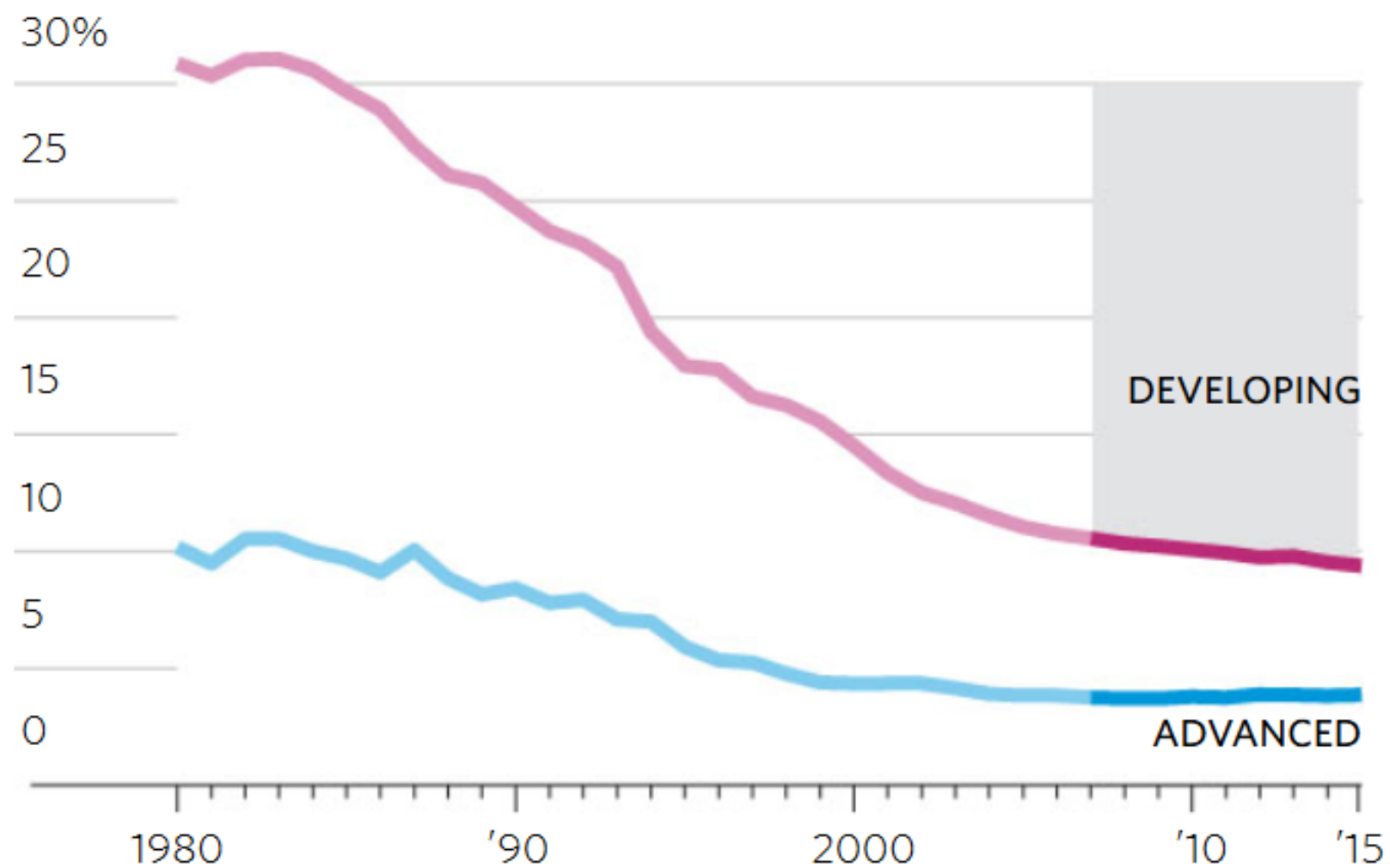
- Accession

- Insiders-outsiders

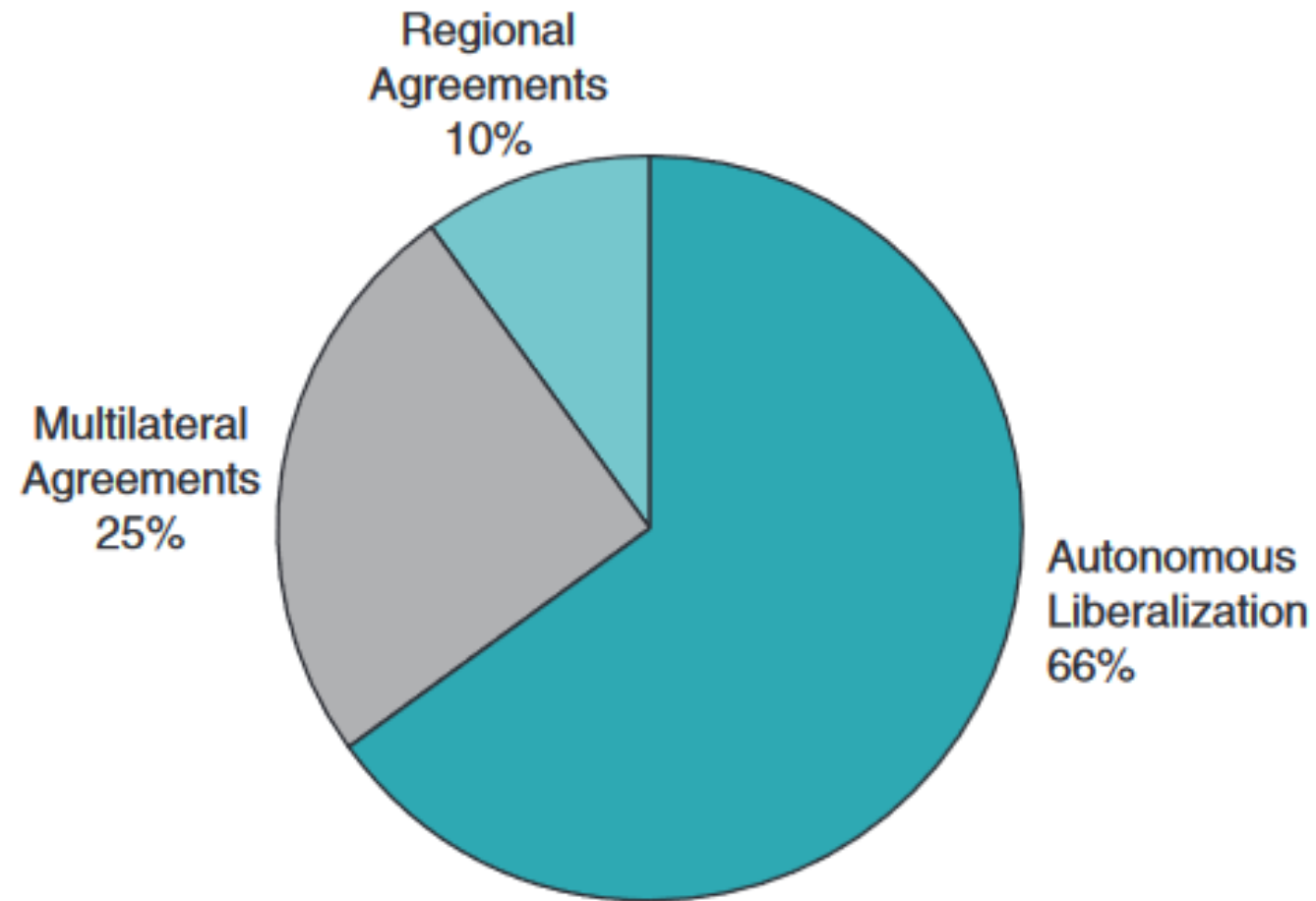
GATT

- Developing countries operate outside of the GATT system
 - Consistently invoked Article XXVIII(b) on BOP
- Tariffs not most important trade barrier with QRs & FX rationing
- Most tariff reductions unilateral
- Yet outsiders wanted to get in
 - Accession process - Subramanian and Wei (2007)
 - China

Average tariff rates, by country's level of economic development



Share of total tariff reduction, by type of liberalization, 1983–2003

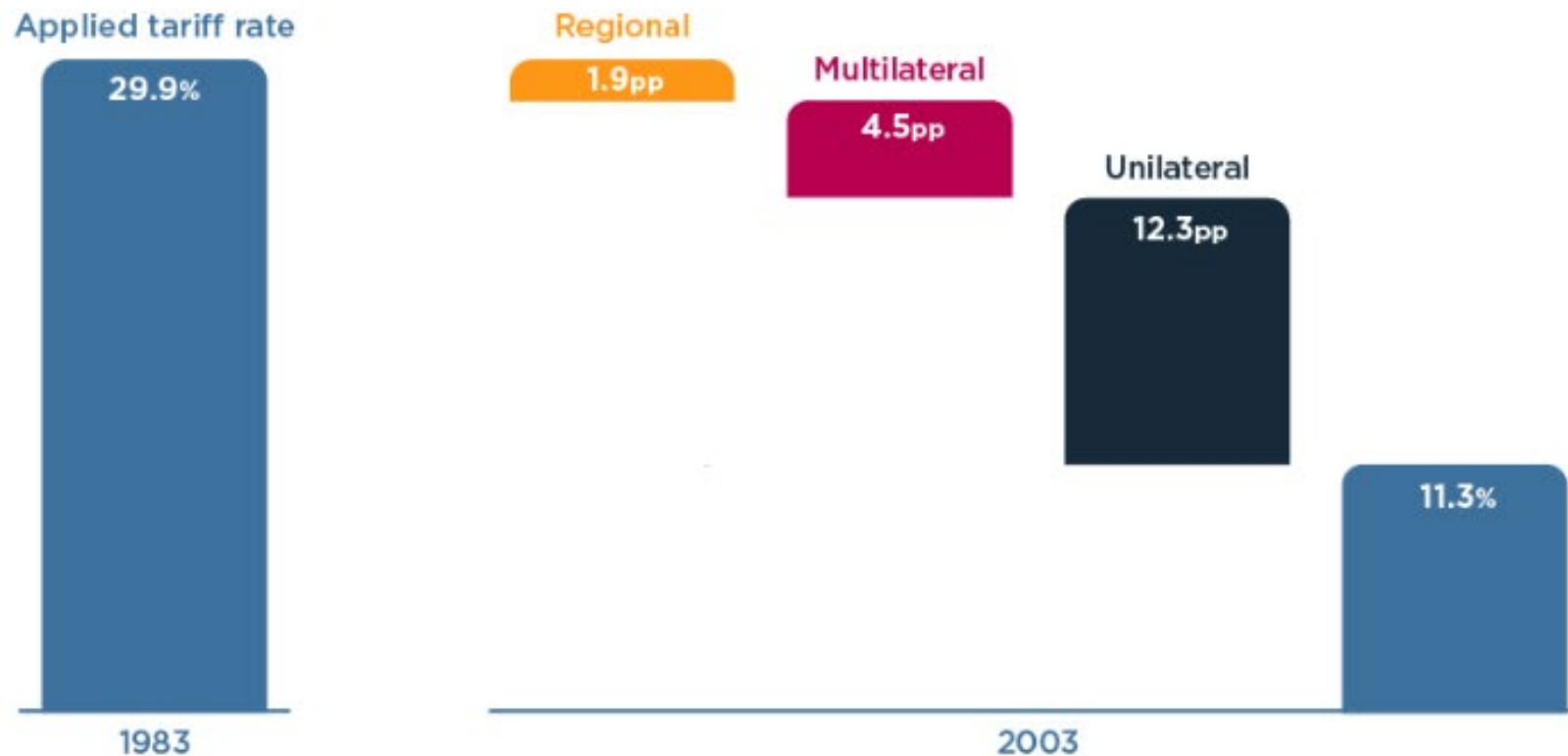


Source: Martin and Ng 2004.

Figure 1

Developing economies undertook most tariff reductions unilaterally between 1983 and 2003

Average applied tariff rate in developing economies and reductions by source, 1983 and 2003, percent



pp = percentage point

Note: Developing economies defined using World Bank classification.

Source: World Bank (2005, 42), based on Martin and Ng (2004).

The Uruguay Round

Statistics on Tariff Concessions Given and Received

J. Michael Finger
Merlinda D. Ingco
Ulrich Reincke

The World Bank
Washington, D.C.

Figure 1b. Tariff "Before" Equals Tariff "After" (No Cut in Applied Tariff Rate)

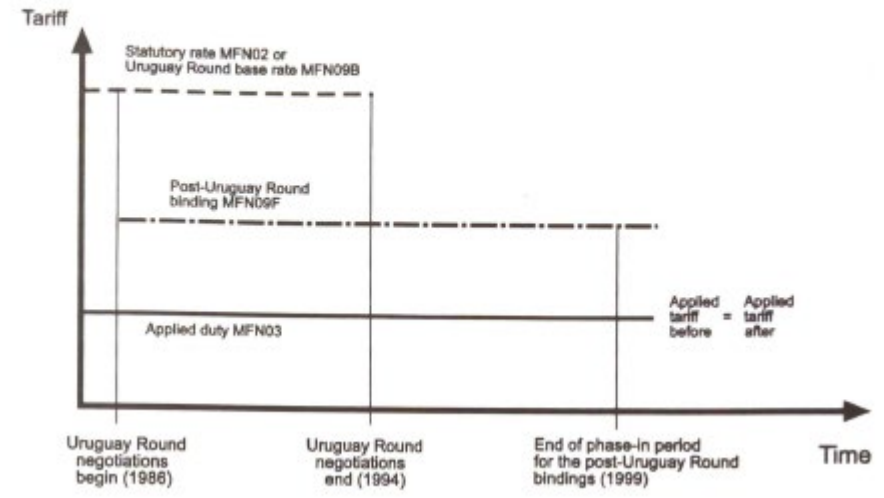
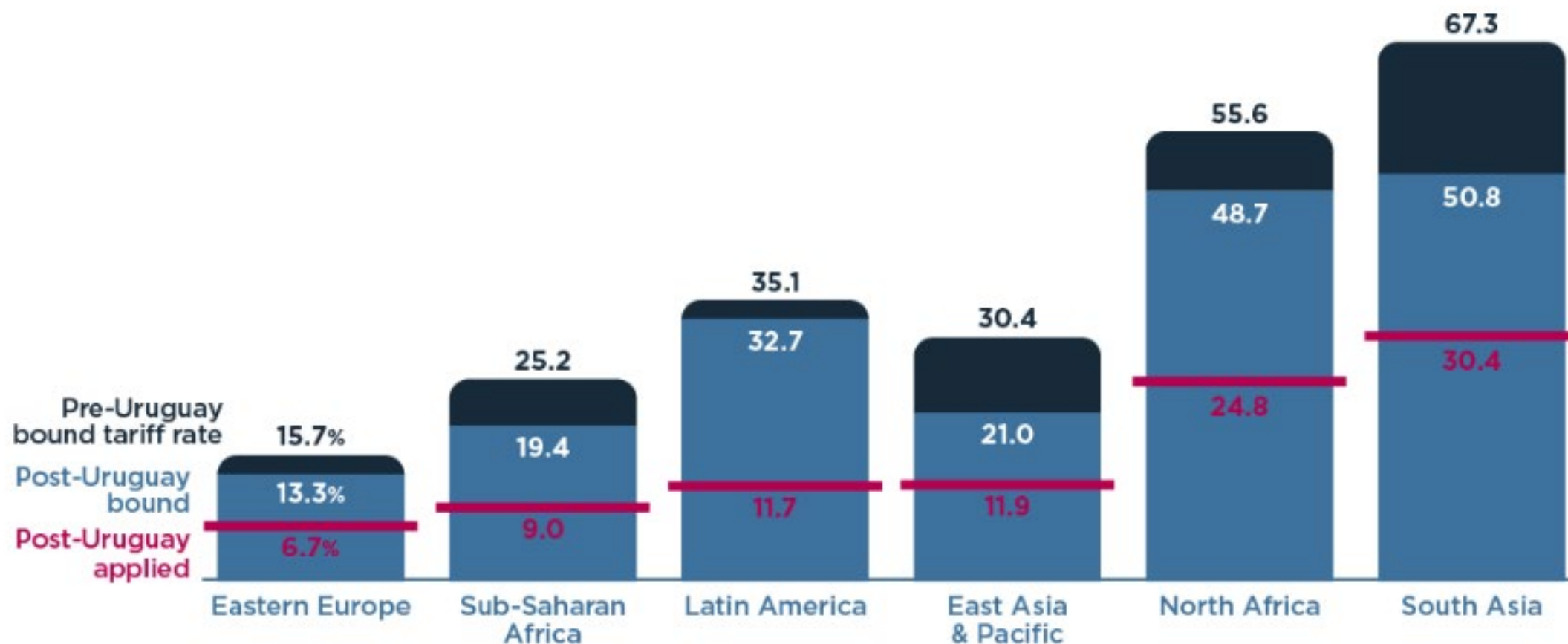


Figure 2

Developing economies set tariffs below their obligations under the Uruguay Round

Bound tariff reductions in Uruguay Round and applied tariffs in developing economies, percent

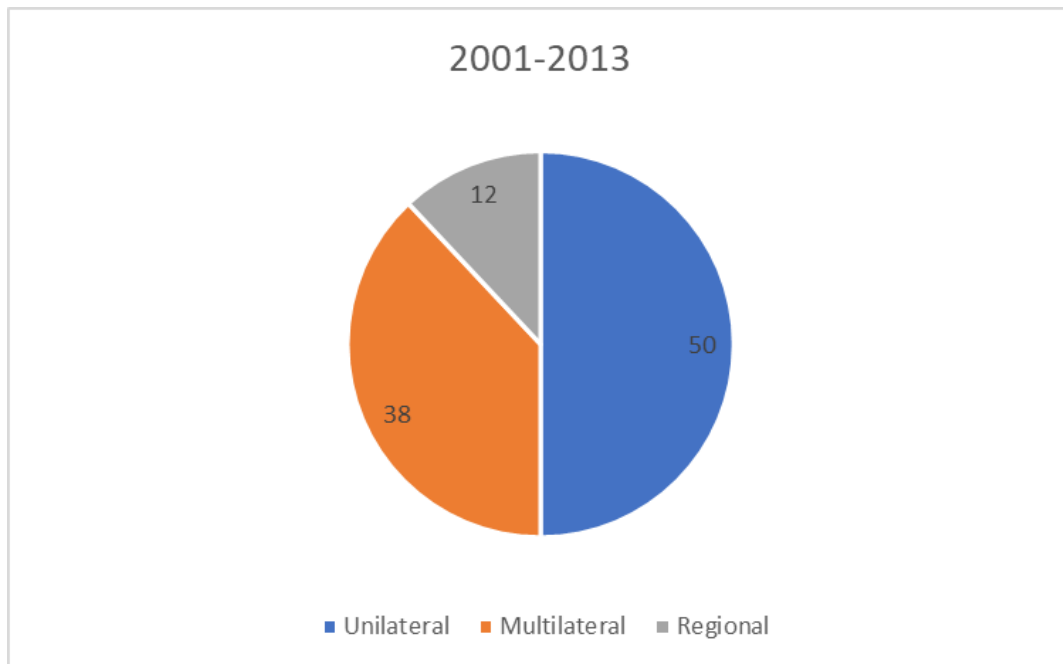


Note: Developing economies defined using World Bank classification.

Source: Finger, Ingco, and Reincke (1996).

Further evidence

- 2001-2013
- Applied tariffs in developing countries
- From 7.2% to 4.6%



Review of World Economics (2019) 155:707–753
<https://doi.org/10.1007/s10290-019-00346-1>

ORIGINAL PAPER



Competing liberalizations: tariffs and trade in the twenty-first century

Jean-Christophe Bureau¹ · Houssein Guimbard² · Sébastien Jean³

Published online: 3 April 2019
© Kiel Institute 2019

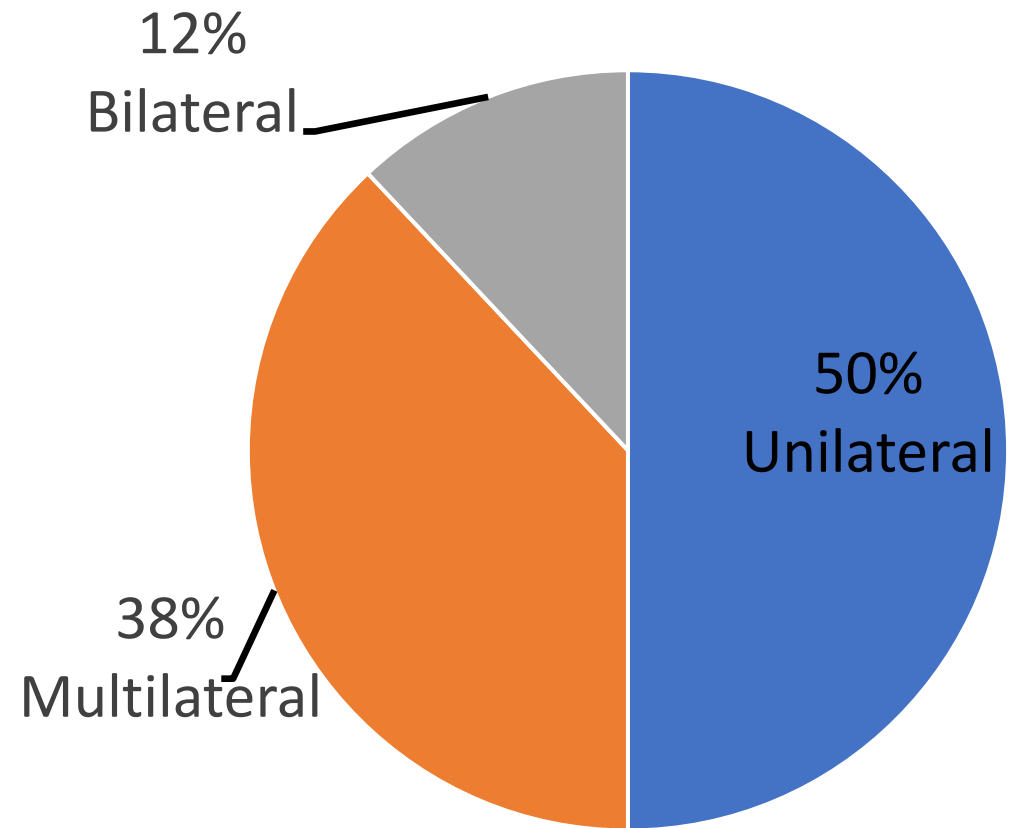
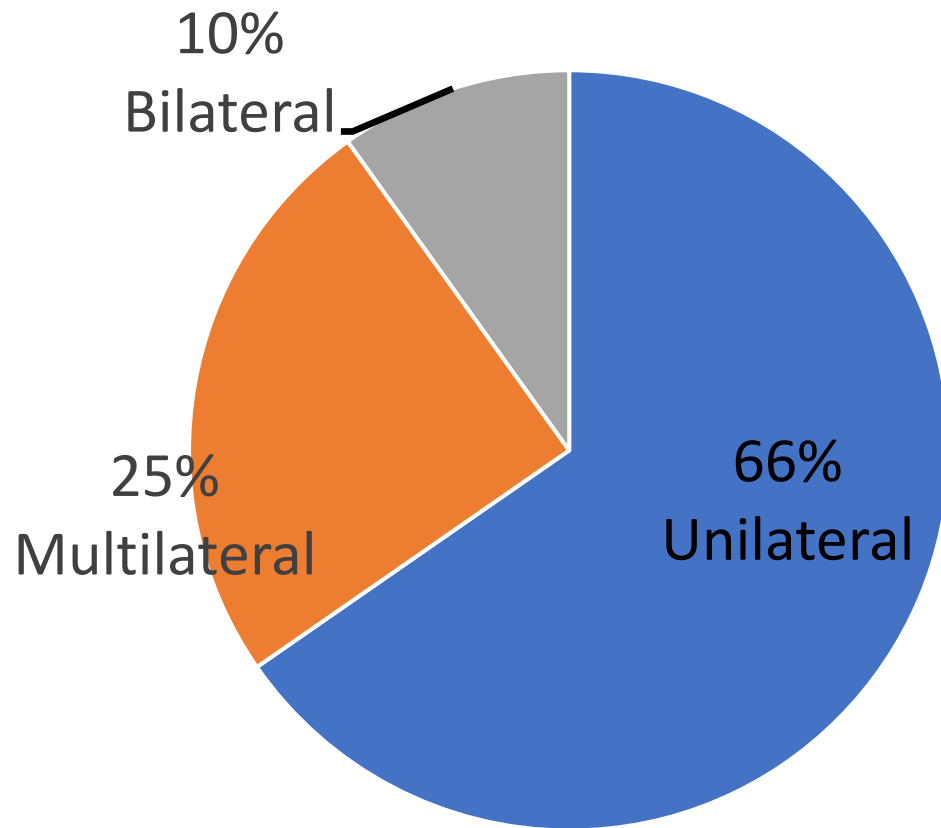
Abstract

This paper proposes a unique overview of trade policies since 2001, based on detailed data on tariffs and trade covering 130 countries. It shows that regionalism has delivered limited liberalization, representing only a 0.3 percentage point (p.p.) cut in the worldwide average applied tariff between 2001 and 2013. WTO commitments (1.0 p.p. average cut) and unilateral liberalizations on a most-favored-nation basis (1.3 p.p.) mattered far more. The study also shows that GVC participation was a powerful motivation underlying tariff liberalizations, including those carried out at governments' own initiative. The paper finally assess that recent trade policy changes more than halved the worldwide welfare gains expected from multilateral tariff-cutting. If all PTA negotiations were concluded, gains would fall to one-third of their 2001 level.

Keywords Regional trade agreements · Unilateral liberalization · Doha development agenda · WTO · Global value chains

Sources of developing country tariff reduction 1983-2003

2001-2013



GATT

- Developing countries operate outside of the GATT system
 - Consistently invoked Article XXVIII(b) on BOP
- Tariffs not most important trade barrier with QRs & FX rationing
- Most tariff reductions unilateral
- Yet outsiders wanted to get in
 - Accession process - Subramanian and Wei (2007)
 - China



The World Bank

World Bank

- Project lending
- Structural adjustment & trade policy loans (1980-)
- Technical assistance & economic advice

Rise and fall of World Bank lending

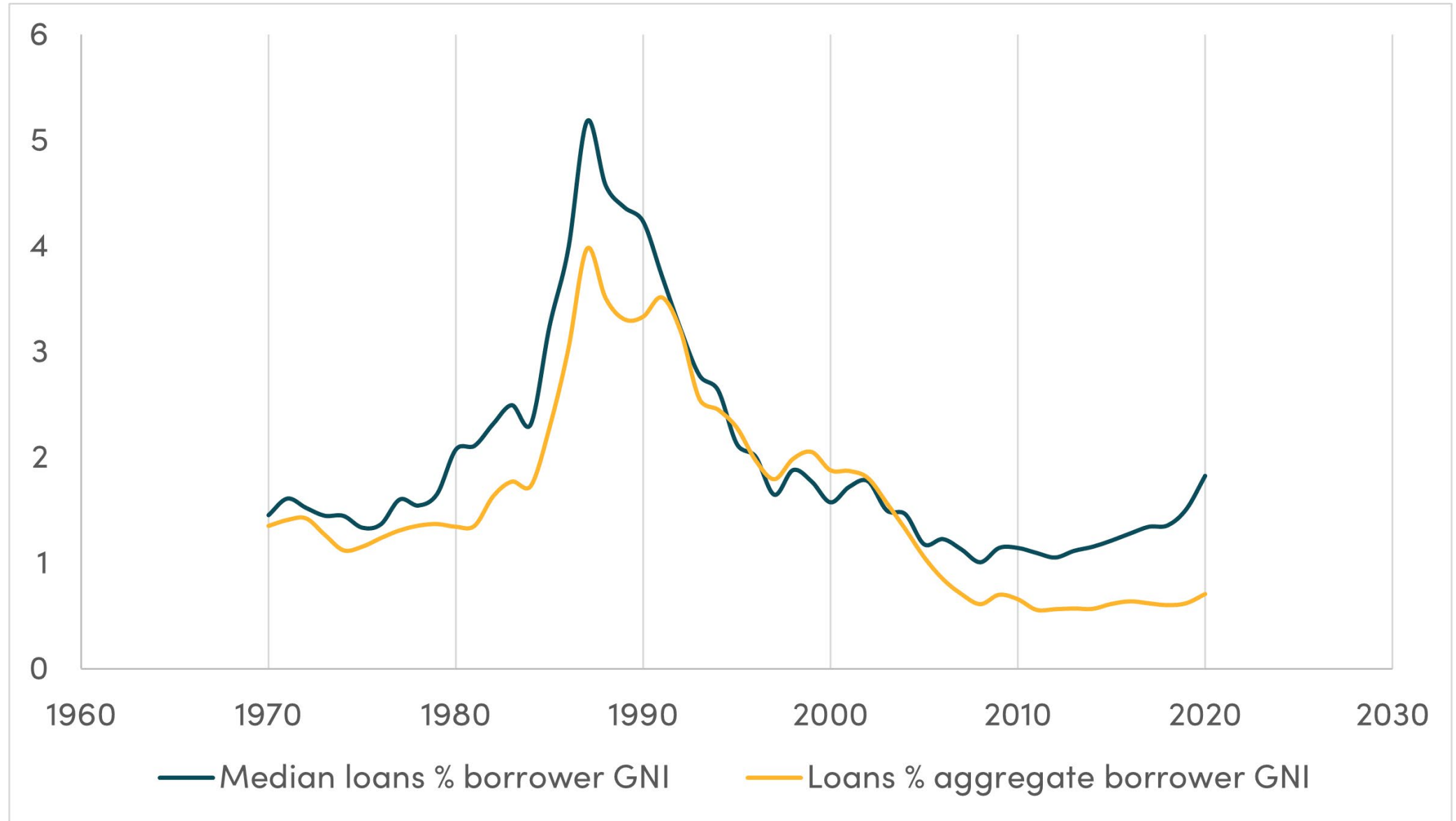
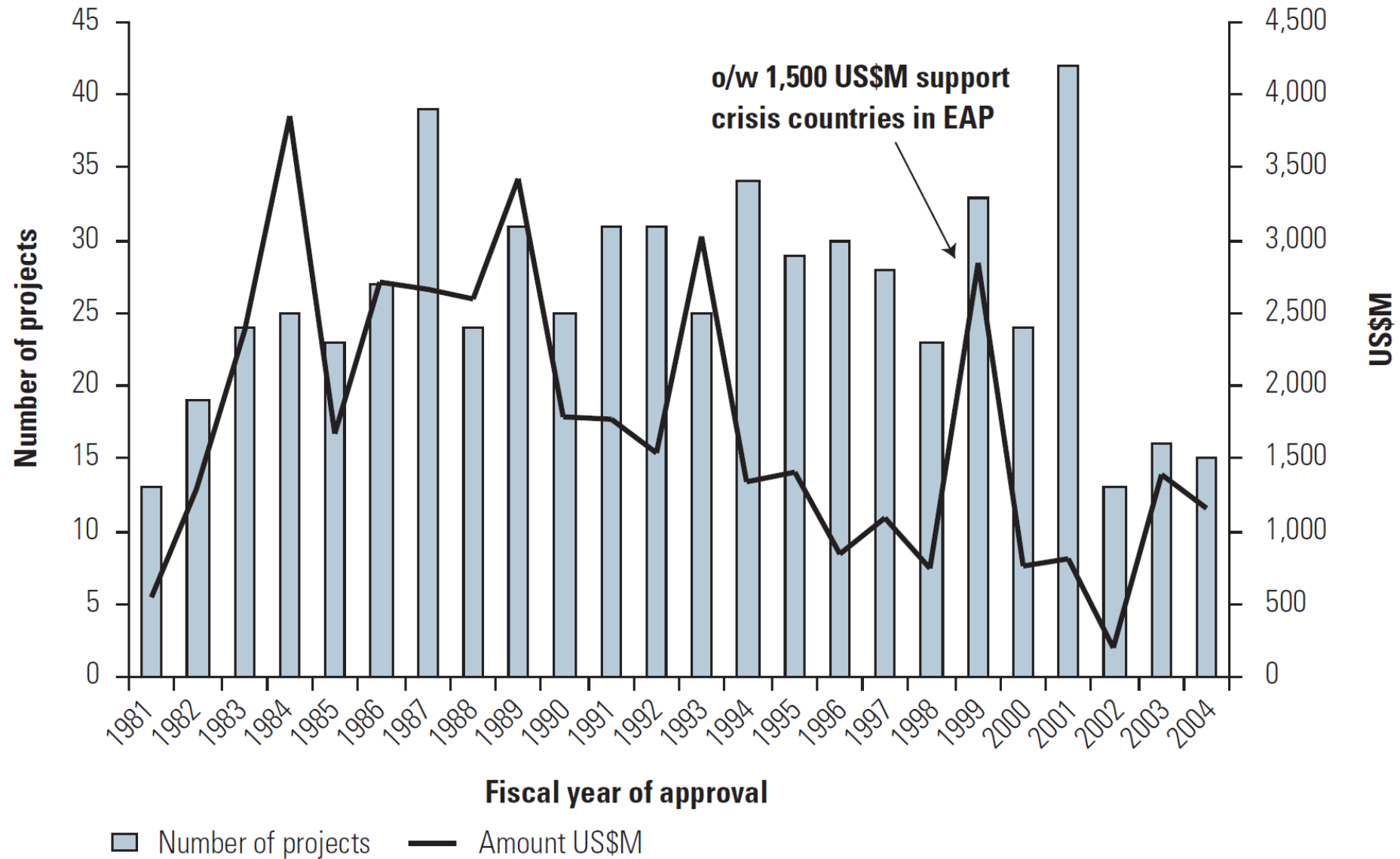
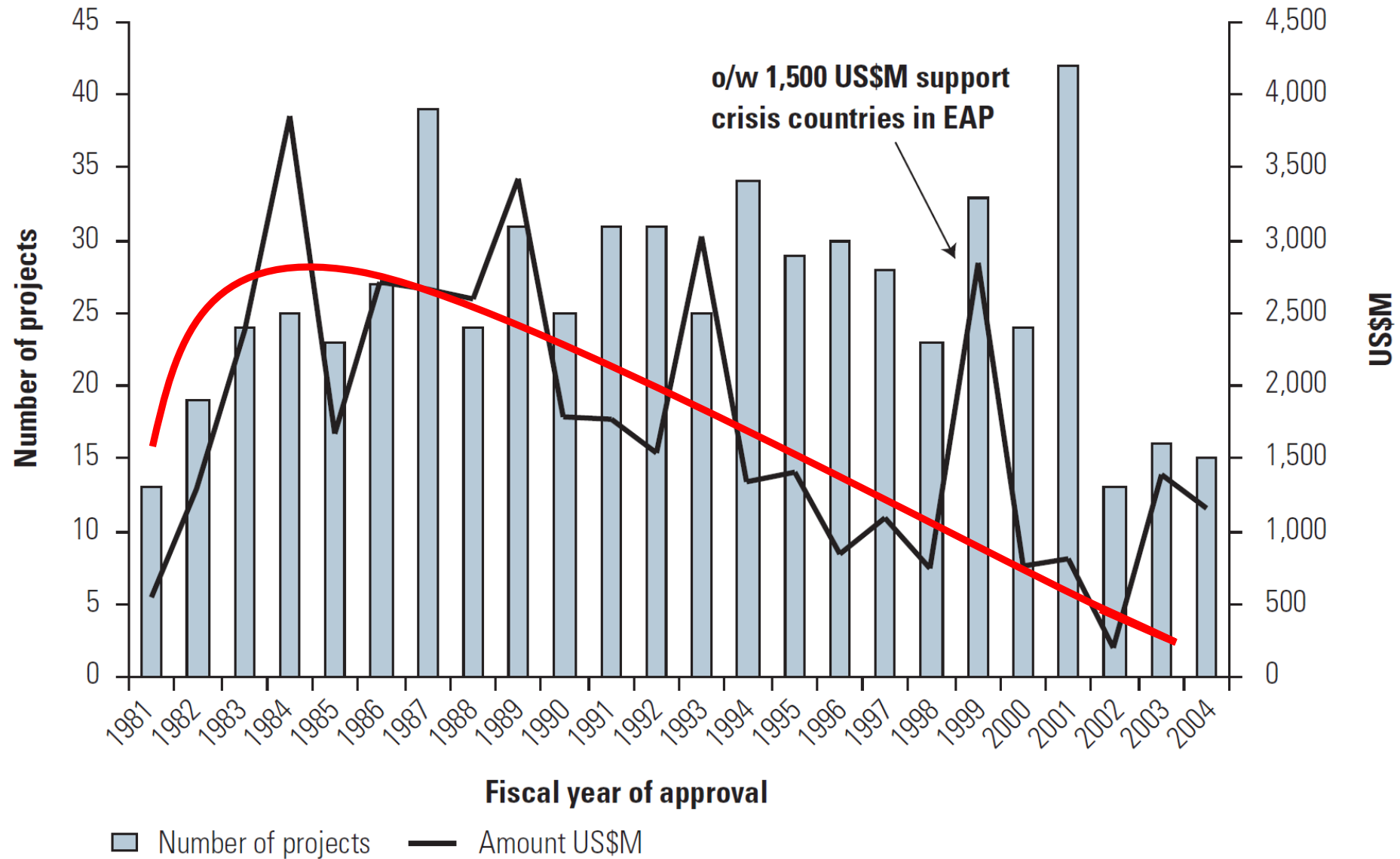


Figure 3.1: Trade-Related Bank Lending Has Varied But Trended Downward Overall



Source: Trade Assistance Evaluation Project Database.

Figure 3.1: Trade-Related Bank Lending Has Varied But Trended Downward Overall



Source: Trade Assistance Evaluation Project Database.

Report No. 9527

World Bank Support for Trade Policy Reform

April 22, 1991

Operations Evaluation Department

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IEG
INDEPENDENT EVALUATION GROUP

35921



35921

Assessing World Bank Support for Trade, 1987–2004

An IEG Evaluation



SALs and trade policy loans

- Did conditionality work? Can policy be bought?
- General skepticism
 - Krueger & Rajapartirana (1999), Nogues (1999), Edwards (1997)
- Without country ownership, policy reform unlikely to succeed
 - Failures in Africa
- Loans & reforms are correlated, but no evidence that loans → reforms
 - i.e., would the reforms have taken place anyway? Hard to control for selection

WHAT EXPLAINS THE SUCCESS OR FAILURE OF STRUCTURAL ADJUSTMENT PROGRAMMES?*

David Dollar and Jakob Svensson

This paper analyses the causes of success or failure of adjustment programmes, using a new database on 220 reform programmes. We find that the success or failure of reform depends on domestic political-economy forces. A few donor-effort variables are also highly correlated with the probability of success. However, once these effort variables are treated as endogenous, there is no relationship between any of them and the success or failure of reform. These results have clear implications for how the international community should approach policy-based aid.

‘It seems clear that the lending cum conditionality process works well only when local polities have decided, largely on their own, possibly with outside technical help, to address their reform needs, effect certain policy changes sequentially, and approach the international community for financial help in getting there’ (Ranis, 1995).

Development assistance shifted to a large extent in the 1980s from financing investment (roads and dams) to promoting policy reform. This reorientation arose from a growing awareness that developing countries were held back more by poor policies than by a lack of finance for investment. The development community has had nearly 20 years of experience now with policy-based or conditional lending. There have been a large number of studies of adjustment lending, almost all of which take a case study approach. Ranis’s conclusion above – that policy-based lending works if countries have decided on their own to reform – is echoed by other studies. Our objective in this paper is to look more systematically at the causes of success or failure of adjustment programmes, using a unique database covering 220 reform programmes.

- Domestic political-economy factors influence strongly the success or failure of reform programmes supported by adjustment loans. We find no evidence that any of the variables under the World Bank's control affect the probability of success of an adjustment loan.

Mexico

- Loan one year after policy change
- Amount small relative to reserves & trade flows

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The World Bank

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L.N. 2943-45

Report No. P-4366-ME

REPORT AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
IN AN AMOUNT EQUIVALENT TO US\$500.0 MILLION
TO
BANCO NACIONAL DE COMERCIO EXTERIOR, S.N.C.
WITH THE GUARANTEE OF
UNITED MEXICAN STATES
FOR A TRADE POLICY LOAN

July 14, 1986

Michael Bruno (World Bank)



“We did more for Kenya by cutting off aid for one year, than by giving them aid for the previous three decades”

Technical advice & expertise

- Contributed to change in intellectual climate
 - Huge amount of published research on trade, exports, exchange rates in 1970s and 1980s
- Transmission of ideas more important than conditional financing
 - Gavin & Rodrik (1995), Stern & Ferreira (1997), Clemens & Kremer (2016), Ravallion (2016), Knack et al. (2020)
- Training ground for country officials
 - Contribution of ex-WB staff to reform in home country

Bela Balassa



Anne Krueger



REFORMS TEAM OF NINETIES



MANMOHAN SINGH,
finance minister

When Manmohan Singh became finance minister, India's fiscal deficit was close to 8.5% of the GDP and foreign reserves barely \$1 billion. In order to get assistance, India had to not merely pledge its gold reserves, but fly them to depositories in the UK to shore up the confidence of the lenders. The three pillars of Manmohan's reform agenda were the devaluation of the rupee, slashing of tariffs and decontrolling gold import

P. CHIDAMBARAM,
minister of state for commerce

He served as the minister of state with independent charge of the ministry of commerce from June 1991 to July 1992. After a gap, he again served in this office in 1995-98. He was responsible for trade liberalisation and far reaching reforms of the industrial licensing procedures, including outright abolition of many licensing requirements. Chidambaram took the reforms agenda forward even during his stint as finance minister during the United Front government (1996-98)

MONTEK SINGH AHLUWALIA,
finance secretary

Ahluwalia has been and remains Manmohan Singh's 'sherpa', the key pointsman for implementing his policies. After a short stint as commerce secretary, he became secretary in the department of economic affairs in October 1991 and served till March 1993. He later had a five-year term as the finance secretary till August 1998 — a tenure that took him through several governments of varying political flavour



© Qamar Sibtain

Turgut Ozal, Turkey



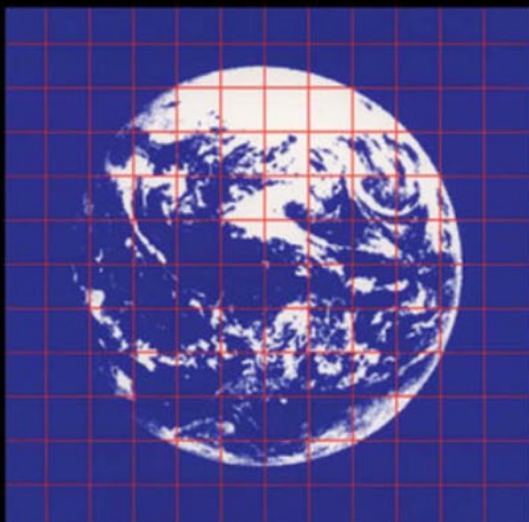
INTERNATIONAL MONETARY FUND



IMF

- Structural adjustment & program lending conditionality (1985-)
 - Very weak trade policy conditionality – monitored not enforced
 - Replace QRs with tariffs (revenue!)
- Long-term focus on current account openness
 - Remove exchange controls
 - Unify exchange rates
 - Devalue & establish realistic exchange rate

Trade Liberalization in IMF-Supported Programs



Prepared by a Staff Team
led by
Robert Sharer



IEO

Independent Evaluation Office
of the International Monetary Fund

EVALUATION REPORT

IMF Involvement in International Trade Policy Issues



2009

Empirical evidence?

- Burden of exchange controls on trade
 - Wei & Zhang (2007), Eichengreen & Irwin (2010)
- Trade reform conditions & IMF programs
 - Wei & Zhang (2010)
- Lots of evidence that reform → better outcome
- Little evidence that external intervention → reform



Margaret Garritsen de Vries

Academic economists fail to appreciate “how the gradual lifting of exchange controls enabled world trade and services to increase, and how real exchange rate depreciation by developing countries helped integrate them into the world economy.”

The IMF “was instrumental in persuading countries of the need for non-inflationary macroeconomic policies and in pushing countries to lift trade restrictions in line with their improving external payments situations.”

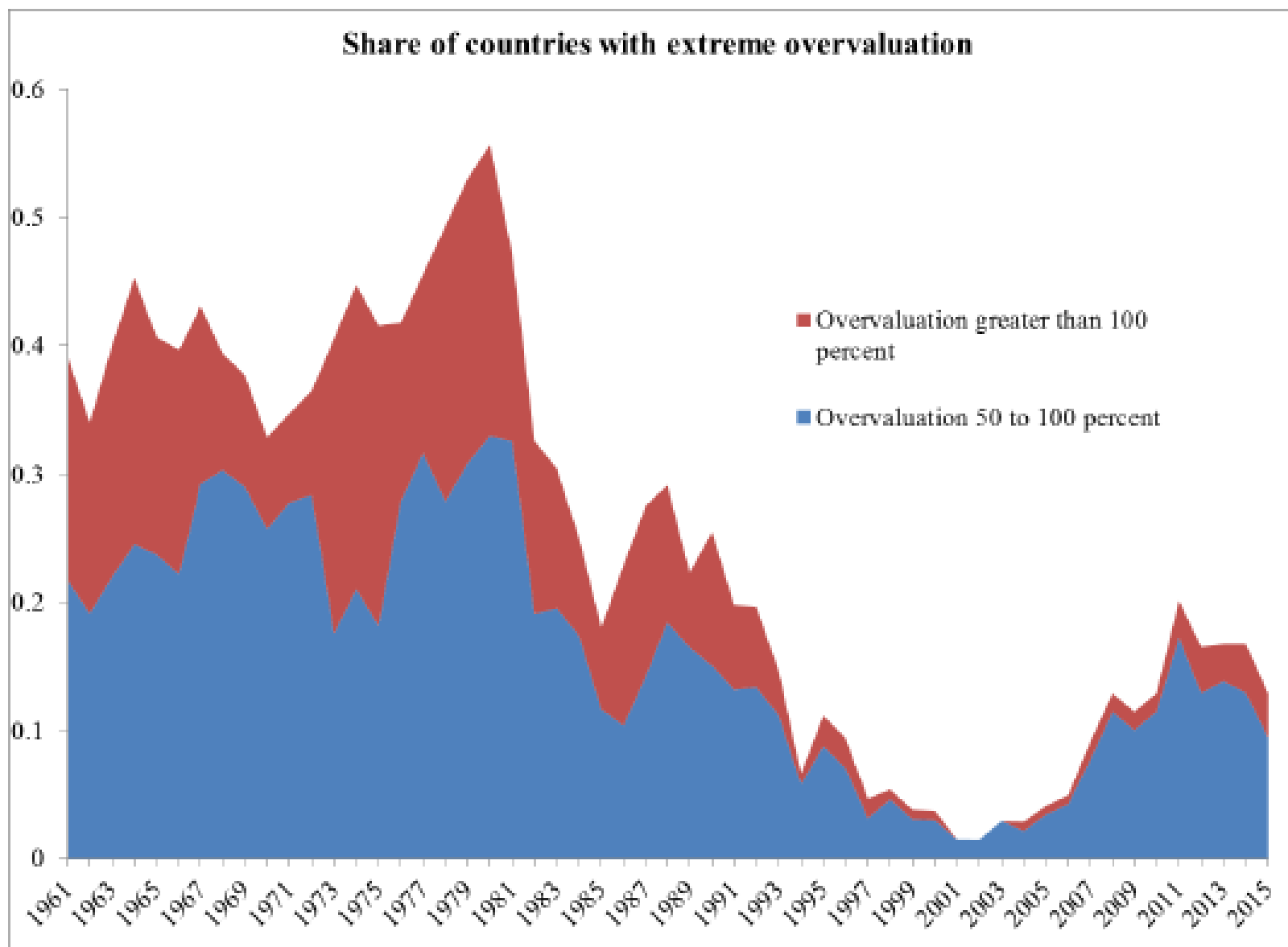


Figure 4: Share of countries within each range of overvaluation outcomes

Ernest Sturc, ETR

- Recalling Keynes' toast to "no more competitive devaluations."
- "Little did I dream that I would spend my life trying to persuade countries to devalue!"

Ernest Sturc, Director of the Exchange and Trade Relations Department of the Fund, is a U.S. national and has been a member of the staff since 1946. He is a graduate of the University of Bratislava, Czechoslovakia, and the University

of Chicago. He was a member of the Czechoslovak delegation to the Bretton Woods Monetary Conference in 1944 and the San Francisco Conference on the establishment of the United Nations in 1945.



Percent of countries with non-unified exchange rates

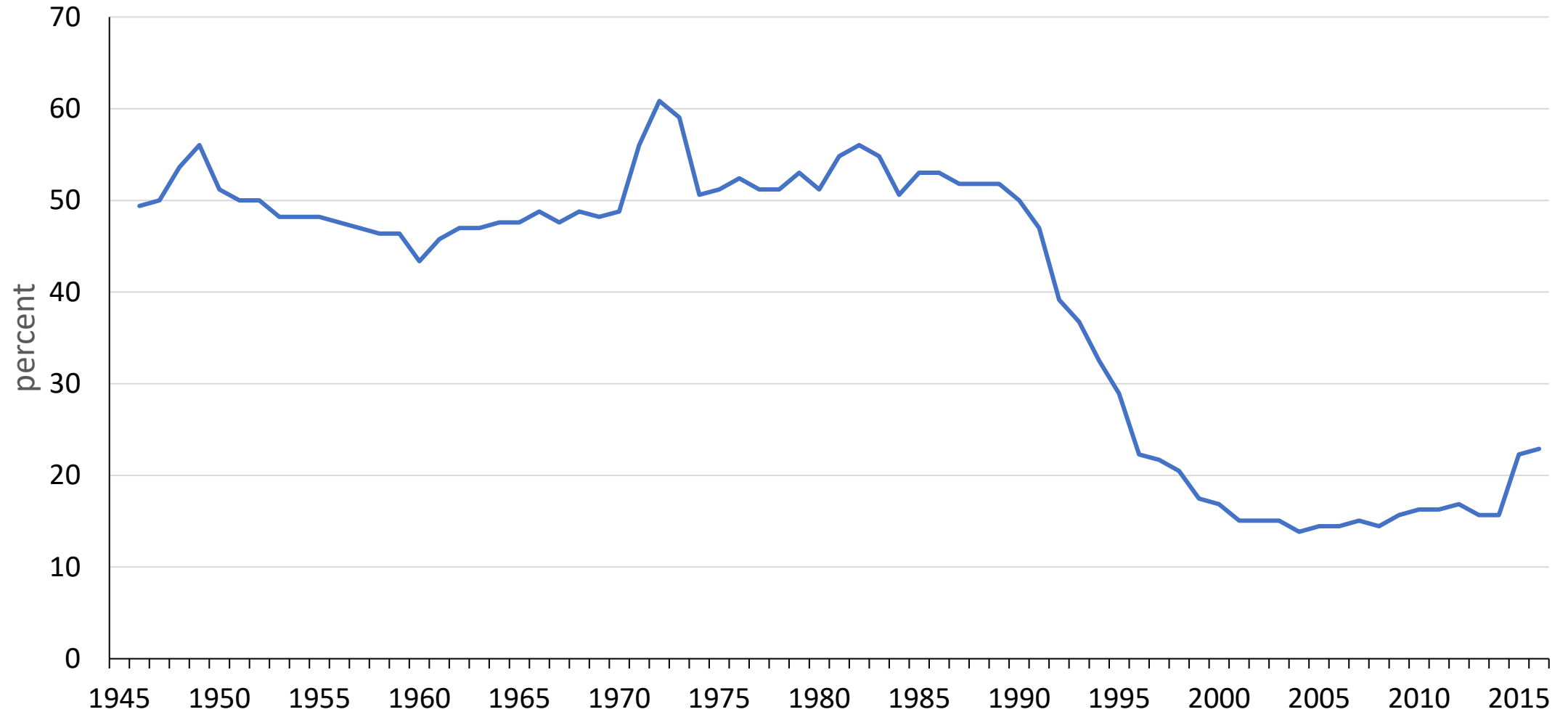
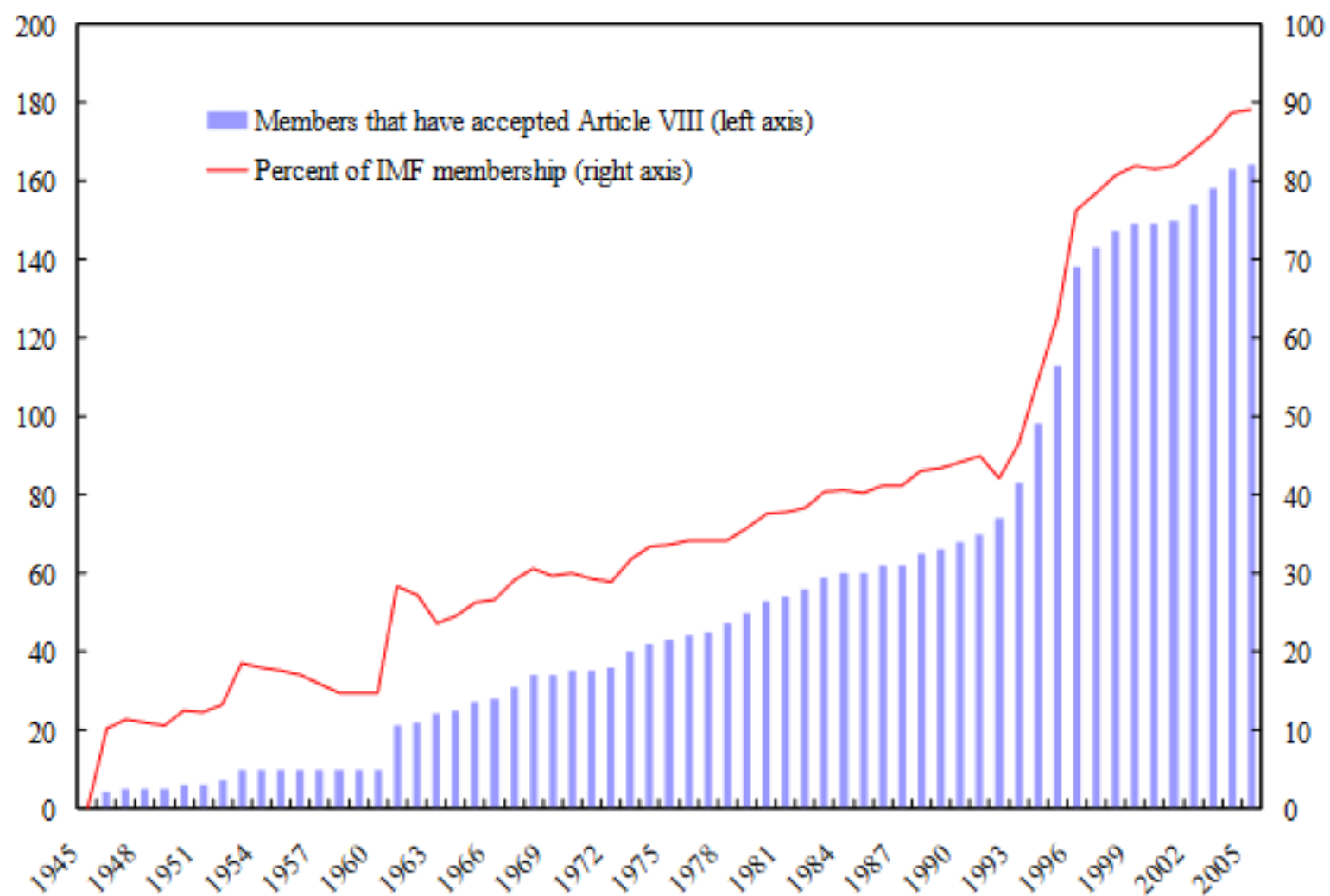


Figure 1. IMF Member Countries Accepting Article VIII Obligations, 1945–2005

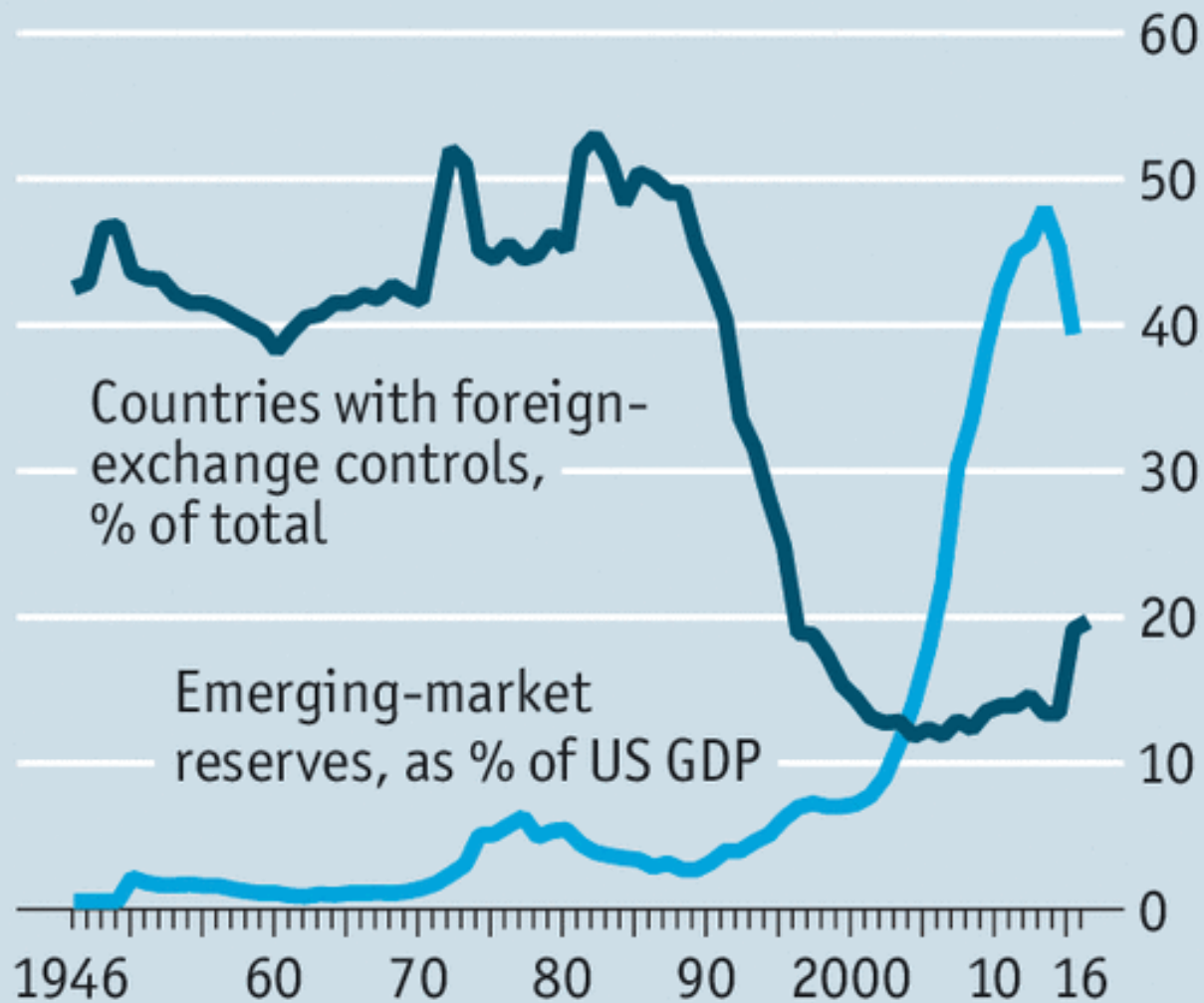


Note: As of end-December 2005.

Source: AREAER database.

The cost of freedom

Exchange-rate management



Sources: IMF; Bureau of Economic Analysis

The trade policy three-step

1. Devalue currency, establish realistic exchange rate
2. Replace QRs with tariffs
3. Reduce level and dispersion of tariffs

The trade policy three-step

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The trade policy three-step

1. Devalue currency, establish realistic exchange rate



2. Replace QRs with tariffs



3. Reduce level and dispersion of tariffs



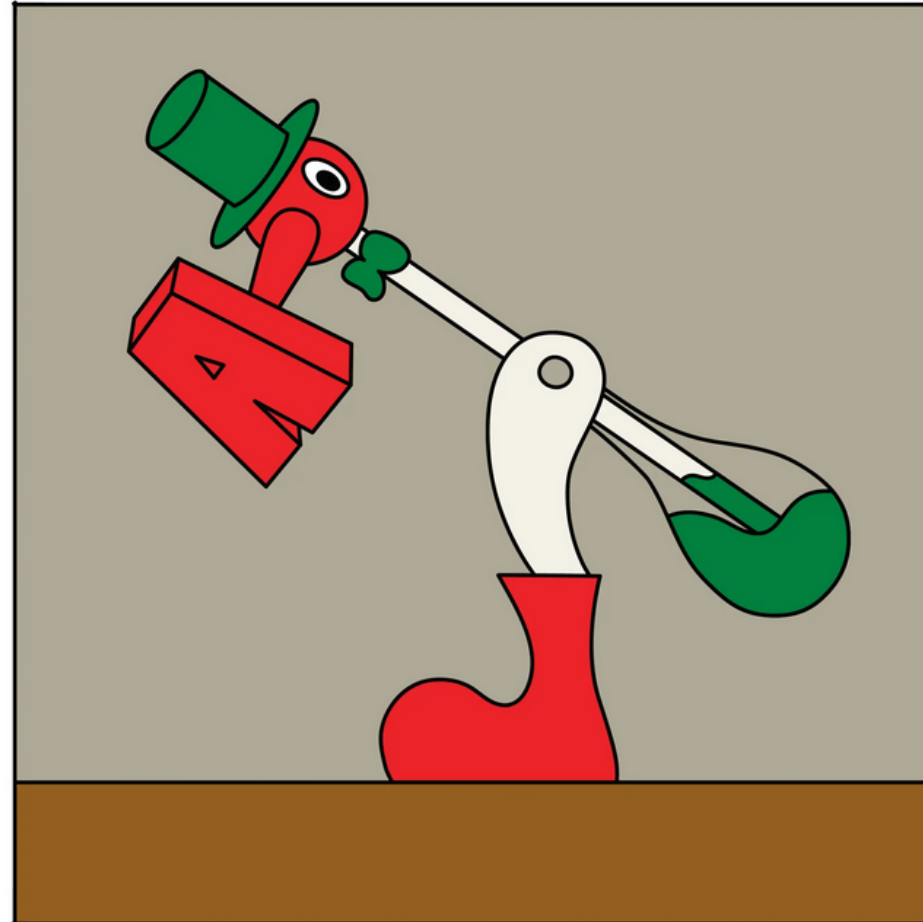
Trade policy functions

	GATT/WTO	World Bank	IMF
Surveillance	[* TPRM post 1995]	X	X
Policy Advice		X	X
Policy Research		X	
Conditional lending		X	X [*arrears]
Accession requirements	X		

OPINION
GUEST ESSAY

If Everyone Gets an A, No One Gets an A

Oct. 23, 2023, 5:00 a.m. ET



Two concluding remarks

- Globalization successes
- Return of geopolitics

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Rue de Lausanne 154:

Which Location Gets Credit for Developing Country
Trade Reform?

Douglas Irwin

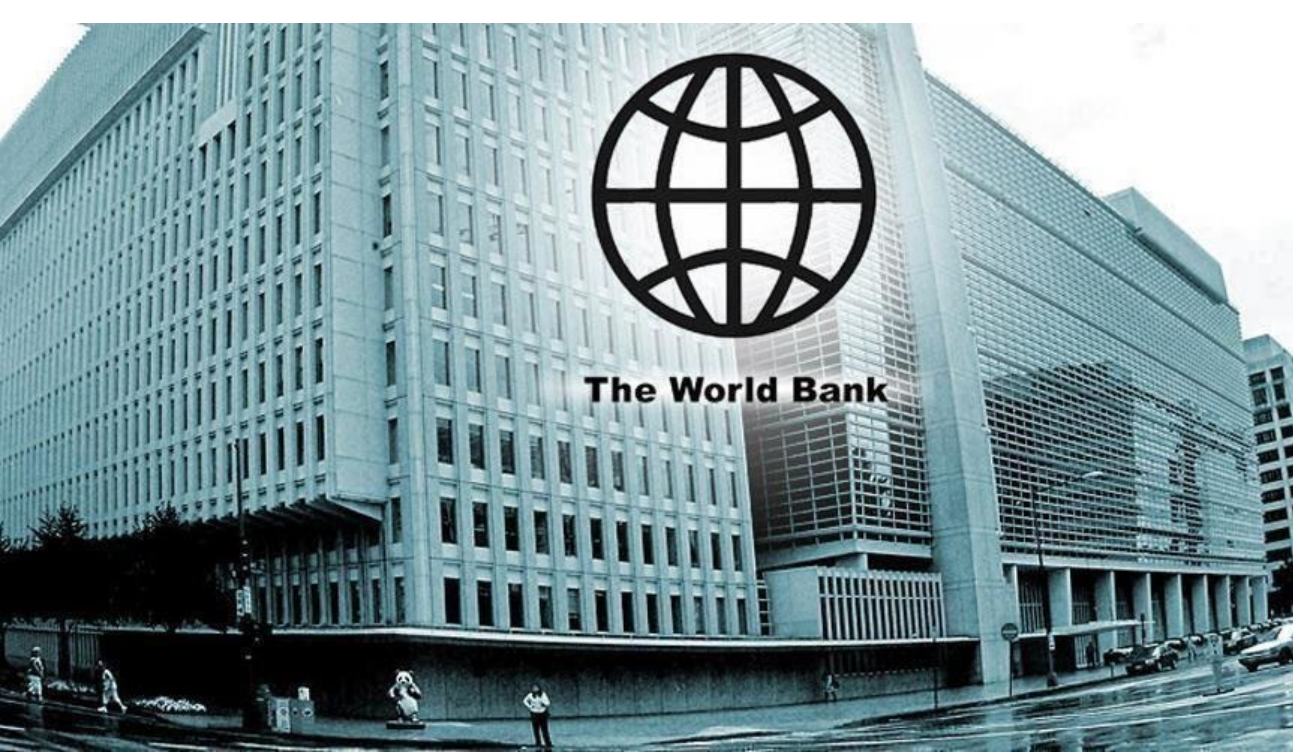
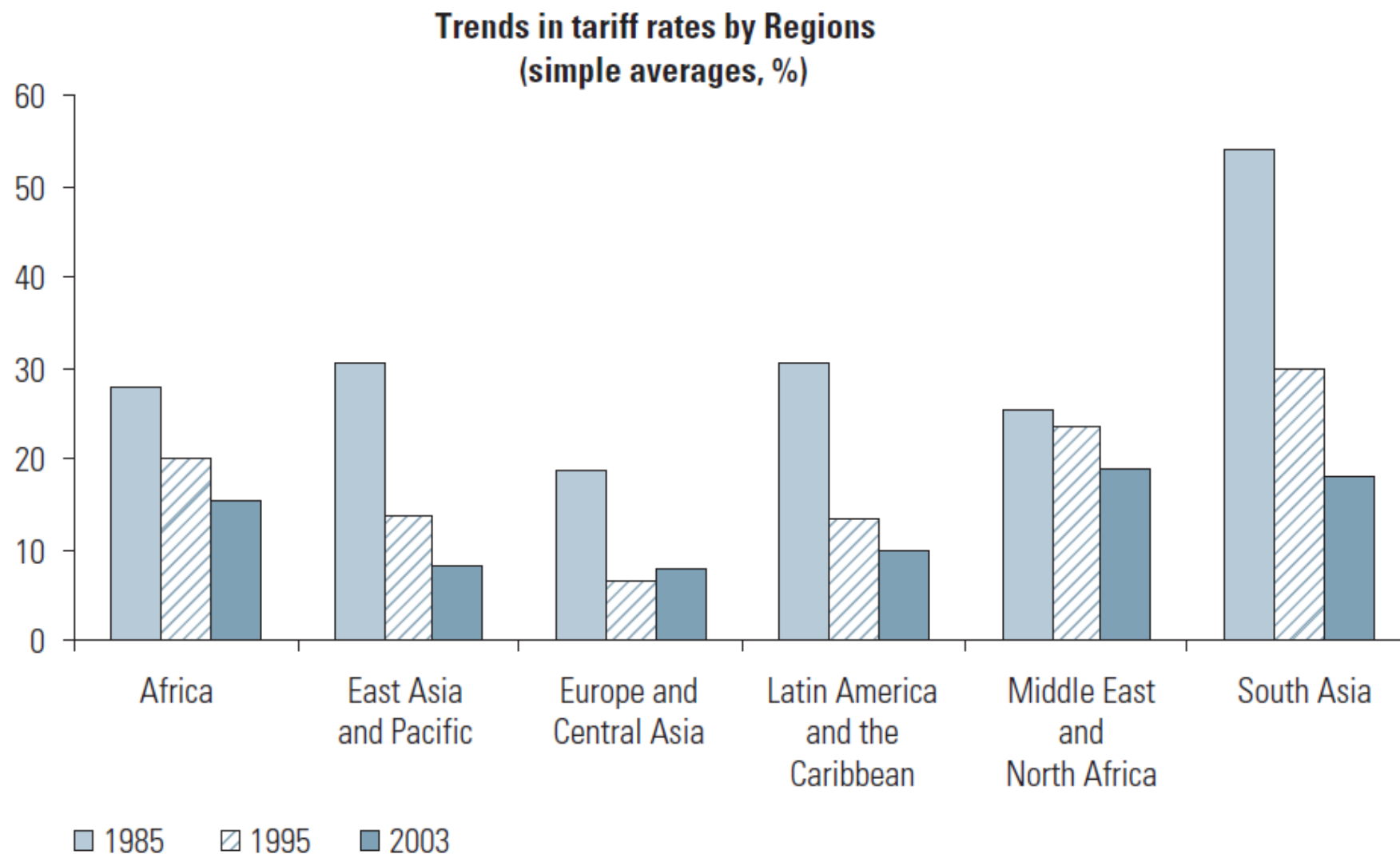


Figure 1.1: Declining Import Tariffs, But Some Regions Still Significantly Protected



Sources: WTO, IDB CD ROM database and Trade Policy Review — Country Report, various issues, 1990-2003, and IMF Global Monitoring Tariff Data.