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Sensitive Product Treatment in Agricultural Trade Negotiations

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Problem and Objectives

Ex-ante impact analyses of trade policy dominate the economic trade literature, and show the still high potential gains from agricultural trade liberalization (CBO, 2005).

Less understood are the factors that affect trade reform and negotiation outcomes.

The objective of this study is to explain the outcome on agricultural tariff reform in regional negotiations, with a special emphasis on treatment of sensitive products .

Literature review

International Negotiation Theory (INT) suggests that political economy, institutional framework, and negotiation strategies influence bargaining outcomes. (Putnam, 1988, Odell, 2000)

Endogenous tariff theory (ETT) focuses on the influence that political economy and institutional setting have on sectoral protection. (Rodrik, 1994; Gawande, 2003)

Conceptual Framework: Testing INT

Quantitative: Simultaneous Equation Model

- (1) $\Delta MA = f(PA, NC | NP)$
- (2) $IMP = f(CA, \Delta MA)$

Where:

ΔMA : negotiated change in market access

PA : political economy variables (economic size; concentration ratio; import penetration ratio; K/L ratio; sectoral/total labor ratio; input sales, other sectoral characteristics)

NC : negotiation context variables (GDP ratios; unemployment rates, balance of payments, other national characteristics)

CA : comparative advantage variables (relative costs and prices)

NP : negotiation process variables (offensive/defensive strategies)

Qualitative: Method of Difference

Qualitative methods strengthen quantitative analysis as they allow the researcher to identify subtle nuances not captured by the quantitative analysis (Odell 2001).

- Determine how negotiation outcomes in the Western Hemisphere FTAs are similar and how they differ
- Pair FTA cases that are similar in all but the INT variables of interest to identify their effect on the negotiated outcomes

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Data

Description of the Agreements

U.S. Trade Partner	Agricultural Trade Share*		Number of Tariff Reduction Schedules	Longest Reduction Schedule (Years)	Number of Agricultural TRQs	
	U.S.	Partner			U.S.	Partner
Chile	1.8%	25.0%	23	12	11	10
Costa Rica	1.1%	46.0%	25	20	9	14
Dom. Rep.	0.9%	58.0%	25	20	5	22
El Salvador	0.3%	32.6%	25	20	9	15
Guatemala	1.0%	39.5%	25	20	5	12
Honduras	0.6%	49.9%	25	20	6	11
Nicaragua	0.3%	34.5%	25	20	8	14
Colombia	1.5%	36.4%	22	19	8	19
Peru	0.5%	17.0%	19	17	4	12

*. Trade share_{ij} = (bilateral exports_{ij} + bilateral imports_{ij})/(total exports_i + total imports_i)

Dependent Variable

ΔMA : change in openness or market access, defined as the tariff reduction negotiated as part of an agreement

Estimation/transformation issues:

Back-loaded nature of reduction schemes (e.g. Figure 1)

- Take the final outcome and ignore temporal protection
- Consider the accumulated protection granted during the implementation period
- Consider the discounted value of the protection extended during the implementation period

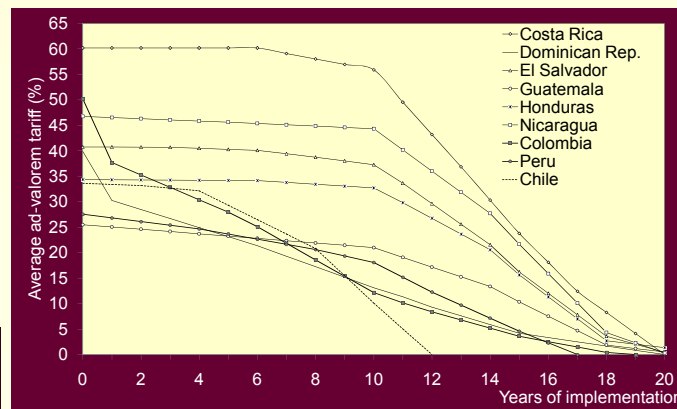
Presence of TRQs

- Consider the status of the TRQ to estimate market access
- Selection of reference period to judge the status of the TRQ
- Aggregation across tariff lines for multi-product TRQs

Presence of non-ad valorem (NAV) tariffs

- Selection of NAV ad-valorem equivalent estimation method

Figure 1. Back-loaded nature of negotiated outcomes for sensitive agricultural products



Results

Quantitative Approach

Data Issues

Unexpected limitations on data availability and accessibility

- Constrained ability to perform detailed sectoral analysis
- More resources are needed to gather the relevant data
- Inaccessibility of negotiators resulted in incomplete datasets to define bargaining strategies

Methodological limitation with regard to the identification of bargaining strategies by commodity

Qualitative Approach

Trade Agreement negotiated outcomes are a result of:

Import pressures which increase lobbying efforts

- Unemployment pressures/job opportunities
- Industry concentration in terms of lobbying efforts

Offensive/defensive bargaining strategies used by negotiators

- Based on what negotiators know about their side/the other side
- Based on sectoral lobbying from both sides in both countries
- Knowledge from each side of the others position

The relative power or perceived superior position of each side

Limitations

The quantitative assessment ignores the outcome on non-tariff barriers such as sanitary, phytosanitary, and technical barriers to trade, to which countries have turned to grant protection given the constraints in the use of tariff barriers imposed by the international trading system.

Perfect case comparisons are impossible to determine as no two cases are similar in the exact same context.

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