

# Smoke in the Water

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# A bit of History



# This presentation

- Measuring Water, Smoke and Policy Space
- Looking back.....
- Looking forward....
- Caveats
- Concluding remarks

# What's in the remix?

- Measuring Water, Smoke and Policy Space

- Looking back.....

- Looking forward....

- Caveats

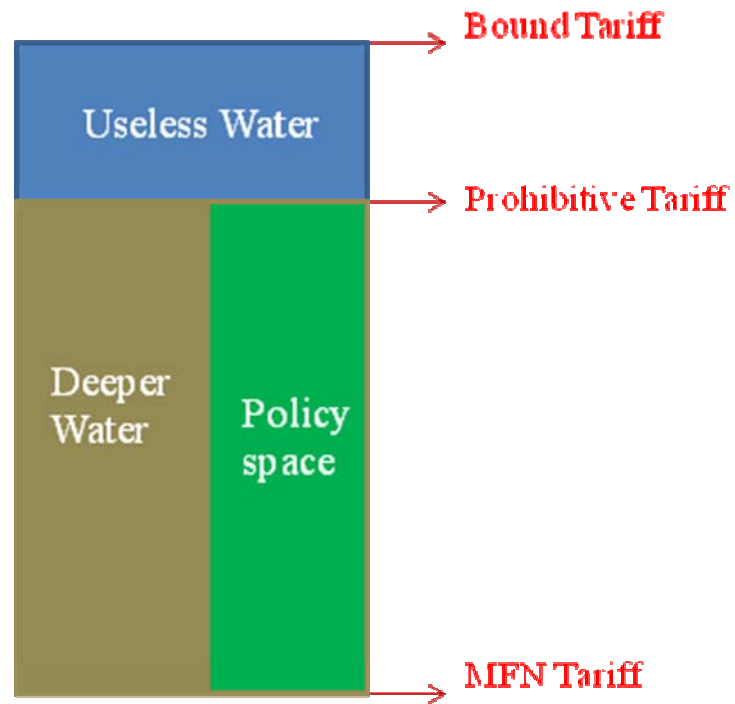
- Concluding remarks

# Measuring Water, Smoke and Policy Space

Water is a concept based on legal commitments

$$\text{Water}_c = \sum_{i \in \text{HS6}} \frac{\text{elasticity}_{ic} \times \text{imports}_{ic}}{\sum_{i \in \text{HS6}} \text{elasticity}_{ic} \times \text{imports}_{ic}} (\text{B}_{ic} - \text{T}_{ic})$$

But not all water makes economic sense, or can be considered as truly policy space

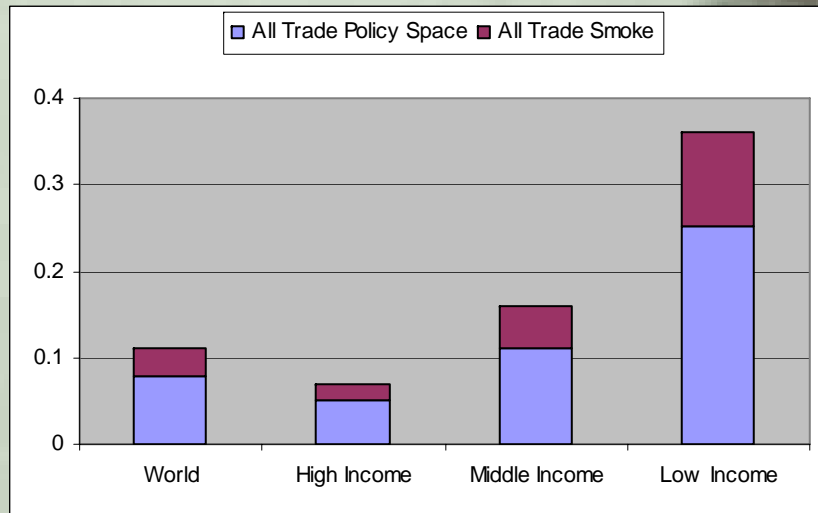


$$P_{ic} = T_{ic} + \frac{1 + T_{ic}}{\text{elasticity}_{ic}}$$

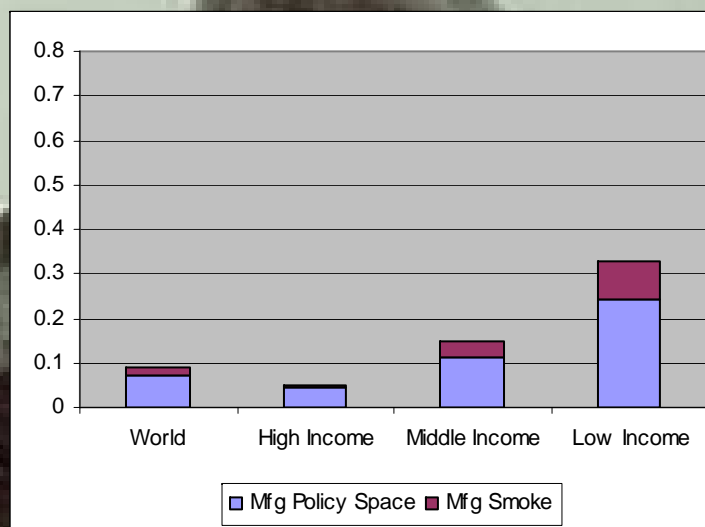
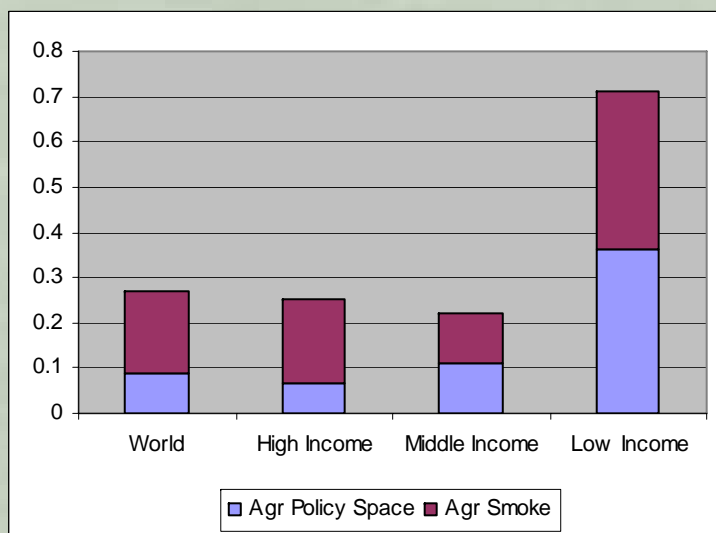
$$\text{Smoke}_c = \text{Useless\_Water}_c + \text{Deeper\_Water}_c =$$

$$\sum_{i \in \text{HS6}} \frac{\text{elasticity}_{ic} \times \text{imports}_{ic}}{\sum_{i \in \text{HS6}} \text{elasticity}_{ic} \times \text{imports}_{ic}} \left[ \max(0; B_{ic} - P_{ic}) + (\min\{B_{ic}; P_{ic}\} - T_{ic}) \frac{\text{imports}_{ic}^{\text{pref}}}{\text{imports}_{ic}} \right]$$

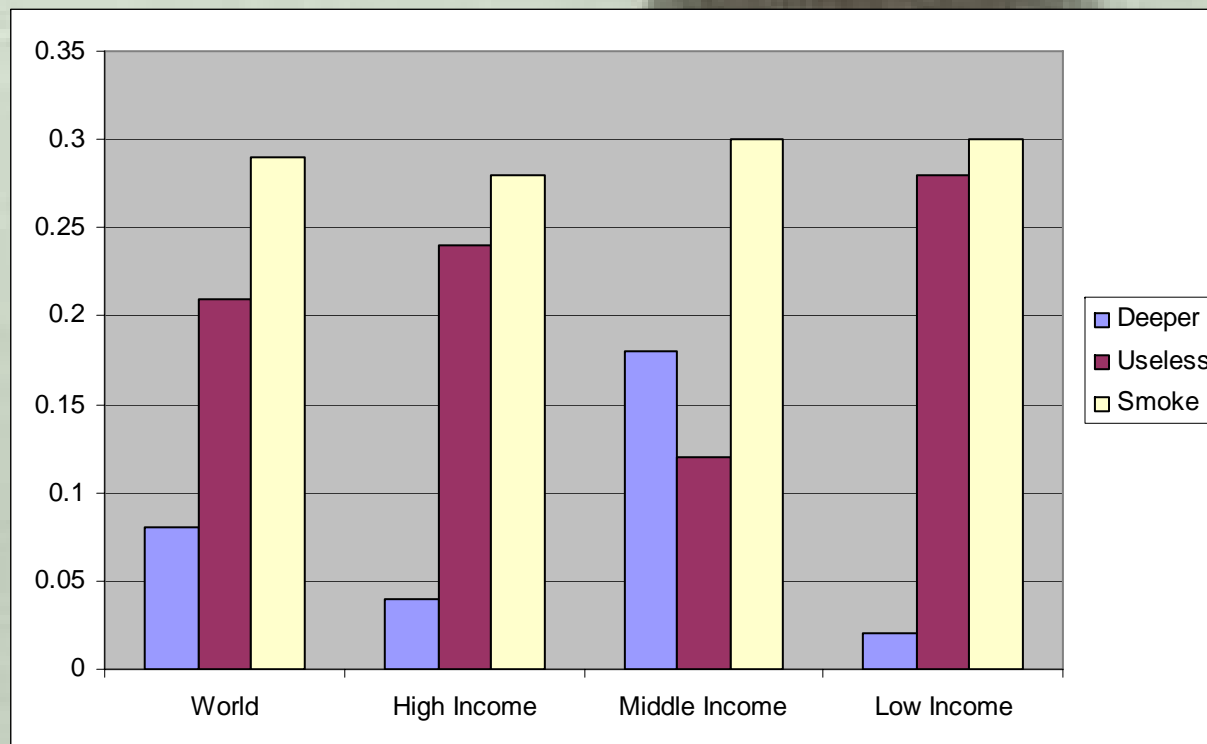
# How much Smoke is there in the Water?



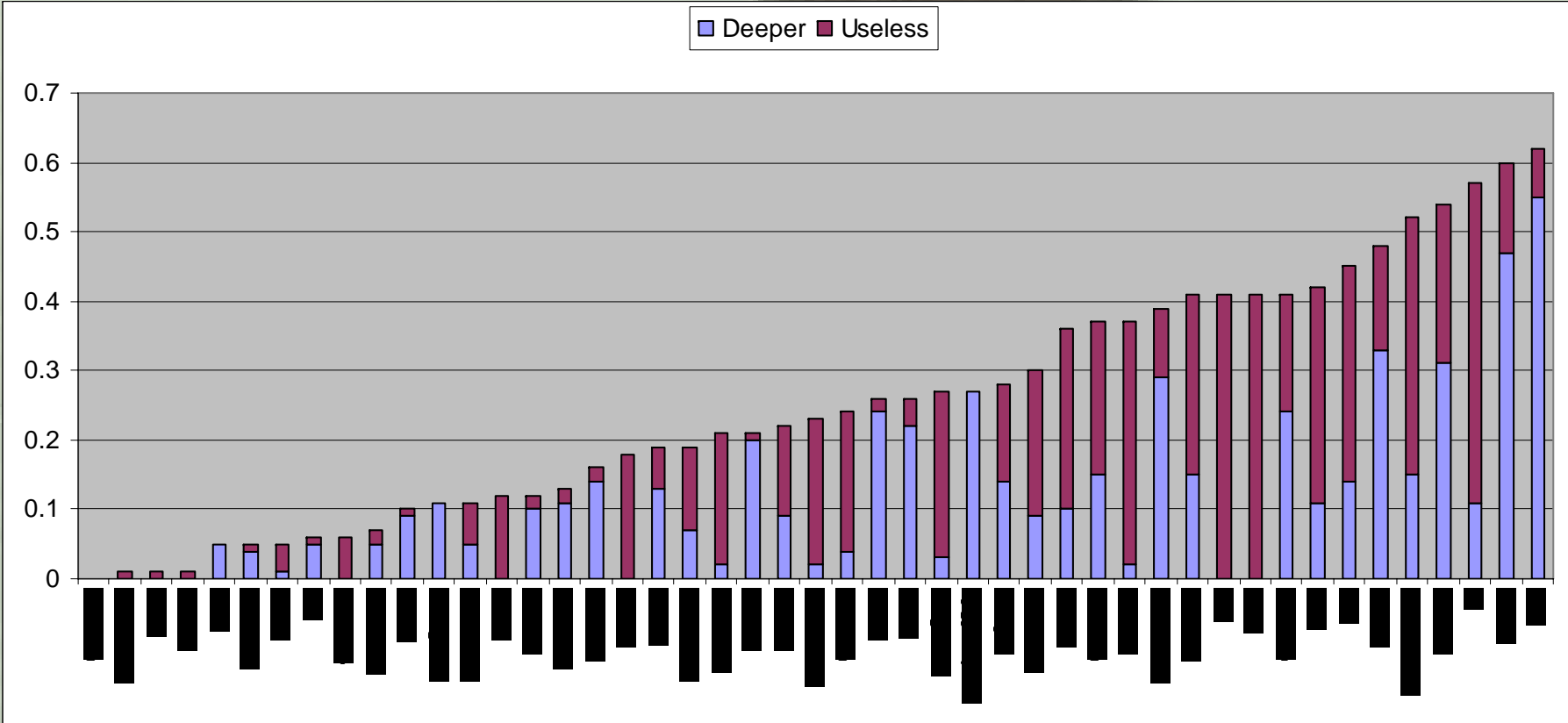
Percentage Points  
Real Policy Space and  
Smoke in the Water



# Share of Smoke in the Water, what kind...



# How much Smoke is there in the Water?



## Looking back.....

- Sample 1994-2008, HS 6 digit, 97 WTO (EU=1)

$$\ln(t_{ict}) = \alpha_{ic} + \alpha_t + \beta_1 \text{Crisis}_{ct} + \varepsilon_{ict}$$

- Crisis is defined as a decline in real GDP
- We also control for the share of neighbors in an economic crisis and GDP, as well as the interaction of GDP and crisis

|              | Log of MFN<br>(1) | Log of MFN<br>(2) | Log of MFN<br>(3)  | Log of MFN<br>(4)   |
|--------------|-------------------|-------------------|--------------------|---------------------|
| Crisis       | .0172<br>(.001)a  | .0196<br>(.001)a  | -.0613<br>(.0096)a | -0.0359<br>(.0097)a |
| Share_Neigh  |                   | .0630<br>(.001)a  |                    | 0.0626<br>(.0013)a  |
| LGDP         |                   | -.0628<br>(.001)a | -.0626<br>(.001)a  | -0.0627<br>(.0014)a |
| LGDP*crisis  |                   |                   | .0032<br>(.0003)a  | 0.0023<br>(.0003)a  |
| Observations | 3853717           | 3853717           | 3853717            | 3853717             |

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### Robustness checks:

- 1) Lagged crisis. The 2 percent increase is reversed after a year
- 2) Deeper crisis. Smaller MFN tariff increases
- 3) Mean group WLS to correct for correlation within groups: same results

## Looking forward.....

- Using EIU predictions for 2009, we can construct Crisis and Share of neighbors in crisis in 2009
- And predict MFN tariffs....



# Caveats



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- We need more light posts to monitor Evenett and Baldwin's murkier protectionism (NTBs, behind the border, etc..)
- And it needs to be publicly available data subject to public scrutiny (free and easily available databases)

## Concluding remarks

- Legally there is a lot of water in WTO member's binding commitments
- And loads of policy space even after correcting for smoke in the water
- But member countries do not seem to have used this policy space during economic crisis after the creation of the WTO (1994-2008)
- Is it because it may be counterproductive?
- Or because they are using other murkier forms?

Either way:

- 1) We predict a small increase in MFN tariffs during 2009 even if 74 percent of the world is expected to be in an economic crisis
- 2) And to avoid light post bias in policy advice, we call for better collecting and systematic monitoring of murkier forms of protectionism