

# Lobbying for Tariff Phase-Outs in U.S. Bilateral Free Trade Agreements

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<sup>1</sup>Disclaimer: All views are personal, not necessarily those of the IMF.

# Motivation

## Tariff phase-outs in FTAs

- ▶ Proliferation of FTAs since mid-'90s.
- ▶ 12 FTAs for U.S. since NAFTA.
- ▶ Tariffs are gradually phased out over many years.

## Questions of interest

- ▶ How prevalent are tariff phase-outs/product exclusions in U.S. FTAs?
- ▶ What determines the liberalization timepaths?
- ▶ What is the role of special interest groups?

## Why important?

- ▶ Protectionism: back with a bite (Fajgelbaum et al. 19).
- ▶ Sheds light on political economy forces in FTAs negotiations.

## Related Literature

### Protection for sale

- ▶ Interest groups promise gov't contributions for trade protection; gov't maximizes weighted sum of contributions and welfare (Grossman & Helpman 94, 95; Goldberg & Maggi 99; Mitra 99; Gawande & Bandyopadhyay 00).

### Firm heterogeneity

- ▶ Fixed cost of political organization; firm sorting for sectoral lobbying (Bombardini 08).
- ▶ Lobbying firms are pro-liberalization of *reciprocal* FTAs (Blanba-Gubbay, Conconi & Parenti 19, also see Rodrik 18).

### Dynamics of economic integration

- ▶ Delayed trade-promoting effects of FTAs due to phase-outs? (Baier & Bergstrand 07; Besedeš, Kohl & Lake 19).

# This Paper

## Contributions

- ▶ Provide novel data on product-level trade commitments in 12 U.S. FTAs since NAFTA.
- ▶ Empirically examine lobby-protectionism/liberalization linkages in FTA negotiations.
- ▶ Address staging outcomes for both the U.S. and its FTA partners.

# This Paper

## Preview of findings

- ▶ Bulk of U.S. and partner's commitments aimed at continued and immediate liberalization.
- ▶ Phase-outs occur in 13% of U.S. products and 27% of partners' products, yet substantial variation per partner.
- ▶ With supply-chain linkages, U.S. lobbying is associated with pro-liberalization outcomes in both the U.S.' as well as its partners' FTA product staging commitments.

# U.S. Bilateral FTAs

Partner	Enforced	Max. Phase-Out (Years)
Jordan	Dec 2001	10
Singapore	Jan 2004	10
Chile	Jan 2004	12
Australia	Jan, 2005	18
Morocco	Jan 2006	18
Bahrain	Aug 2006	10
CAFTA El Salvador	Apr 2006	20
CAFTA Honduras	Apr 2006	20
CAFTA Nicaragua	Jul 2006	20
CAFTA Guatemala	Mar 2007	20
CAFTA Dominican Republic	Jan 2009	20
CAFTA Costa Rica	Mar 2006	20
Oman	Jan 2009	10
Peru	Feb 2009	17
Korea	Mar 2012	15
Colombia	May 2012	15
Panama	Oct, 2012	17

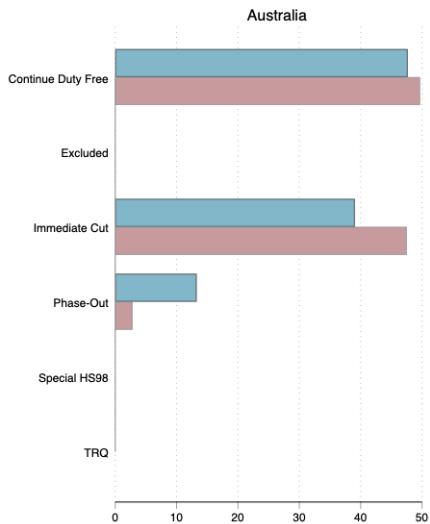
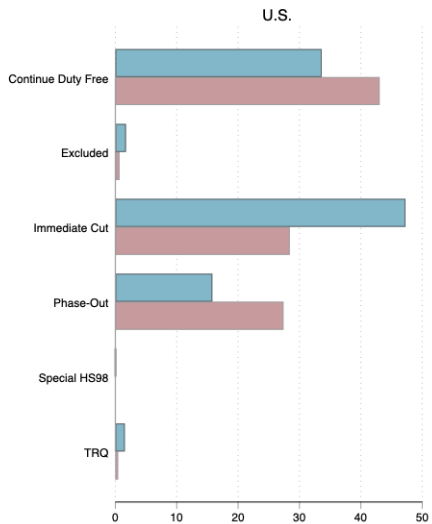
HTSUS (2004)	DESCRIPTION	BASE RATE	STAGING CATEGORY
8477.90.15	---Of machines of subheading 8477.10.70, 8477.40.40 or 8477.59.40	Free	E
8477.90.25	---Other	3.1%	A
	--Barrel screws:		
8477.90.35	---Of machines of subheading 8477.10.70, 8477.40.40 or 8477.59.40	Free	E
8477.90.45	---Other	3.1%	A
	--Hydraulic assemblies incorporating more than one of the following: manifold; valves; pump; oil cooler:		
8477.90.55	---Of machines of subheading 8477.10.70, 8477.40.40 or 8477.59.40	Free	E
8477.90.65	---Other	3.1%	A
	--Other:		
8477.90.75	---Of machines of subheading 8477.10.70, 8477.40.40 or 8477.59.40	Free	E
8477.90.85	---Other	3.1%	A
8478	Machinery for preparing or making up tobacco, not specified or included elsewhere in this chapter; parts thereof:		
8478.10.00	-Machinery	Free	E
8478.90.00	-Parts	Free	E
8479	Machines and mechanical appliances having individual functions, not specified or included elsewhere in this chapter; parts thereof:		
8479.10.00	-Machinery for public works, building or the like	Free	E
8479.20.00	-Machinery for the extraction or preparation of animal or fixed vegetable fats or oils	Free	E
8479.30.00	-Presses for the manufacture of particle board or fiber building board of wood or other ligneous materials and other machinery for treating wood or cork	Free	E
8479.40.00	-Rope or cable-making machines	Free	E
8479.50.00	-Industrial robots, not elsewhere specified or included	2.5%	A
8479.60.00	-Evaporative air coolers	2.8%	A
	--Other machines and mechanical appliances:		
8479.81.00	--For treating metal, including electric wire coil-winders	Free	E
8479.82.00	--Mixing, kneading, crushing, grinding, screening, sifting, homogenizing, emulsifying or stirring machines	Free	E
8479.89	--Other:		
	---Electromechanical appliances with self-contained electric motor:		
8479.89.10	----Air humidifiers or dehumidifiers	Free	E
8479.89.20	----Floor polishers	Free	E
8479.89.30	----Vacuum cleaners	Free	E
8479.89.55	----Trash compactors	2.8%	A
8479.89.65	----Other	2.8%	A

# Product Stagings

Table: Staging outcomes at the HS8-digit product level

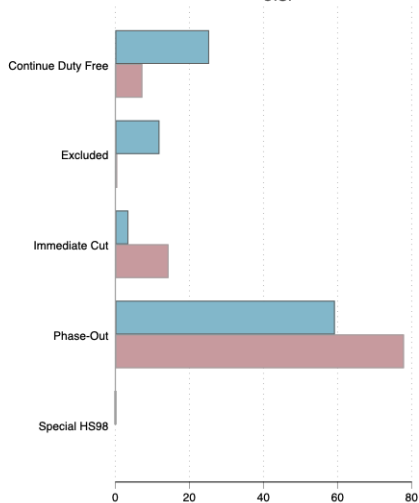
Staging Category	U.S. Schedules		Partners' Schedules	
	#	%	#	%
Continue Duty Free	43,018	33.9	34,237	25.8
Immediate Cut	66,030	52.1	61,347	46.2
Phase-Out	15,997	12.6	35,759	27.0
Excluded	1,402	1.1	912	0.7
Tariff Rate Quota	352	0.3	406	0.3
Special H98	24	0.02	0	0.0



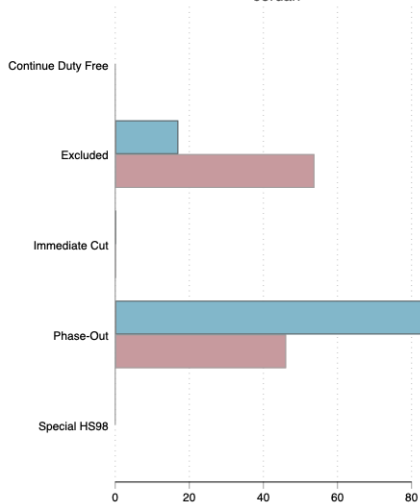


■ Share of U.S. (partner)'s products (%)  
■ Share of U.S. (partner)'s imports from partner (U.S.) (%)

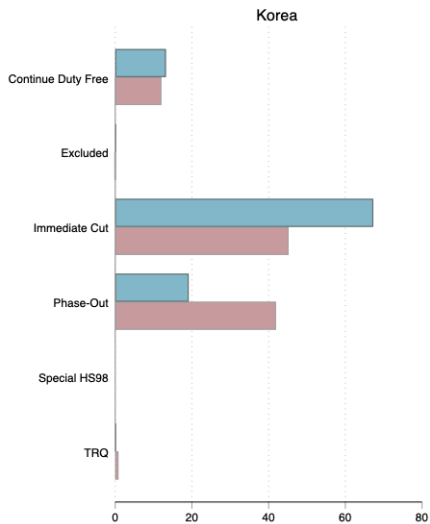
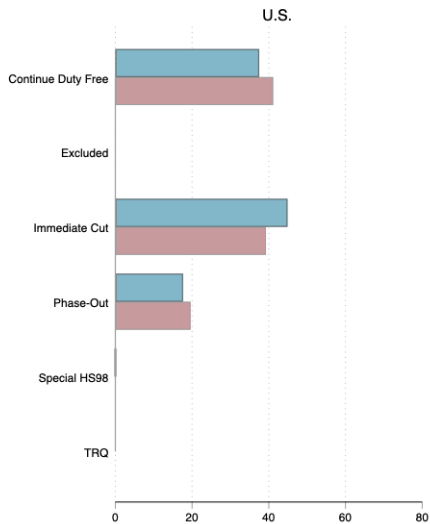
### U.S.



### Jordan



■ Share of U.S. (partner)'s products (%)  
■ Share of U.S. (partner)'s imports from partner (U.S.) (%)



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■ Share of U.S. (partner)'s imports from partner (U.S.) (%)

# Lobby Money

## Previous studies

- ▶ With only a few exceptions, used “lobbying” data from Political Action Committees (PACs) and individual campaign contributions.
- ▶ Problem #1: observation is interest group-politician-year (but not: what for?)
- ▶ Problem #2: PACs are only about 10% of all lobby dollars (Milyo et al. 2000).

# Lobby Money

## More recently

- ▶ Lobbying Disclosure Act (95) and Honest Leadership and Open Government Act (07).
- ▶ Reports filed at Senate Office of Public Records (SOPR) and organized by Centre for Responsive Politics (CRP) and lobbyview.org (Kim 18).
- ▶ Observation is firm-(interest group)-**industry-issue**-quarter.<sup>2</sup>
- ▶ Applications to U.S. migration policy (Facchini et al. 11) and trade policy (Blamba-Gubbay et al. 19).

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<sup>2</sup>Industry at NAICS6; 79 issues.

# Lobby Money

## Identifying relevant contributions: Australia

1. For a given timeframe, all reports for “Australia.”<sup>3</sup>
2. For a given timeframe, all reports for “Australia” *and* pertaining to trade-related issues.<sup>4</sup>
3. For a given timeframe, only reports aimed at implementing the U.S.-Australia FTA in House and Senate Resolutions (HR4759/S2610).
4. 2 and 3 combined (no double-counting).

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<sup>3</sup>yearly,  $n$  years prior to negotiating the FTA, its ratification, etc.

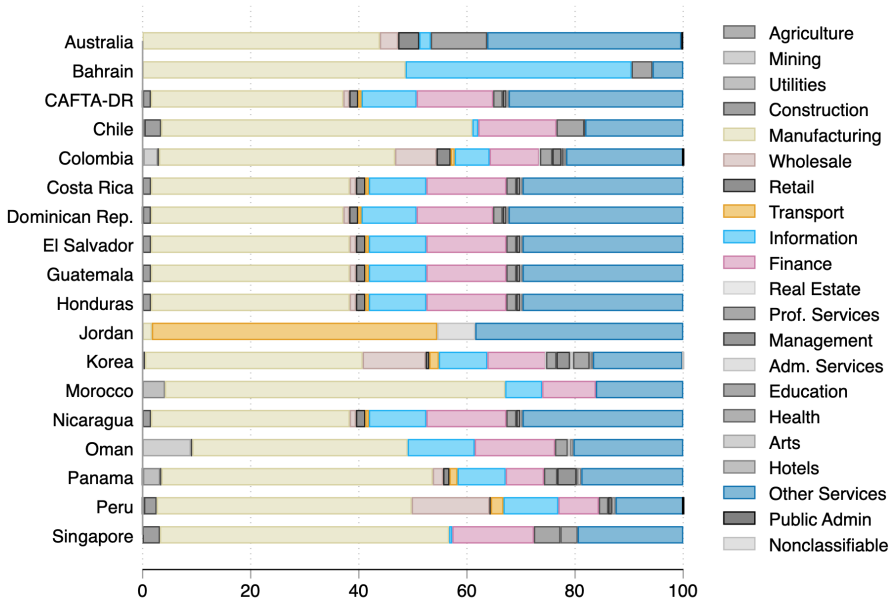
<sup>4</sup>Of the 79 possible issues, 2 are relevant, i.e. TAR “Miscellaneous Tariff Bills” and TRD “Trade (Domestic & Foreign).”

# Top 10 Contributions

NAICS (2-digit)	Share of Contributions (%)			
	(1)	(2)	(3)	(4)
Manufacturing	38.9	41.7	29.9	41.4
Other Services (except Public Administration)	34.9	32.6	24.8	24.3
Finance and Insurance	7.8	7.8	14.5	10.6
Information	5.8	5	14.7	9.6
Professional, Scientific, and Technical Services	3.4	3.5	2.6	2.7
Wholesale Trade	2.7	3.1	0.3	2.6
Retail Trade	1.6	1.9	1.3	1.1
Construction	1.5	1.7	1.3	1.1
Transportation and Warehousing	0.9	0.9	5.1	3.5
Utilities	0.7	0.0	2.2	0.4
Total	98.2	98.2	96.7	97.3

Data for all 12 U.S. FTAs, 1 year prior to announcing FTA negotiations up to and including 1 year post-ratification. See previous slide for explanations for identifiers (1)-(4).

# Country-issue-specific & country-bill-specific contributions (NAICS 2-digit).





# Timing of Lobbying

## Step by step...

- ▶ Announce negotiations
- ▶ Commence negotiations
- ▶ Conclude negotiations
- ▶ Sign FTA
- ▶ Ratify FTA (House, Senate, POTUS)
- ▶ Enforce FTA

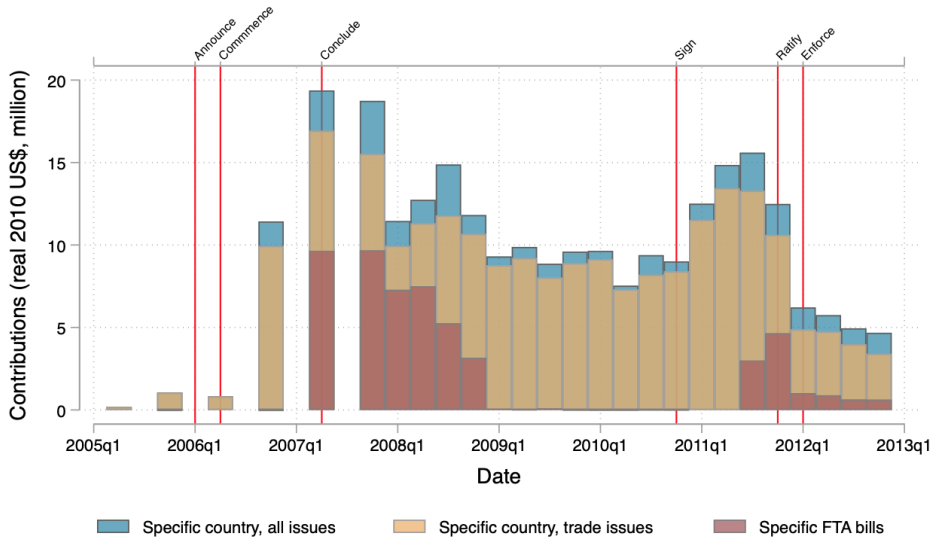
## Lobbying reported...

- ▶ 95-07: biannually (LDA 95)
- ▶ 08-present: quarterly (HL&OG Act 07)
- ▶ Is there lagged reporting?<sup>5</sup>

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<sup>5</sup>Motivates aggregating contributions over FTA negotiation period. In empirics: 1 year before announcement of negotiations until 1 year after FTA's enforcement.

## Korea



# Estimation: Probit

$$Pr(O_{cp}^z = 1 | X_{cpt}) = \Phi(X'_{cpt}\beta) \quad (1)$$

- ▶ where outcome  $O_{cp}^z$  is 0 for Immediate Cut and 1 for Phase-Out, with country  $c$ , product  $p$  (HS 8-digit), sector  $s$  (NAICS 2-digit)<sup>6</sup>, base rate year  $t$  in staging schedule, import schedule  $z$ .
- ▶ Lobby contributions: excl. and incl. 2012 IO linkages (BEA).<sup>7</sup>

## Controls

- ▶ Trade: ( $\Delta$ ) import (export) shares, imp/exp ratio, GLI (ITC).
- ▶ Preferences: MFN, GSP, Andean, CBI, CBPTA (ITC).
- ▶ Product characteristics: Rauch, BEC category,  $\sigma$  (Broda & Weinstein 06).

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<sup>6</sup>HS8-NAICS6 mapping with Pierce & Schott (09).

<sup>7</sup>Total inputs by NAICS6 required (directly and indirectly) to deliver \$1 NAICS6 output to final users.

# Estimation: PPML

$$Years_{cp}^z = \exp[\alpha \log(Lobby_p) + \beta \mathbf{X}_{cp,t-1} + \gamma_c + \delta_s] + \epsilon_{cp} \quad (2)$$

- ▶ where duration of phase-out  $Years_{cp}^z$  is 0 for Immediate Cut and  $> 0$  for Phase-Out, with country  $c$ , product  $p$  (HS 8-digit), sector  $s$  (NAICS 2-digit)<sup>8</sup>, base rate year  $t$  in staging schedule, import schedule  $z$ .
- ▶ Lobby contributions: excl. and incl. 2012 IO linkages (BEA).<sup>9</sup>

## Controls

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Table: Probability of Phase-Out (vs. Immediate Cut), U.S. Stagings

	Country	CountryIssue	Bills	Combi
InLobby	-0.0083 (0.018)	-0.025 (0.017)	0.17*** (0.042)	-0.013 (0.017)
FEs	c,s	c,s	c,s	c,s
Obs.	6,753	6,655	3,551	7,138
Pseudo R <sup>2</sup>	0.28	0.29	0.17	0.28

	Country	CountryIssue	Bills	Combi
InLobbyIO	-0.063*** (0.0065)	-0.062*** (0.0064)	-0.097*** (0.0066)	-0.055*** (0.0064)
FEs	c,s	c,s	c,s	c,s
Obs.	47595	47509	46152	47769
Pseudo R <sup>2</sup>	0.30	0.30	0.31	0.29

\*\*\*/\*\*/\* indicate  $p < 0.001/0.01/0.05$ . Robust standard errors. Controls and FE's omitted for brevity.

**Table:** Probability of Phase-Out (vs. Immediate Cut), Partners' Stagings

	Country	CountryIssue	Bills	Combi
InLobby	0.045*** (0.013)	0.034** (0.013)	-0.00080 (0.026)	0.014 (0.012)
FEs	c,s	c,s	c,s	c,s
Obs.	7,849	7,703	6,113	8,647
Pseudo R <sup>2</sup>	0.21	0.21	0.29	0.20

	Country	CountryIssue	Bills	Combi
InLobbyIO	-0.052*** (0.0041)	-0.056*** (0.0040)	-0.069*** (0.0038)	-0.055*** (0.0039)
FEs	c,s	c,s	c,s	c,s
Obs.	61,580	61,448	60,842	62,100
Pseudo R <sup>2</sup>	0.36	0.36	0.38	0.36

\*\*\*/\*\*/\* indicate  $p < 0.001/0.01/0.05$ . Robust standard errors. Controls and FE's omitted for brevity.

Table: Length of U.S. Stagings in Years

	Country	CountryIssue	Bills	Combi
InLobby	-0.067 (0.057)	-0.061 (0.050)	0.49** (0.18)	-0.078 (0.054)
FEs	c,s	c,s	c,s	c,s
Obs.	13,817	13,522	9,123	14,259
Pseudo R <sup>2</sup>	0.16	0.16	0.16	0.16

	Country	CountryIssue	Bills	Combi
InLobbyIO	-0.15*** (0.030)	-0.14*** (0.031)	-0.18*** (0.030)	-0.14*** (0.031)
FEs	c,s	c,s	c,s	c,s
Obs.	82,229	81,962	78,961	82,355
Pseudo R <sup>2</sup>	0.27	0.27	0.29	0.26

\*\*\*/\*\*/\* indicate  $p < 0.001/0.01/0.05$ . Standard errors clustered by country $\times$ NAICS2 reported in parentheses. Estimated with *pplmhdfe* (Correia et al. 2019). Constant omitted for brevity.

Table: Length of U.S. Stagings in Years

	Country	CountryIssue	Bills	Combi
InLobbyIO	-0.13** (0.044)	-0.12** (0.042)	-0.17*** (0.042)	-0.12** (0.043)
ExportShare	-0.012*** (0.0034)	-0.012*** (0.0034)	-0.013*** (0.0031)	-0.012*** (0.0031)
ImExRatio	0.016** (0.0060)	0.016** (0.0060)	0.014* (0.0059)	0.016** (0.0060)
ImportShareGrowth	0.0057** (0.0020)	0.0057** (0.0020)	0.0030 (0.0021)	0.0049* (0.0022)
CBI	-2.96*** (0.58)	-2.95*** (0.58)	-3.77*** (0.83)	-2.93*** (0.58)
CBPTA	1.56*** (0.071)	1.57*** (0.072)	1.81*** (0.12)	1.55*** (0.078)
GSP	-3.84*** (0.30)	-3.85*** (0.30)	-3.92*** (0.44)	-3.98*** (0.38)
Primary	-1.05* (0.50)	-1.07* (0.51)	-0.58 (0.66)	-1.08* (0.50)
FEs	c,s	c,s	c,s	c,s
Obs.	47,604	47,518	46,161	47,778
Pseudo R <sup>2</sup>	0.34	0.34	0.35	0.33

\*\*\*/\*\*/\* indicate  $p < 0.001/0.01/0.05$ . Standard errors clustered by country×NAICS2 reported in parentheses. Insignificant parameter estimates and constant omitted for brevity.



Table: Length of Partner's Stagings in Years

	Country	CountryIssue	Bills	Combi
InLobby	0.048 (0.046)	0.059 (0.053)	0.11 (0.062)	0.086 (0.054)
FEs	c,s	c,s	c,s	c,s
Obs.	11,947	11,570	8,653	12,808
Pseudo R <sup>2</sup>	0.098	0.099	0.20	0.12

	Country	CountryIssue	Bills	Combi
InLobbyIO	-0.056** (0.018)	-0.059*** (0.018)	-0.051** (0.019)	-0.053** (0.017)
FEs	c,s	c,s	c,s	c,s
Obs.	86,004	85,650	84,014	86,398
Pseudo R <sup>2</sup>	0.34	0.34	0.36	0.34

\*\*\*/\*\*/\* indicate  $p < 0.001/0.01/0.05$ . Standard errors clustered by country $\times$ NAICS2 reported in parentheses. Estimated with *pqmlhdfc* (Correia et al. 2019). Constant omitted for brevity.

Table: Length of Partner's Stagings in Years

	Country	CountryIssue	Bills	Combi
InLobbyIO	-0.062** (0.019)	-0.064*** (0.019)	-0.053*** (0.016)	-0.058** (0.019)
ImportShare	0.0071*** (0.0020)	0.0071*** (0.0020)	0.0068** (0.0021)	0.0071*** (0.0020)
ExportShare	-0.016*** (0.0035)	-0.016*** (0.0035)	-0.016*** (0.0037)	-0.016*** (0.0035)
GLI	0.57* (0.28)	0.57* (0.28)	0.60* (0.30)	0.59* (0.28)
ExportShareGrowth	0.013*** (0.0030)	0.013*** (0.0030)	0.013*** (0.0030)	0.013*** (0.0030)
CBI	0.35*** (0.093)	0.34*** (0.094)	0.32** (0.10)	0.34*** (0.097)
Primary	-0.56* (0.25)	-0.54* (0.25)	-0.46* (0.23)	-0.53* (0.25)
$\sigma$	-0.0059** (0.0020)	-0.0058** (0.0020)	-0.0059** (0.0020)	-0.0061** (0.0021)
FEs	c,s	c,s	c,s	c,s
Obs.	64,407	64,275	63,475	64,932
Pseudo R <sup>2</sup>	0.39	0.39	0.41	0.39

\*\*\*/\*\*/\* indicate  $p < 0.001/0.01/0.05$ . Standard errors clustered by country×NAICS2 reported in parentheses. Insignificant parameter estimates and constant omitted for brevity.

## Moving forward

- ▶ Pro- vs. anti-liberalization groups (Lake 16).
- ▶ Dynamics with foreign lobbying in U.S. (Gawande et al. 06).
- ▶ Concessions beyond tariffs, i.e. depth of FTAs and legal enforceability (Hofmann et al. 17; Kohl et al. 16).
- ▶ Time-varying IO tables for U.S. and its FTA partners (BEA, OECD, Timmer et al. 15).

# Conclusion

## Take-aways

- ▶ Tariff phase-outs uncommon for U.S. import schedules in FTAs (13% of products).
- ▶ U.S.'s FTA partners more prone to phase-outs, but continued/immediate duty-free access is the norm.
- ▶ Given supply-chain linkages, U.S. lobbying *reduces* length of U.S. and partners' phase-outs, suggesting *pro*-liberalization lobbying in U.S. FTA negotiations.

## Comments are most welcome!

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