Quantitative Analysis of Multi-Party Tariff Negotiations

Preliminary

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October 2, 2017

Abstract

This paper develops a model of international tariff negotiations to study the design of the institutional rules of the GATT/WTO. We embed a multi-sector model of trade between multiple countries into a model of inter-connected bilateral negotiations over tariffs. We estimate country-sector productivity levels, sector-level productivity dispersion, iceberg trade costs, and country-pair bargaining parameters. We use the estimated model to simulate alternative institutional rules in tariff negotiations such as abandoning the most-favored-nation requirement.

Keywords: multilateral bargaining, tariff determination, quantitative trade

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[§]This research was funded under NSF Grant SES-1326940. We thank seminar participants at MIT, Northwestern, Rochester, Sciences Po, Singapore Management University, Stanford, and the University of Wisconsin for many useful comments. Ohyun Kwon provided outstanding research assistance.

1 Introduction

Multilateral tariff bargaining is complicated. According to the terms-of-trade theory of trade agreements, the central problem for a trade agreement to solve arises only when foreign exporters bear some of the incidence of a country's unilateral decision to raise its tariffs; and when the country's tariffs induce these external effects, the consequences of any negotiated changes in its tariffs will in general spill over to all its trading partners. In this environment, a multilateral bargain, whereby all the trading countries of the world bargain over all the tariffs that affect them, would be fraught with difficulty. But so too would be attempts to decentralize the bargaining into a collection of bilateral negotiations: owing to the spillovers on third-parties that typically would be implied by the tariff changes negotiated within a given bilateral bargain, such a collection of bilateral tariff bargains would amount to an environment of bilateral bargaining with externalities.

Within the World Trade Organization (WTO) and its predecessor GATT, orchestrating a single multilateral bargain for all of the tariffs of the 164 current WTO members poses obvious challenges, and this would have been challenging even for the original 23 members of GATT. Perhaps for this reason, over its 70-year history the GATT/WTO has made extensive use of a decentralized approach to tariff bargaining that relies on simultaneous bilateral bargains. This approach was featured in the first five GATT rounds of multilateral tariff negotiations, and it was used as a complement to multilateral bargaining methods in the last three GATT rounds, as well as in the now-suspended WTO Doha Round.[1] A number of GATT's key principles and norms – such as its non-discrimination principle embodied in the most-favored-nation (MFN) rule, and its principal supplier and reciprocity norms – are included in the GATT/WTO arguably in part to create a bargaining protocol that shapes and mitigates the externalities that stem from bilateral tariff bargains in this environment.

In this paper we analyze bilateral tariff bargaining in a multi-country quantitative trade model. Bagwell et al. (2017b) develop an equilibrium analysis of bilateral tariff bargaining in a three-country trade model and show that, due to the distinct nature of the externalities associated with non-discriminatory versus discriminatory tariffs, in the presence of an MFN rule tariff bargaining typically leads to inefficient outcomes that can

[1] As Bagwell et al. (2017a) explain, early GATT rounds allowed as well for a multilateral element, in that negotiated offers could be re-balanced at the end of the round as necessary for multilateral reciprocity. Among the last three GATT rounds, the Uruguay Round, for example, employed multilateral bargaining methods that included "zero-for-zero" tariff commitments in specific sectors.

exhibit either over- or under-liberalization, while in the absence of an MFN rule tariff bargaining always results in inefficient over-liberalization. Bagwell and Staiger (2005) show that when each party in a bilateral bargain is restricted to making offers that satisfy MFN and that also adhere to a strict form of reciprocity, the externalities associated with bilateral tariff bargaining are eliminated. As Bagwell and Staiger (1999, 2016) show for multilateral tariff bargaining settings, however, the strict adherence to MFN and reciprocity that eliminates these externalities will itself impose constraints that lead to under-liberalization and thus prevent countries from reaching the efficiency frontier, provided that countries are asymmetric in either their economic size or in the underlying objectives of their governments.[2] Bagwell et al. (2017a) examine in detail the bargaining records associated with the GATT Torquay Round (1950-51). They unveil a set of stylized facts from this bargaining data, and they argue that a number of these stylized facts can be interpreted through the lens of the theoretical findings for tariff bargaining under MFN and reciprocity.

As these papers illustrate, theory can provide a useful guide to the implications of different sets of rules for the outcomes of tariff bargaining, but theory alone cannot provide a ranking across bargaining protocols. Ossa (2014) and Ossa (2016) examine trade policy in a multi-country quantitative trade model. Ossa's papers compute Nash equilibrium tariffs and fully cooperative tariffs, but those papers do not model the specific structure of the bargaining system as a nexus of bilateral negotiations with extensions to third parties via MFN.

We build a quantitative trade model along the lines of Costinot et al. (2011) and use the model to explore the properties of alternative tariff bargaining protocols for the GATT Uruguay Round (1986-1994), the last completed GATT/WTO multilateral negotiating round. To this end, we extend the model of Costinot et al. (2011) to include tariffs and to allow the parameter governing the dispersion of productivity across varieties within a sector to vary by sector. Introducing tariffs to the model is of course necessary if we are to use the model to explore alternative tariff bargaining protocols, while allowing for sector-specific productivity-dispersion parameters in the model is important because, as is well-known in this model (and in the Eaton and Kortum (2002) model from which it builds), trade elasticities – and with them the magnitude of the externalities imposed on

[2] Bagwell and Staiger (2016) analyze a model of multilateral tariff bargaining in which each country's multilateral tariff proposal must satisfy MFN and multilateral reciprocity, and in this context they identify bargaining outcomes that can be implemented using dominant strategy proposals for all countries.

trading partners by a country's unilateral tariff decisions – are governed by this parameter, and we wish to allow for the possibility that these elasticities vary by sector.

To model bilateral tariff bargaining in this environment, we follow Bagwell et al. (2017b) and adopt the solution concept of Horn and Wolinsky (1988). This solution concept, which is commonly employed by the Industrial Organization literature to characterize the division of surplus in bilateral oligopoly settings where externalities exist across firms and agreements, is sometimes referred to as a "Nash-in-Nash" solution, because it can be thought of as a Nash equilibrium between separate bilateral Nash bargaining problems.[3]

According to this solution, each bilateral negotiation results in the Nash bargaining solution taking as given the outcomes of the other negotiations. As Bagwell et al. (2017b) discuss, the Nash-in-Nash approach is not without limitations when applied to tariff bargaining, but it offers a simple means of characterizing simultaneous bilateral bargaining outcomes in settings with interdependent payoffs, and thereby makes the analysis of bilateral tariff bargaining in the GATT/WTO context tractable in a quantitative trade model.[4]

[3]The Nash-in-Nash solution concept has been used by Crawford and Yurukoglu (2012) and by Crawford et al. (2017) to explore negotiations between cable television distributors and content creators, and by Grennan (2013), Gowrisankaran et al. (2015), and Ho and Lee (2017) to consider negotiations between hospitals and medical device manufacturers or health insurers. It is broadly related to the pairwise-proof requirements that are indirectly implied under the requirement of passive beliefs in vertical contracting models (McAfee and Schwartz (1994) and Hart and Tirole (1990)) and directly imposed in contracting equilibria (Cremer and Riordan, 1987). See McAfee and Schwartz (1994) for further discussion. Microfoundations for the Nash-in-Nash approach are developed by Collard-Wexler et al. (2016) in the context of negotiations that concern bilateral surplus division. The trade application considered by Bagwell et al. (2017b) and that we consider here is different, however, in that the negotiations focus on tariffs (rather than lump-sum transfers) which have direct efficiency consequences.

[4]As Bagwell et al. (2017b) observe, the most direct interpretation of the Nash-in-Nash approach is in terms of a delegated agent model, where a player is involved in multiple bilateral negotiations while relying on separate agents for each negotiation, and where agents are unable to communicate with one another during the negotiation process. This interpretation has some obvious drawbacks in settings such as tariff negotiations where within-negotiation communication between agents (trade negotiators) associated with the same player (government) across different bilaterals are clearly feasible. Agents may also coordinate at the end of a negotiation round, in order to ensure that the overall "package" is balanced. These drawbacks are arguably mitigated, however, to the extent that opportunities for communication and coordination across bilaterals are limited by bargaining frictions and arise only after bilateral bargaining positions have hardened. On balance, we believe that the tractability advantages of the Nash-in-Nash approach make it a potentially valuable tool, albeit only one such tool, for examining bilateral tariff

We first use data on 1990 (pre-Uruguay Round) trade flows, production, and tariffs at the country-sector level – aggregated into 49 sectors and for the 25 largest countries by GDP in 1990, with the rest of the world aggregated into five additional regions – together with data on a set of gravity variables, to estimate the taste, productivity, and iceberg cost parameters that according to the model would best match the data. Given these estimates, we use the model to generate a series of benchmark counterfactual outcomes, including welfare under autarky, welfare in the absence of any trade frictions, and welfare under Nash tariffs.

We then use the model to calculate the Horn-Wolinsky bargaining solution beginning from the 1990 tariffs under three institutional constraints reflected in the tariff-bargaining environment of the Uruguay Round, namely, that countries (i) are restricted to bargain over MFN tariffs, (ii) must respect existing GATT tariff commitments and not raise their tariffs above these commitments, and (iii) abide by the principal supplier rule, which guides each importing country to limit its negotiations on a given product to the exporting country that is the largest supplier of that product to its market. We use our trade model to identify viable pairs of negotiating countries under this bargaining protocol through the principal supplier patterns that the model predicts.[5] To account for important dimensions of the Uruguay Round negotiations that went beyond tariff bargaining (to issues such as agricultural subsidies, intellectual property, services, and possibly even national security concerns and geopolitical affairs), we allow countries to make costly transfers as part of their tariff negotiations. Using the tariff changes between 1990 and 2000 as our measure of the tariff bargaining outcomes of the Uruguay Round, we solve our model for the Horn-Wolinsky solution under different values of the cost of transfers and the bargaining powers for each country in each of its bilaterals, and we select as our estimates of the cost-of-transfers and bargaining parameters the set of parameters that generates the Horn-Wolinsky solution within our model that best matches the tariff bargaining outcomes of the Uruguay Round.

Our estimated bargaining parameters are of interest in their own right, as they reflect the interplay of a number of forces in the model that together determine the slope of the bargaining frontier and the disagreement point for each bilateral. In a setting with

negotiations under various institutional constraints.

[5]As we later discuss, while the main tariff bargains in the Uruguay Round proceeded according to the tariff-line bilateral request-offer protocol that characterized the first five GATT rounds, there were also a number of sectoral bargains that proceeded under distinct protocols (see, for example, Preeg (1995)).

transferable utility, the slope of the bargaining frontier would of course be -1, and there would be a one-to-one mapping between the relative bargaining powers of the two countries in any bilateral bargain and the share of the surplus from the bilateral bargain that each would secure as a result of the Nash bargaining solution applied to that bilateral. But our estimate of the cost of transfers implies that lump-sum international transfers were not available to governments in the context of the Uruguay Round; and hence, in our tariff-bargaining setting, utility is not transferable across countries, as the countries in any bilateral use both costly transfers and tariff changes to transfer utility between them, and the relative degree to which the incidence of each country's tariff changes falls on, and only on, its bilateral bargaining partner will have implications for the slope of the bargaining frontier in that bilateral. We use our model to characterize the slopes of the bilateral bargaining frontiers between pairs of bargaining countries in the Uruguay Round, and we discuss how these slopes reflect features of the underlying economic environment and factor in to our estimated bargaining power parameters. Of further interest is the fact that the disagreement point for each bilateral is endogenously determined under the Horn-Wolinsky bargaining solution: a country could have strong bargaining power in each of its bilaterals and nevertheless fare poorly in the Uruguay Round relative to the 1990 status quo if the outcomes from all other bilaterals have served to disproportionately worsen this country's disagreement payoff in each of its bilaterals.

Comparing the Horn-Wolinsky model solution under our representation of the Uruguay Round bargaining protocol to the actual Uruguay Round tariff bargaining outcomes, we find that we can explain 61.75% of the variation in 190 country-sector tariff reductions using our cost-of-transfers parameter and four bargaining parameters. Also of interest is how the Horn-Wolinsky solution of our model compares to a tariff bargain that reached the efficiency frontier. Our model has no market imperfections and no political economy forces, and so achieving free trade would place the world on the efficiency frontier. Compared to the free-trade benchmark, and solving also for the non-cooperative Nash outcome implied by our model, our model indicates that the GATT rounds leading up to the Uruguay Round had already achieved roughly 50% of the potential aggregate world-wide welfare gains in moving from the non-cooperative Nash to the free-trade benchmark for the tariffs under negotiation in the Uruguay Round. Our Horn-Wolinsky model solution indicates that the Uruguay Round itself achieved roughly an additional 42% of the potential world-wide welfare gains from the elimination of these tariffs, leaving as "unfinished business" for these tariffs around 10% of the potential gains in moving from non-cooperative Nash outcomes to the free-trade benchmark.

Not all countries gained from the Uruguay Round according to our model predictions, with Switzerland and Turkey suffering small losses. As these two countries were not among our bargaining pairs and hence do not alter their own tariffs from 1990 levels as a result of commitments made in the Uruguay Round, the losses they suffer as a result of the Uruguay Round reflect adverse terms-of-trade movements that were generated according to our model by the negotiated MFN tariff cuts of others. There is also an important possibility in Nash-in-Nash bargains that did *not* occur under the Uruguay Round protocol according to our results: while according to the Nash-in-Nash concept each bilateral negotiation must lead to an agreement over tariffs which, with the outcomes of all other negotiations taken as given, benefits both negotiating parties, the externalities across bargaining pairs raise the possibility that a country engaged in bargaining could be made worse off as a result of the web of bilateral tariff bargains negotiated in the multilateral round than it would have been if the round had never taken place.[6] Our results imply that, to the extent that GATT/WTO multilateral tariff bargaining is well-captured by the Nash-in-Nash approach, this possibility did not arise in the Uruguay Round.

Armed with our trade-model, cost-of-transfers and bargaining-power parameters, we then turn to consider counterfactual bargaining protocols. We consider several alternative protocols, and compare outcomes under these alternatives to both the outcomes under the Uruguay Round protocol and outcomes on the efficiency frontier.

As we have described, under our representation of the Uruguay Round bargaining protocol, our results indicate that a modest amount of unfinished business in tariff liberalization with respect to the tariffs under negotiation in the Uruguay Round remains, in line with the underliberalization possibility identified by Bagwell et al. (2017b) when negotiations proceed over MFN tariffs. As a first counterfactual, therefore, we consider an alternative bargaining protocol under which the MFN requirement and the principal supplier rule are abandoned, and we solve for the Horn-Wolinsky solution when countries can bargain over discriminatory tariff changes. Our primary interest here is in how abandonment of the MFN requirement impacts tariff bargaining, and as the principal supplier

[6]As we discuss further below, this possibility cannot arise in a setting where each party in a bilateral bargain is restricted to making offers that satisfy MFN and that also adhere to a strict form of reciprocity, because as Bagwell and Staiger (2016) and Bagwell et al. (2017a) argue the externalities associated with bilateral tariff bargaining are then eliminated.

rule was introduced into the GATT bargaining protocols in order to facilitate bilateral tariff bargaining in the presence of MFN, it seems natural to consider removing these two constraints at the same time.

We find that average tariffs drop further under discriminatory negotiations than under MFN negotiations, as expected; but MFN negotiations are better for world welfare than discriminatory negotiations. More specifically, we would expect from the findings of Bagwell et al. (2017b) that in the absence of an MFN rule Nash-in-Nash tariff bargaining always results in inefficient over-liberalization, but our findings indicate that the degree of inefficient over-liberalization is quantitatively sufficiently important to outweigh the inefficient under-liberalization that arises according to the model under MFN, resulting in worse outcomes under discriminatory tariff bargaining than under MFN tariff bargaining. Moreover, developing and emerging countries are among the biggest losers from the abandonment of MFN, in some cases (e.g. China, India) faring substantially worse than under the 1990 status quo. The US also loses from the abandonment of MFN, as does Canada, but the reasons appear to be quite different: for the US, the impacts of the agreed tariff reductions are broadly similar across MFN and discriminatory negotiations, but the US suffers a loss of transfers under discriminatory negotiations relative to MFN; for Canada, the loss in moving from MFN to discriminatory negotiations comes in the form of adverse terms-of-trade movements associated with the agreed discriminatory tariff cuts.

These findings are driven by and highlight an important difference across MFN and discriminatory tariff bargaining that is quantified by our model: while we find that the spillovers to third parties from tariff reductions negotiated in a bilateral are often large in both the MFN and the discriminatory tariff bargaining settings, they are usually of opposite signs, positive for MFN tariff bargaining and negative for discriminatory tariff bargaining. As we show, the negative third-party externality drives down the levels of the negotiated tariffs in the absence of the MFN constraint from what the negotiated levels of these tariffs would be under MFN, and this force is sufficiently strong to result in substantial numbers of negative discriminatory tariffs (discriminatory import subsidies).

As a second counterfactual bargaining protocol, we consider adding to the three restrictions of MFN, respect for existing GATT bindings, and the principal supplier rule, a fourth restriction that bargains must satisfy reciprocity, in the specific sense that each country experiences an increase in imports which is equal in magnitude to the increase in its exports as a result of the negotiated tariff changes. As emphasized by Bagwell and Staiger (1999, 2016) and Bagwell et al. (2017a), reciprocity is an important principal in GATT/WTO tariff negotiations, and we could have included this restriction from the start along with MFN as part of our representation of the Uruguay Round tariff-bargaining environment. However we choose to proceed sequentially in this way, in order to highlight the distinct impacts of the various restrictions that make up the protocol under consideration. We find [TBA]...

As a final counterfactual bargaining protocol, we add a further restriction implied by reciprocity and emphasized by Bagwell and Staiger (1999, 2016) and Bagwell et al. (2017a), under which a country that has agreed to tariffs implying more trade volume than it desires at the prevailing terms of trade can enter into renegotiation and raise its tariffs to achieve this desired trade volume and trigger a reciprocal response from its bargaining partner that preserves the terms of trade between them. In the present context where governments are assumed to lack political economy motives, this further reciprocity restriction amounts to a simple constraint on the bargains that no tariff can be pushed below zero (to an import subsidy). We find [TBA]...

The remainder of the paper proceeds as follows. The next section sets out our quantitative model of trade and tariff bargaining. Section 3 describes the data we use to estimate the model, while section 4 describes our approach to estimation. Section 5 presents our model estimates and computes a number of model benchmarks. Section 6 presents our counterfactuals. Section 7 concludes.

2 Model

In this section we describe our quantitative model of tariff bargaining. Our model world economy consists of the multi-sector version of Eaton and Kortum (2002) from Costinot et al. (2011), extended to include tariffs and to allow the parameter governing the dispersion of productivity across varieties within a sector to vary by sector, as in Caliendo and Parro (2015). The main novelty of our approach is in the modeling of tariff bargaining. In the next subsection, we briefly describe the model world economy, and in the following subsection we describe our approach to modeling tariff bargaining.

2.1 Model World Economy

We consider a world economy with $i = 1, ..., N$ countries and $k = 1, ..., K$ sectors. Within each sector k, there is a countably infinite number of varieties index by ω. We allow each country to impose an import tariff (possibly discriminatory across trading partners) in each sector k. Because our model world economy is a straightforward variant of the models in Costinot et al. (2011) and Caliendo and Parro (2015), we provide only a minimal description here, and refer readers to those papers for additional model details.

We begin by describing the supply side of the model. Each country has an immobile-across-countries labor endowment L_i. Production of each variety in each sector is governed by a constant-returns-to-scale technology requiring only labor. Furthermore, an infinite number of firms, all with the same productivity parameter, exist to produce each variety in each sector, ensuring perfect competition.

The production technology for each variety is drawn from a Frèchet distribution with CDF given by

$$F_i^k(z) = \exp\left(-(\frac{z}{z_i^k})^{-\theta_k}\right),$$

where z_i^k is country i's sector-k level productivity parameter and θ_k is a sector-specific productivity shape parameter. While the first and second moments of the distribution of productivity depend on both the z and the θ parameters, the ratio of expected variety productivity for the same sector between two countries is equal to the ratio of their z parameters. Higher values of θ_k imply lower heterogeneity in within-sector productivity, and more responsiveness of trade flows with respect to changes in fundamentals (and hence higher trade elasticities) as a result.

Producers face iceberg trading costs and potentially tariffs when serving other countries. We parameterize iceberg costs to depend on an origin effect, a destination effect, a sector-specific border effect, a sector-specific distance effect, and whether the origin and destination share a common language, a physical border, or have a preferential trade agreement (PTA). It is often noted that the so-called "Quad" countries of the US, the (at the time) 10 member-countries of the EU, Canada and Japan had an outsized impact on the shape of the Uruguay Round due to their status as major traders and special trading relationships with each other. We attempt to capture this with inclusion of an effect, common across sectors, for shipments between Quad-country pairs. Our parameterization of iceberg trade costs is then given by:

$$\log d_{ji}^k = \alpha_j + \gamma_i + \beta_{0k} + \beta_{1k} dist_{ji} + \beta_{2k} PTA_{ji} + \beta_3 lang_{ji} + \beta_4 border_{ji} + \sum_{n \in Q} \beta_{5n} Quad_{n,ji}$$

with d_{ji}^k denoting the iceberg trade costs for country j's sector-k exports to country i, and with $d_{ii}^k = 1 \forall k$. The variable $dist_{ji}$ is the distance between countries j and i, PTA_{ji} is an indicator variable that takes the value 1 if countries j and i are members of a common PTA and 0 otherwise, $lang_{ji}$ is an indicator variable that takes the value 1 if countries j and i share a common language and 0 otherwise, $border_{ji}$ is an indicator variable that takes the value 1 if countries j and i share a common physical border and 0 otherwise, and Q is the set of pairs of the members of the "Quad," i.e., the US, the EU, Canada and Japan, and $Quad_{n,ji}$ is equal to one whenever countries j and i make up the pair n. With perfect competition in each country-sector-variety, the price of each variety in each country is equal to:

$$p_i^k(\omega) = \min_{j \in 1,\dots,N} \frac{w_j}{z_j^k(\omega)} d_{ji}^k (1 + t_{ji}^k)$$

where w_j is the wage of labor in country j and t_{ji}^k is equal to the ad valorem tariff levied by country i on sector-k imports from country j.[7]

We now turn to the demand side of the model and describe the consumer demand system. A representative consumer in each country chooses consumption levels of each variety in each sector to maximize the following utility function that is CES across varieties within a sector with a Cobb-Douglas aggregator across sectors:

$$\begin{aligned} u_i &= \Pi_{k=1}^K (C_i^k)^{\alpha_i^k} \\ C_i^k &= \left(\sum_{\omega=1}^{\infty} c^k(\omega)^{\frac{\sigma-1}{\sigma}}\right)^{\frac{\sigma}{\sigma-1}}, \end{aligned}$$

where α_i^k are country i's taste parameters for sector k, and σ is a within-sector constant elasticity of substitution across varieties. Consumers take prices for each variety as given.

[7] With this specification we are assuming that the ad valorem tariff is applied to the delivered price of the import good at the importing country's border.

They choose consumption to maximize this utility function subject to their budget constraint that total expenditure must be weakly less than their country's labor income plus tariff revenue.

We can now describe the equilibrium of the model given a set of tariffs. An equilibrium consists of a vector of wages w_i and a vector of national incomes E_i such that labor markets clear, trade is balanced, and consumers and firms are behaving optimally.

2.2 Tariff Bargaining

We assume that in a multilateral round of tariff negotiations, countries negotiate bilaterally and simultaneously over tariff vectors. As we discussed in the Introduction, this bargaining structure was featured in the first five GATT rounds of multilateral tariff negotiations, and it was used as a complement to multilateral bargaining methods in the last three GATT rounds, including the Uruguay Round, as well as in the now-suspended WTO Doha Round. Moreover, as we also discussed in the Introduction, we will allow countries to make use of costly transfers in their bargains, in order to capture the broader set of issues beyond tariff bargaining that the Uruguay Round negotiations encompassed. But for the moment we assume that bargaining takes place only over tariffs, and we postpone our description of the introduction of transfers into the model until after we have described the basic tariffs-only bargaining structure.

As all tariffs affect all countries through the trade equilibrium in our model, the payoffs from each bilateral negotiation depend on the outcomes of the other bilateral negotiations. We follow Bagwell et al. (2017b) and apply the solution concept of Horn and Wolinsky (1988) to this tariff bargaining problem. According to this solution, each pair of negotiating countries maximizes its Nash product given the actions of the other pairs.

Let $\pi_i(\mathbf{t})$ be the welfare of country i when the world vector of tariffs is given by $\mathbf{t}$. We measure a country's welfare by its real national income level. When country i negotiates with county j, they select the tariffs τ that they negotiate so as to maximize their Nash product:

$$np_{ij}(\tau, \mathbf{t}_{-ij}) \quad = \quad (\pi_i(\tau, \mathbf{t}_{-ij}) - \pi_i(\tau_{\mathbf{0}}, \mathbf{t}_{-ij}))^{\zeta_{ij}}(\pi_j(\tau, \mathbf{t}_{-ij}) - \pi_j(\tau_{\mathbf{0}}, \mathbf{t}_{-ij}))^{1-\zeta_{ij}}$$

where ζ_{ij} is the bargaining power parameter of country i in its bilateral bargain with country j and where we have partitioned the set of tariffs into those being negotiated by i and j and all other tariffs as $(\tau, \mathbf{t}_{-ij})$. $\tau_{\mathbf{0}}$ represents the level for the tariffs under negotiation that will prevail if i and j fail to reach an agreement. We set these to be the levels of these tariffs in place when the negotiating parties entered the round.

We further parameterize the pairwise bargaining powers. Specifically, each country has a bargaining ability parameter a_i. When countries i and j meet, the pairwise bargaining parameter is equal to

$$\zeta_{ij} = \frac{\exp(a_i)}{\exp(a_i) + \exp(a_j)}.$$

We now define the Horn and Wolinsky (1988) tariff bargaining equilibrium for our model:

Definition 1 (Tariff Bargaining Equilibrium) *An equilibrium in tariffs consists of a vector of tariffs such that for each pair ij the tariffs negotiated by this pair maximizes np_{ij} given the other tariffs in the vector.*

The key assumption in the Horn and Wolinsky (1988) bargaining equilibrium is that, when evaluating a candidate τ, the pair ij holds the vector $\mathbf{t}_{-ij}$ fixed. In other words, if ij were to not reach agreement, or were to deviate from a tariff vector specified by the equilibrium, then the other tariffs do not adjust. As we discussed in the Introduction, this equilibrium notion is sometimes referred to as "Nash-in-Nash," because it is the Nash equilibrium to the synthetic game where each pair constitutes a player, the payoff function is the pair's Nash bargaining product, and the strategies of each player are the tariffs being negotiated by the pair associated with that player.

To reflect the tariff bargaining environment of the Uruguay Round, we introduce three institutional constraints to our tariff bargaining solution. First, we assume that countries are restricted to bargain over MFN tariffs and cannot engage in bilateral bargains over discriminatory tariffs.[8] Second, we assume that countries are not allowed to make tariff

[8]GATT members can and do engage in bilateral bargains over discriminatory tariffs when they negotiate preferential trade agreements, which under the GATT/WTO rules contained in GATT Article XXIV are permissible provided that the negotiating countries eliminate tariffs on substantially all trade between them. And as Bagwell et al. (2017a) describe, in some of the early GATT rounds, the reach of some of the bilaterals was expanded beyond negotiations over MFN tariffs to include discriminatory (preferential) tariffs as well. But in the more recent GATT multilateral rounds, including the Uruguay Round which is our focus here, negotiations were restricted to MFN tariffs.

offers in any bilateral that would violate their existing GATT tariff bindings by exceeding their bound (legal maximum) levels.[9] And third, in line with the principal supplier rule of GATT/WTO tariff negotiations, we assume that only the largest supplier of good k into country i prior to the round can negotiate with country i over t_{ik}^{mfn}.[10]

We will also consider the possibility that countries bargained under an additional constraint in the Uruguay Round, namely, that of reciprocity. Bagwell et al. (2017a) review historical and institutional evidence that reciprocity was a significant constraint in GATT tariff negotiating rounds, and they suggest that a number of the stylized facts emerging from the GATT Torquay Round bargaining data can be interpreted as consistent with bilateral tariff bargaining under a reciprocity constraint (and MFN). There is also specific evidence that the tariff negotiating outcomes of the Uruguay Round were consistent with reciprocity.[11] We will consider several definitions of reciprocity, but we postpone a discussion of these definitions and our formalizations of the reciprocity constraint until we are ready to impose this constraint.

We now describe how we augment our model of tariff bargaining to include the possibility of costly international transfers. As discussed in the Introduction, there were a number of important dimensions of the Uruguay Round negotiations that went beyond

[9]In fact, under Article XXVIII of GATT, countries can engage in the renegotiation of their existing tariff bindings and either modify in an upward direction or even withdraw these bindings. However, in the multilateral rounds that are our focus here, which occur under Article XXVIIIbis, the purpose of negotiations is to achieve reductions in the levels of tariff bindings, and tariff offers that violate existing bindings would instead have to occur in the context of an Article XXVIII renegotiation and include the bargaining partner with which the original tariff concession was negotiated.

[10]In their examination of the bargaining data from the GATT Torquay Round, Bagwell et al. (2017a) find that the average number of exporting countries bargaining with an importing country over a given tariff was 1.25, suggesting that our assumption is a reasonable approximation. A potential caveat is that the findings of Bagwell et al. (2017a) apply at the 6-digit HS level of trade, whereas here we are operating at a more aggregate sectoral level; we return to this point later in the paper.

[11]For example, focusing on U.S. tariff cuts in the Uruguay Round and constructing a measure of market-access concessions while instrumenting to address the potential endogeneity issues, Limão (2006) and Limão (2007) find evidence consistent with reciprocity, reporting that a decrease in the tariff of a U.S. trading partner that exports a given product leads to a decrease in the U.S. tariff on that product and that a significant determinant of cross-product variation in U.S. tariff liberalization is the degree to which the United States received reciprocal market-access concessions from the corresponding exporting countries. Karacaovali and Limão (2008) perform a similar exercise for the EU tariff cutting behavior in the Uruguay Round. They find analogous support for the importance of reciprocity in explaining the pattern of EU tariff cuts, in that EU tariff reductions were largest for those products exported by countries who themselves granted large reductions in tariffs.

tariff bargaining to specific issues such as agricultural subsidies, intellectual property, services, and possibly even to broader non-economic issues covering national security concerns and geopolitical affairs. To allow our model to reflect some of these broader dimensions in the simplest way, we allow countries to make costly transfers as part of their tariff negotiations. Let $\Pi_i(\mathbf{t}, \mathbf{m})$ be the welfare of country i when the world vector of tariffs is given by $\mathbf{t}$ and the world vector of net transfers is given by $\mathbf{m}$. We continue to measure each country's welfare by its real national income level, but now augmented by the net international transfer it receives. We model this as a direct utility transfer rather than an income transfer, with no general equilibrium effects as a result: we think of this as capturing the non-economic issues beyond the market access concerns associated with tariff commitments that may have been at play during the negotiations. [12]

In this augmented setting, when country i negotiates with county j, the two countries select the tariffs τ that they negotiate and the net transfer μ_{ij} that country i pays to country j so as to maximize their Nash product, which we denote by $NP_{ij}(\tau, \mathbf{t}_{-ij}, \mu_{ij}, \mathbf{m}_{-ij})$, and which is given by:

$$(\Pi_i(\tau, \mathbf{t}_{-ij}, \mu_{ij}, \mathbf{m}_{-ij}) - \Pi_i(\tau_{\mathbf{0}}, \mathbf{t}_{-ij}, \mu_0, \mathbf{m}_{-ij}))^{\zeta_{ij}}(\Pi_j(\tau, \mathbf{t}_{-ij}, \mu_{ij}, \mathbf{m}_{-ij}) - \Pi_j(\tau_{\mathbf{0}}, \mathbf{t}_{-ij}, \mu_0, \mathbf{m}_{-ij}))^{1-\zeta_{ij}}$$

where as before ζ_{ij} is the bargaining power parameter of country i in its bilateral bargain with country j and the set of tariffs has been partitioned into those being negotiated by i and j and all other tariffs, $(\tau, \mathbf{t}_{-ij})$, and where we now similarly partition the sets of transfers for countries i and j into those being negotiated by i and j and all other transfers, $(\mu_{\mathbf{ij}}, \mathbf{m}_{-ij})$. As before, $\tau_{\mathbf{0}}$ represents the level for the tariffs under negotiation that will prevail if i and j fail to reach an agreement, and we set these to be the levels of these tariffs in place when the negotiating parties entered the round. And similarly, μ_0 represents the level of the transfer between i and j that will prevail if they fail to reach agreement, which we set to zero.

[12] An alternative (and possibly complementary) approach to introducing transfers into our model would be to allow international transfers of income. Transfers of this form would enter the budget constraint of each country and have general equilibrium impacts, and this might better capture the economic issues addressed during the Uruguay Round negotiations that went beyond tariff bargaining. Our approach is simpler, and seems appropriate as a way to capture the non-economic issues described above that may also have been at play in the Round. We leave to future research a more complete exploration of the various ways that international transfers might be introduced into quantitative models of tariff bargaining.

Finally, to allow for the possibility of a non-zero cost of transfers, we assume that if country i makes a positive net transfer to its bargaining partners in total (i.e., if $\sum_j \mu_{ij} > 0$), then country i suffers an additional utility cost associated with orchestrating this level of transfer equal to $\kappa(\sum_j \mu_{ij})^2$. We treat the cost-of-transfers parameter κ as a parameter to be estimated along with the bargaining power parameters of the model, and we estimate as well the net transfers μ_{ij}.

We then define the Horn and Wolinsky (1988) tariff-and-transfer bargaining equilibrium for our model:

Definition 2 (Tariff-and-Transfer Bargaining Equilibrium) *An equilibrium in tariffs and transfers consists of a vector of tariffs and transfers such that for each pair ij the tariffs and transfer negotiated by this pair maximizes NP_{ij} given the other tariffs and transfers in the vector.*

As noted above, to reflect the principal supplier rule of GATT/WTO tariff negotiations, we assume that only the principal supplier of good k into country i prior to the round can negotiate with country i over t_{ik}^{mfn}. In the absence of transfers, this in turn requires that a "double coincidence of wants" exists between any viable pair of bargaining partners, in the sense that each country in the bargaining pair must be a principal supplier of at least one good to the other country in the pair. With the introduction of (costly) transfers, the requirement of a double coincidence of wants is relaxed, in principle allowing more bargaining pairs to form: for example, if country A is a principal supplier of good 1 into country B's market, and country B is not a principal supplier of any good into country A's market, there could still be a viable bilateral between countries A and B, in which country B offers to cut its tariff on good 1 in exchange for a transfer from country A. For now we do not allow the introduction of transfers to expand the possible set of bilateral bargaining pairs in this way; later we will consider this added impact of the availability of transfers for our results.

It is worth pausing here to consider how our estimation can pin down bargaining-power parameters and the cost of transfers. If the Uruguay Round agreed tariffs correspond closely to what according to our model would be the joint surplus maximizing tariffs for each bilateral, then bargaining powers would be reflected in the transfers (which we don't observe) rather than the agreed tariffs, and we would have large standard errors on our bargaining parameter estimates together with a low estimated cost of transfers. To the extent that the Uruguay Round agreed tariffs do not correspond to what according to our model would be the joint surplus maximizing tariffs for each bilateral, our estimation will search for the combination of positive cost-of-transfers and bargaining powers that generates predicted tariffs as close as possible to the Uruguay Round agreed tariffs.

3 Data

To operationalize our model, we require data on trade flows, production and value added, and tariffs, all at the country-sector level. To quantify iceberg trade costs, we combine these data with a set of data on gravity variables: distances between countries, whether countries share a common language, and whether countries are members of a common PTA.

To represent the world economy, we include the twenty five largest countries by GDP in 1990, and aggregate the rest of the world into one of five "NES" regional entities: Americas, Asia-Oceania, Middle East-North Africa (MENA), Africa, and Europe. We treat each regional entity as a sovereign individual country in the estimation. We aggregate trade flows into 49 sectors. We began with SITC2 two-digit codes, and then further combine several related sectors to arrive at a total of 49 traded sectors.

Details of the data cleaning and aggregation are contained in Appendix A. Table 1 provides summary statistics.

3.1 Trade Flow, Production, and Value Added Data

The starting point for our data is the NBER world trade flows data from Feenstra et al. (2005) for the year 1990. We compute the gross value in 1990 dollars of each country's imports from each other country at the sector level according to our country and sector definitions. The NBER data do not provide information on a country's production or consumption. We impute each country's sector-level production by extracting the ratio of exports to total production at the country-sector level from the Global Trade Analysis Project (GTAP) database, complementing these data with manufacturing value added data by country from UNIDO. Our measure of sector-level consumption by country is then given by the difference between production and net exports.

Table 1: Summary Statistics

Country	Pop(M)	Mnfctring V.A. per capita(000)	Import ratio	1990 Average Tariffs	1990 Trade Weighted Tariffs	2000 Average Tariffs	2000 Trade Weighted Tariffs	Largest Trading Partner
USA	249.6	4258.8	0.187	0.045	0.048	0.032	0.043	Canada
Argentina	32.6	768.9	0.017	0.115	0.099	0.142	0.118	USA
Australia	17.1	2546.9	0.096	0.136	0.109	0.069	0.054	Japan
Austria	7.7	3265.8	0.503	0.061	0.066	0.033	0.034	Germany
Belgium	10.0	3428.3	0.386	0.061	0.054	0.033	0.028	Germany
Brazil	149.4	742.1	0.019	0.259	0.169	0.136	0.094	USA
Canada	27.8	3138.7	0.336	0.080	0.081	0.041	0.030	USA
China	1140.9	72.1	0.084	0.102	0.111	0.076	0.071	USA
Denmark	5.1	3596.6	0.213	0.061	0.057	0.033	0.029	Germany
France	56.7	2315.9	0.241	0.061	0.059	0.033	0.030	Germany
Germany	79.4	5421.1	0.228	0.061	0.062	0.033	0.032	France
India	849.5	23.8	0.038	0.772	0.576	0.323	0.238	MENA NES
Indonesia	178.2	61.6	0.058	0.196	0.133	0.076	0.052	Japan
Italy	56.7	2051.8	0.259	0.061	0.052	0.033	0.027	Germany
Japan	123.5	5804.5	0.122	0.053	0.027	0.035	0.019	USA
Mexico	83.2	226.5	0.081	0.118	0.110	0.149	0.124	USA
Netherlands	15.0	2425.4	0.240	0.061	0.057	0.033	0.028	Germany
Russia	148.3	236.1	0.128	0.087	0.056	0.104	0.076	Europe NES
S. Korea	42.9	1875.7	0.176	0.109	0.089	0.083	0.049	USA
Spain	38.8	1815.3	0.410	0.061	0.054	0.033	0.027	France
Sweden	8.6	3731.1	0.383	0.061	0.061	0.033	0.030	Germany
Switzerland	6.7	6255.8	0.299	0.199	0.113	0.063	0.033	Germany
Thailand	54.6	408.7	0.091	0.397	0.317	0.136	0.096	Japan
Turkey	56.2	413.3	0.134	0.079	0.067	0.052	0.034	Germany
UK	57.6	3541.4	0.305	0.061	0.061	0.033	0.031	Germany
America NES	183.1	243.9	0.077	0.119	0.100	0.107	0.087	USA
AsiaPac NES	671.3	104.7	0.207	0.129	0.108	0.068	0.049	USA
MENA NES	207.5	181.9	0.140	0.167	0.151	0.192	0.136	Japan
Africa NES	480.8	48.1	0.041	0.153	0.136	0.118	0.106	USA
Europe NES	207.5	608.7	0.273	0.075	0.059	0.074	0.055	Germany

3.2 Tariff Data

We obtain country-sector tariff equivalent MFN tariffs from the UNCTAD Trains database on tariffs for 1990 and 2000. We use the 1990 tariffs as the pre-Uruguay Round tariffs, and the 2000 tariffs as the negotiated outcomes from the Uruguay Round.

There is an important distinction between the tariffs that countries actually *apply* to imports into their markets, and the tariff *bindings* that they negotiate in the GATT/WTO. A tariff binding represents a legal cap on the tariff that a country agrees not to exceed when it applies its tariff; the tariff it applies may be at the cap, but it may also be below the cap. For most industrialized countries, the vast majority of applied tariffs are at the cap (Australia is a notable exception), but for many emerging and especially developing countries, applied tariffs are often well below the cap (China is a notable exception). A recent literature has begun to explore the value of tariff bindings that are set above applied tariffs, and this literature finds that the reduction in uncertainty about worst-case (i.e., high- tariff) scenarios that such a binding implies can have large trade effects, e.g. Handley (2014) and Handley and Limao (2015). While introducing a distinction between applied and bound tariffs in a quantitative trade model would be a very worthwhile project in its own right, it is well beyond the scope and focus of our paper.

In addition, as is well-known, the results of GATT/WTO tariff negotiating rounds are typically phased in over an implementation period that can last a number of years. In this regard the Uruguay Round was no exception, with phase-in periods ranging across countries and sectors up to a maximum of roughly a decade.

With the implementation period of the Uruguay Round commencing on January 1 1995, our decision to use the difference between the applied tariffs in place in 1990 and the applied tariffs in place in 2000 as a measure of the negotiating outcomes of the round represents an attempt to capture these complex features in a way that maintains the tractability of our quantitative model and its use for studying tariff bargaining. Finally, while we will estimate the parameters of our trade model utilizing data on trade flows, production and value added, and tariffs for the full coverage of products, for our bargaining analysis we focus attention on bargaining over tariffs for non-agricultural products (product categories 14-49 as defined in Table 9).

3.3 Gravity Data

We use data on distances between countries, existence of preferential trading arrangements (PTA), and a common language indicator from the CEPII Gravity Dataset (Head and Mayer, 2013). This data set constructs distances between countries based on distances between pairs of large cities and the population shares of those cities. For the regional entities, we construct the distance with a partner as the average distance between the countries forming the regional entity and the partner in question. For two regional entities, we use the average distance across all pairs formed with one country from each regional entity.

4 Estimation

We estimate the model in two steps. First, we estimate the taste, productivity, and iceberg cost parameters. Given these estimates, we then estimate the cost-of-transfers and bargaining parameters. The reason for splitting the estimation process into two steps is because the bargaining model is computationally much more intensive than the trade model, as solving the bargaining model once involves potentially thousands of computations of a trade equilibrium at differing tariff levels. Because the trade model has several thousand parameters, joint estimation with the bargaining model is prohibitively expensive. For feasibility, we thus sacrifice some efficiency by not jointly estimating the trade and bargaining/cost-of-transfers parameters. We do, however, allow the Uruguay Round bargaining outcomes to inform our trade model estimates along one dimension: we include inequality moments in the trade model estimation reflecting the implication that each bargaining pair in the Uruguay Round (based on the product-level principal supplier status in our trade data) should generate a higher joint surplus with its observed Uruguay Round agreed tariffs than if the pair had remained at its pre-Uruguay-Round tariff levels.

4.1 Non-linear least squares estimation of trade parameters

We estimate the model to minimize the distance between the data and the model's predictions for (i) the ratio of each country's imports from each other country in each sector to the country's total consumption in that sector, (ii) relative total value added across countries, and (iii) for each bargaining pair, the difference between the pair's joint surplus at the observed post-Uruguay-Round tariffs and at the pre-Uruguay-Round tariffs on the goods that are principally supplied by one member of the pair to the other member.

More specifically, the parameter vector to estimate consists of taste parameters (α_i^k), productivity parameters (z_i^k), dispersion of productivity parameters (θ_k), and iceberg costs ($\vec{\beta}$). Given the Cobb-Douglas preference structure, the taste parameters α_i^k can be inferred from the data directly as the share of expenditure on each sector over total expenditure. Given these α estimates, we then choose the remaining parameters to minimize the following criterion:

$$G(z,\theta,\beta) = \begin{bmatrix} \frac{x_{ij}^k}{\sum_i x_{ij}^k} - \frac{\hat{x}_{ij}^k(z,\theta,\beta)}{\sum_i \hat{x}_{ij}^k(z,\theta,\beta)} \\ \frac{\sum_{j,k} x_{ij}^k}{\sum_{j,k} x_{USA,j}^k} - \frac{\sum_{j,k} \hat{x}_{ij}^k(z,\theta,\beta)}{\sum_{j,k} \hat{x}_{USA,j}^k(z,\theta,\beta)} \\ \min\left(JS_{ij}(\tau_{ij}^{POST}) - JS_{ij}(\tau_{ij}^0), 0\right) \end{bmatrix}$$

$$\min_{z,\theta,\beta} G(z,\theta,\beta)' W G(z,\theta,\beta)$$

where $JS_{ij}(\tau_{ij}^{POST})$ is the joint surplus of the negotiating pair of countries i and j evaluated at the observed post-Uruguay-Round tariffs, and $JS_{ij}(\tau_{ij}^0)$ is the same joint surplus evaluated at the observed post-Uruguay-Round tariffs for all tariffs other than those being negotiated between the pair ij together with the pre-Uruguay-Round tariffs for the tariffs being negotiated between the pair ij. The inequality moments associated with JS_{ij} are implied by the Horn-Wolinsky bargaining equilibrium concept: if it were the case that $JS_{ij}(\tau_{ij}^{POST}) - JS_{ij}(\tau_{ij}^0) < 0$, then the pair ij would have been better off with no agreement. Evaluating the bargaining conditions increases the computational cost of the estimation as it requires solving for equilibrium at several different tariff vectors. For this reason, we include a subset of pairs motivated by size, trade flow patterns, and principal supplier relationships: US-EU, US-Japan, Canada-EU, Japan-EU, and Japan-South Korea.[13]

[13] We construct the weighting matrix W as follows. The weights on the trade shares are 1. The trade share difference between observed and reality can vary from -1 to 1, though most differences are on the order 0.01 or smaller. There are N*N*K=44100 of these. We weight the relative value added by 10. There are 29 of these. Their scale can be arbitrarily large, but at the estimates, the differences are also around 0.01 and smaller. Finally, we weight the five bargaining conditions by 10^5. Recall that these are in utility units, and absent weighting are on the order of 10^{-4}.

4.2 Discussion of Estimation and Data Variation

The non-linear mapping between trade shares, relative value added, and bilateral tariff agreements that generate positive surplus into model parameters is difficult to characterize formally. However, we now discuss the patterns in the data that help identify the model's parameters. We also compare our estimation approach to alternative estimation approaches from the previous literature.

The sector level θ_k parameters govern the responsiveness of trade flows to changes in the environment such as tariffs or productivities. Previous literature, such as Costinot et al. (2011) and Caliendo and Parro (2015), derive linear estimating equations where the left-hand-side variable is a non-linear transformation of bilateral trade flows at the country pair-sector-direction level and the right-hand-side variable is a non-linear transformation of either productivities (Costinot et al. (2011)) or tariffs (Caliendo and Parro (2015)). The parameter θ_k is the coefficient on the right-hand-side variable in these formulations.[14] With these linear estimating equations, these papers pay special attention to the identifying variation on the right hand side. Costinot et al. (2011) use an instrumental variables approach with additional data on productivities, while Caliendo and Parro (2015) use a rich set of fixed effects to isolate variation in tariffs that is within country-sector, and thus requires some countries to have discriminatory tariffs. These approaches do have the benefit of clear attribution of the identifying variation being used to estimate θ. That said, the log transformation of the left-hand-side variable entails dropping pairs of countries which have zero trade flows from the estimation as discussed in Silva and Tenreyro (2006). This approach also attributes idiosyncratic differences in a country pair's trade flows to iceberg costs and eliminates any role of measurement error in trade flows.

The non-linear least squares approach that we employ uses the information conveyed by pairs of countries which do not trade in a sector and allows for measurement error. Furthermore, it delivers, in one step, estimates of iceberg costs and country-sector level productivities that can be assessed against outside data sources and can be used to compute any counterfactual outcome in the domain of the model.[15] The disadvantage of the

[14] Caliendo and Parro (2015) allow for θ to vary at the sector level, while Costinot et al. (2011) restrict θ to be constant across all sectors.

[15] Papers using the linear estimating equation approach are still able to run certain counterfactuals by using the exact-hat algebra as in Dekle et al. (2008). This method allows one to estimate certain types of counterfactual outcomes knowing only some aggregates rather than all of the model primitives.

non-linear method is that it obscures the identifying variation being used to estimate θ_k and does not lend itself to straightforward instrumental variable techniques.

The bargaining conditions help ensure that the trade model parameters that we estimate are compatible with the observed tariff concessions from the Uruguay Round. In this sense, we are using bargaining outcomes to help estimate the trade model parameters such as the θ_k parameters. The trade model is point identified without these conditions, and thus remains point identified after adding these inequalities to the criterion function. The conditions we employ on the joint surplus are true for any bargaining power parameters.

4.3 Non-linear least squares estimation of cost-of-transfers and bargaining parameters

With estimates of the trade model in hand, we estimate the cost-of-transfers parameter and the bargaining parameters between pairs of countries in a second step. We again employ non-linear least squares. Using the estimated trade parameters, we can solve the bargaining model for predicted tariffs and net transfers given any cost-of-transfers parameter and vector of bargaining parameters. We numerically search over the cost-of-transfers parameter and bargaining parameters to minimize the distance between the observed tariff outcomes of the Uruguay Round and the tariff bargaining outcomes predicted by our model. In other words, we estimate the cost-of-transfers and bargaining parameters by solving the following:

$$\min_{\hat{\kappa},\hat{a}} \Sigma_{i,k}(\hat{\tau}_i^k(\hat{\kappa},\hat{a}) - \tau_i^k)^2$$

where $\hat{\tau}_i^k(\kappa, a)$ is the model's prediction for country i's MFN tariff in sector k for a candidate cost-of-transfers parameter κ and vector of bargaining parameters a, and τ_i^k is the observed MFN tariff of country i in sector k in the year 2000.

5 Model Estimates

5.1 Trade Parameter Estimates

Table 2 presents the within-country dispersion of productivity parameter estimates by sector, ordered by descending θ_k (descending trade elasticity). Our estimates of θ_k range from a maximim of 11.86 (Coal) to a minimum of 7.78 (Pharmaceuticals). Our average θ across sectors is 9.00. The range of estimates in the literature is arguably quite wide and comparison from paper to paper is difficult due to different degrees of product or geographical aggregation. That said, the Eaton and Kortum (2002) estimate of θ across sectors is 8.38. Costinot et al. (2011) estimate 6.53. Caliendo and Parro (2015) estimates an aggregate θ of 4.55 with a range from 50.01 (Petroleum) to 0.37 (Other transport). Ossa (2014) estimates a mean of 3.42 with a range from 10.07 (Wheat) to 1.19 (Other animal products).

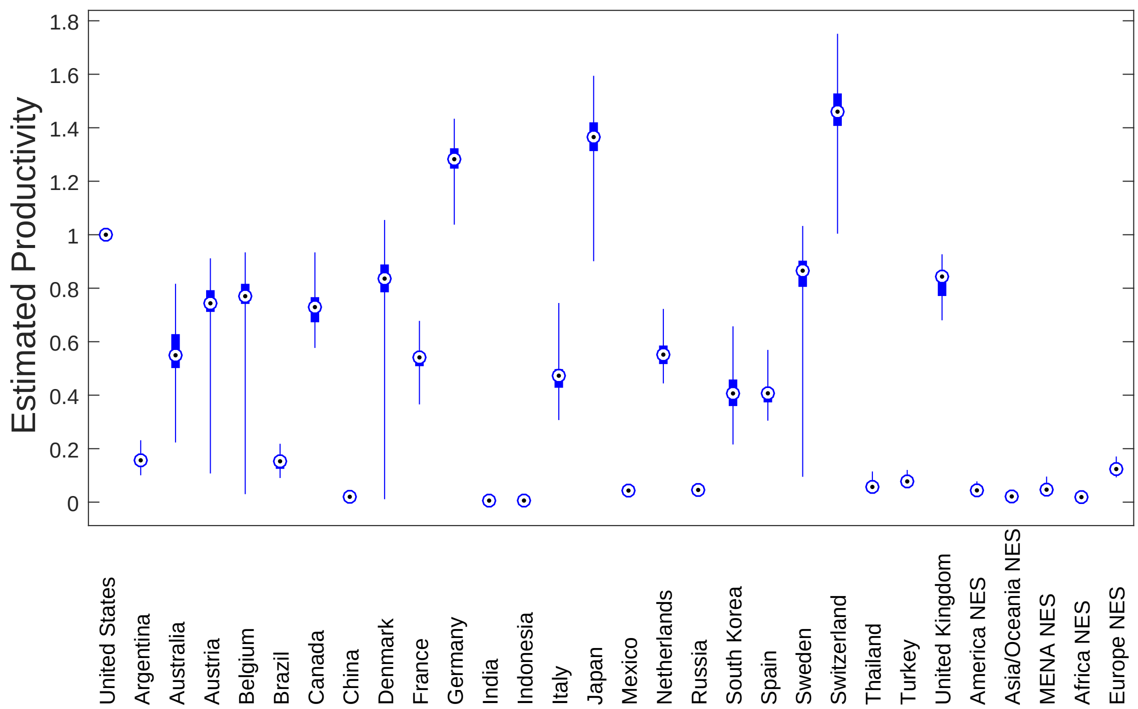
Table 2: θ Estimates by Industry.

Sector	$\hat{\theta}$	SE	Sector	$\hat{\theta}$	SE
Coal	11.86		Coffee, Tea, Spices	8.81	
Pulp and waste paper	11.53		Power generating machinery	8.78	
Sugar	10.38		Animal oils and fats	8.77	
Live animals	10.17		Metal Ores	8.76	
Petroleum	9.97		Inorganic chemicals	8.68	
All others	9.96		Electrical machinery	8.68	
Cork and wood	9.95		Iron and steel	8.56	
Cereals	9.91		Road vehicles	8.56	
Other transport equipment	9.75		Resins	8.54	
Non-ferrous metals	9.67		Travel goods and bags	8.50	
Feeding stuff	9.56		Chemical	8.48	
Plumbing, heating and lighting	9.47		Office machines	8.47	
Furniture and parts thereof	9.46		Organic chemicals	8.45	
Textile fibres	9.41		Fertilizers	8.45	
Seafood	9.18		Crude rubber	8.44	
Non-metallic mineral manufactures	9.11		Misc manufactures	8.38	
Vegetables and fruit	9.04		Specialized Machinery	8.33	
Wood manufactures	9.02		Scientific instruments	8.17	
Crude materials,n.e.s.	9.01		Dairy	8.12	
Meat	8.99		Dyeing and tanning	8.03	
Paper manufactures	8.91		Hides and skins	7.94	
Misc. Edible	8.90		Fabrics	7.93	
Tobacco	8.85		Footwear	7.92	
Beverages	8.85		Pharmaceutical	7.78	
Rubber manufactures	8.81				

Notes: Non-linear least squares estimates of θ by sector in descending order of estimate.

The estimated average iceberg cost across all sectors and country-pairs is 81.26%. The average-across-sectors incurred iceberg cost is 63.11% as lower iceberg cost country pairs trade with each other more. These iceberg costs estimates are smaller than other estimates in the literature. For example, Novy (2013) finds an average iceberg cost of 108% for a group of developed countries in 1990. The lower estimated iceberg cost here is consistent with higher θ estimates than in the literature. In regards to cross-country fundamental productivity levels, Figure 1 plots the distribution of estimated productivity levels for each country. Productivity levels are positively correlated across sectors, so the higher productivity countries in agriculture also tend to be the higher productivity countries in manufacturing.

Figure 1: Productivity Distributions by Country



Notes: For each country, the target is the median estimated productivity across sectors. The box represents the interquartile range. The line represents the full range. Each sector in the US is normalized to a productivity level one.

5.2 Model Benchmarks

We compute various benchmarks implied by the estimated trade model. Table 3 reports the results. We begin with the second and third columns of Table 3, which report respectively the changes in welfare that would result if, with regard to all non-agricultural products, the world reverted to autarky, or if all iceberg costs (including tariffs) were removed. We find that, relative to welfare under the status-quo 1990 tariffs, moving to

Table 3: Model Benchmarks

Country	No Tariffs	Autarky	No Iceberg Costs	Nash tariffs
USA	-0.08%	-1.99%	14.60%	-0.21%
Argentina	0.07%	-1.34%	98.30%	-0.08%
Australia	0.21%	-3.86%	66.10%	-0.19%
Austria	0.22%	-9.95%	53.53%	-0.07%
Belgium	0.15%	-15.14%	50.72%	-0.07%
Brazil	0.07%	-1.47%	61.09%	-0.14%
Canada	-0.03%	-6.66%	42.86%	-6.94E-04
China	0.35%	-2.40%	41.43%	-0.01%
Denmark	0.12%	-6.72%	64.84%	-0.05%
France	0.15%	-5.08%	44.91%	-0.05%
Germany	0.08%	-3.13%	22.84%	7.01E-05
India	0.72%	-58.97%	71.49%	0.15%
Indonesia	0.82%	-78.89%	123.12%	0.14%
Italy	0.19%	-4.44%	38.72%	-0.02%
Japan	0.19%	-1.88%	19.42%	-5.43E-05
Mexico	6.67E-05	-2.90%	65.69%	-0.05%
Netherlands	0.19%	-7.53%	51.84%	-0.02%
Russia	0.11%	-3.40%	63.09%	-0.45%
South Korea	-0.06%	-4.86%	42.80%	-0.17%
Spain	0.19%	-6.02%	51.43%	-0.02%
Sweden	0.20%	-9.51%	49.95%	-0.18%
Switzerland	0.05%	-6.47%	49.69%	0.22%
Thailand	0.27%	-5.06%	77.08%	-0.05%
Turkey	0.15%	-3.40%	63.23%	6.63E-05
UK	0.22%	-4.44%	30.18%	-0.09%
America NES	0.11%	-3.24%	81.83%	-0.22%
AsiaPac NES	0.39%	-6.56%	44.50%	-0.40%
MENA NES	0.21%	-5.34%	71.13%	-0.75%
Africa NES	0.03%	-3.21%	57.95%	-0.26%
Europe NES	0.29%	-5.18%	38.21%	-0.46%
Total Welfare	0.12%	-4.43%	36.21%	-0.12%

Notes: Estimated model's predicted change in national welfare for benchmark scenarios.

autarky would reduce total world welfare by 4.43%, while eliminating iceberg costs would raise total world welfare by 36.21%. For the US, moving to autarky reduces country welfare by 1.99% which is somewhat larger than the range of 0.7% to 1.4% computed by Arkolakis et al. (2012). This number is lower, however, than the 8.9% estimated in Ossa (2015)), despite the fact that our model also featurs heterogeneity in θ across sectors. The estimates in Ossa (2015) are based on a model with 251 sectors for the base year 2007 whereas our model has 49 sectors and is estimated using data from the base year 1990.

The first and fourth columns of Table 3 report benchmark welfare effects under a free-trade and Nash scenario, respectively. For the benchmark results reported in these two columns, we limit the tariff changes to those tariffs on non-agricultural products that were imposed by the set of negotiating countries in the Uruguay Round, defined as the set of countries who according to their principal supplier status in 1990 had at least one viable bilateral bargaining partner in the Uruguay Round (i.e., a partnership where each country was the principal supplier of at least one product into the other country's market). We refer to the resulting set of tariffs as the set of tariffs that were "under negotiation in the Uruguay Round."

The first column of Table 3 reports the welfare results from reducing all the tariffs that were under negotiation at the Uruguay Round from their 1990 levels to zero. World welfare rises by 0.12%, an amount that is smaller than the findings in Ossa (2014)) who predicts a rise in total welfare of 0.5%. However, Ossa's prediction reflects the impact of eliminating all tariffs, whereas as we have noted above our prediction is about the impact of eliminating only the subset of (non-agricultural) tariffs that were under negotiation in the Uruguay Round based on the set of viable bilateral bargaining partners given principal supplier patterns in 1990. Interestingly, according to our predictions, the US, Canada and South Korea would each lose from this move to free trade, reflecting the dominance of adverse terms-of-trade movements for the impacts on these countries.

The fourth column of Table 3 reports the welfare results from increasing all the tariffs that were under negotiation at the Uruguay Round from their 1990 levels to their best-response Nash levels. Here we find that total welfare decreases for most countries relative to their welfare under status-quo tariffs, but a few countries would enjoy small gains due to favorable terms-of-trade movements as a result of the Nash trade war. In aggregate the decrease in total welfare is small, amounting to only 0.12%. This reflects the fact that our estimated losses from a move to autarky are relatively modest, that the move to Nash tariffs is only allowed for products that were under negotiation in the Uruguay

Round, and that the Nash tariffs are sizable but far from prohibitive. US tariffs rise on average from 4.44% to 10.01%. EU tariffs rise on average from 5.82% to 12.08%. Ossa (2014)) finds Nash tariffs averaging 63% and an aggregate loss of 2.9% from a trade war relative to status-quo tariffs. In addition to the fact that our Nash calculations refer to only those tariffs that were under negotiation in the Uruguay Round whereas Ossa's Nash calculations cover all tarrifs, the differences between our Nash results and Ossa's also reflect differing estimated elasticities of trade, with Ossa's estimates indicating less responsiveness of trade to tariffs on average than our estimates. More in line with our numbers are the estimates of Markusen and Wigle (1989), who find Nash tariff rates for the US and Canada of 18% and 6% respectively and small losses from a trade war relative to free trade. Together our estimates in the first and fourth columns of Table 3 suggest that, beginning from Nash tariffs, the GATT rounds up to but not including the Uruguay Round had already achieved roughly 50% of the potential aggregate world-wide gains from the complete elimination of the tariffs that were under negotiation in the Uruguay Round.

5.3 Cost-of-Transfers and Bargaining Parameter Estimates

We now turn to our second step and estimate the cost-of-transfers and bargaining parameters. As described above, our approach is to use our trade model to solve for the Horn-Wolinsky bargaining outcomes beginning from 1990 tariff bindings and respecting MFN and the principal supplier rule, and to search over cost-of-transfers and bargaining-power parameters to minimize the distance between the observed tariff outcomes of the Uruguay Round and the tariff bargaining outcomes predicted by our model. We let the model predictions regarding principal supplier status guide our set of bilateral bargains.

For reference, the top panel of Table 4 displays the observed pattern of principal supplier status at the level of product aggregation in our data. For this table, we have combined the (at the time of the Uruguay Round) 10 EU member countries into the EU, because these countries negotiated their (common external) GATT Uruguay Round tariff commitments as a bloc; and to focus on the major traders, we have omitted from the table the 5 regional NES entities. Also, in defining the principal suppliers relevant for Uruguay Round negotiations, for the numbers in this table we have netted out trade with fellow PTA members (e.g., US exports to Canada are excluded when calculating the identity of principal suppliers into Canada). For each cell in the table, the first entry gives the number of products for which the column country is the principal supplier into the row country, and the second entry gives the number of products for which the row country is the principal supplier into the column country. The top panel of Table 4 records 12 country-pairs where both entries are non-zero (highlighted in the table with square brackets around those entries), reflecting the double coincidence of wants that can support a bilateral tariff negotiation between the pair. The 12 pairings involve 6 countries: the 4 Quad members – the US, the EU, Canada and Japan – and two additional countries, Australia and South Korea.

According to our trade model estimates, the predicted pattern of principal supplier status for the same set of countries is displayed in the bottom panel of Table 4. As the bottom panel of Table 4 reflects, the principal supplier relations predicted by our model capture 6 of the 12 pairings in the data and involve 5 of the 6 countries: three of the four Quad members, US, EU and Japan, and the two additional countries Australia and South Korea. This seems to capture the main bilaterals in the Uruguay Round (US-EU, US-Japan, EU-Japan) but misses several others that are potentially important (e.g., Japan-South Korea, EU-Canada). As we noted earlier, for now we do not allow the possibility of (costly) transfers to relax the requirement of a principal-supplier-based "double coincidence of wants" for each viable bargaining pair. But later we will consider this added impact of the availability of transfers for our results; a comparison of the entries in the top and bottom panels of Table 4 suggests that allowing this expanded definition of viable bargaining pairs may improve the match between the set of bilateral bargaining partners in the model and those suggested by the principal supplier relationships in the data. Overall, however, our current set of bargaining countries includes the 14 major industrialized countries that were arguably the key actors in the tariff negotiations of the Uruguay Round (the exclusion of Canada from this set being potentially the most important omission, mitigated to some degree by the fact that the US and Canada did not engage in bilateral negotiations over MFN tariffs in the Uruguay Round due to the existence of the US-Canada FTA and subsequently NAFTA).

Table 5 displays the bargaining parameter estimates for each of the negotiating pairs, as well as the estimated cost-of-transfers parameter κ. Two points seem clear from Table 5.

First, transfers were possible in the Uruguay Round, but they were not costless. The point estimate of κ reported in Table 5 translates into an average cost of transfers amounting to 13.67% when evaluated at the mean level of net transfers paid by countries who

Table 4: Principal Supplier Relationships

	US	Argentina	Australia	EU	Brazil	Canada	China	India	Indonesia	Japan	Mexico	Russia	Korea	Switzerland	Thailand
US															
Argentina	12,0														
Australia	[11,2]	0,1													
EU	[25,26]	0,11	[1,21]												
Brazil	9,0	0,0	0,0	11,0											
Canada	0,0	0,0	[1,1]	[30,3]	0,0										
China	4,0	0,0	2,0	15,0	0,0	1,0									
India	8,0	0,0	1,0	21,0	0,0	0,0	0,0								
Indonesia	6,0	0,0	4,0	12,0	0,0	0,0	0,0	0,0							
Japan	[18,5]	0,0	[3,3]	[13,3]	0,0	0,3	0,12	0,2	0,10						
Mexico	35,0	0,0	0,0	2,0	0,0	0,0	0,0	0,0	0,0	0,0					
Russia	0,0	0,0	1,0	33,0	0,0	1,0	0,0	0,0	0,0	0,0	0,0				
Korea	[13,2]	0,0	[2,1]	[4,2]	0,0	0,1	0,0	0,0	0,2	[17,4]	0,0	0,0			
Switzerland	0,0	0,0	0,0	39,0	0,0	0,0	0,1	0,0	0,0	0,1	0,0	0,0	0,0		
Thailand	7,0	0,0	0,0	13,0	0,0	0,0	0,0	0,0	0,0	14,0	0,0	0,0	2,0	0,0	
Turkey	3,0	0,0	0,0	34,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,0	0,0	0,0

	US	Argentina	Australia	EU	Brazil	Canada	China	India	Indonesia	Japan	Mexico	Russia	Korea	Switzerland	Thailand
US															
Argentina	13,0														
Australia	[19,1]	0,0													
EU	[36,24]	0,18	0,11												
Brazil	7,0	0,0	1,0	16,0											
Canada	0,0	0,0	1,0	35,0	0,0										
China	2,0	0,0	1,0	23,0	0,0	0,0									
India	2,0	0,0	1,0	20,0	0,0	0,0	0,0								
Indonesia	2,0	0,0	3,0	21,0	0,0	0,0	0,0	0,0							
Japan	[38,14]	0,0	0,8	[1,1]	0,0	0,2	0,10	0,2	0,8						
Mexico	0,0	0,0	1,0	35,0	0,0	0,0	0,0	0,0	0,0	1,0					
Russia	2,0	0,0	1,0	31,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0				
Korea	2,0	0,0	[3,1]	[22,2]	0,0	0,0	0,1	0,0	0,0	12,0	0,0	0,0			
Switzerland	0,0	0,0	0,0	39,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0		
Thailand	2,0	0,0	3,0	22,0	0,0	0,0	0,0	0,0	0,0	6,0	0,0	0,0	0,0	0,0	
Turkey	1,0	0,0	0,0	38,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0

Notes: The top panel presents principal supplier relationships according to the data. The bottom panel represents principal supplier relationships according to the trade model at the estimated parameter vector. For each cell in the table, the first entry gives the number of products for which the column country is the principal supplier into the row country, and the second entry gives the number of products for which the row country is the principal supplier into the column country. Square brackets indicate the bilateral relationships where both entries are positive.

made positive net transfers. And averaged across those countries making positive net transfers, the marginal cost of the last unit of utility transferred is 27.79%.

The second point that seems clear from Table 5 is that the EU was in a weak bargaining position in the Uruguay Round, while Japan and South Korea maintained relatively strong bargaining positions. Evidently, for the EU this is borne out by the fact that while the EU did not agree to asymmetrically large tariff concessions, it did agree to pay large transfers to its bargaining partners according to our estimates (perhaps capturing the world-price impacts of the substantial reductions in domestic agricultural supports associated with its Common Agricultural Policy). The strong bargaining positions of Japan and South Korea reflect primarily their relatively small tariff concessions (with Japan revealed to have a strong bargaining position through its small tariff concessions despite making positive net transfers).

Table 5: Bargaining Model Parameter Estimates

Country	Bargaining Parameter	SE
USA	0	-
Australia	-2.25	
EU	-8.03	
Japan	6.23	
South Korea	6.43	
	Parameter	SE
Cost of Transfers Coefficient	99.69	

Notes: Estimated bargaining parameters (a_i) and coefficient on quadratic transfer cost. The parameter for the US is normalized to 0.

Interpreting the estimates in Table 5 requires some caution. A naive interpretation of the bargaining parameters as relative "power" between the pairs can be misleading. These parameters reflect how the two negotiating countries split the marginal surplus that can be obtained by their agreement conditional on all other bilateral negotiation outcomes. Here we are relying heavily on the Horn-Wolinsky bargaining solution structure, which pins down the particular disagreement point from which the marginal surplus of a bilateral agreement is defined. A country could have strong bargaining power in each of its bilaterals and nevertheless fare poorly in the Uruguay Round relative to the 1990 status quo if the outcomes from all other bilaterals have served to disproportionately worsen this country's disagreement payoff in each of its bilaterals. Alternatively, a country could fare well as a result of the Uruguay Round outcomes relative to its welfare in the 1990 status quo, and yet be revealed to have very weak bargaining power in a given bilateral where the disagreement payoff had moved strongly in its favor.[16]

While the bargaining parameter estimates are a reflection of how evenly the surplus from the bilateral tariff bargain is split between the two parties, in our tariff-bargaining setting these parameters also reflect an additional feature, namely, the slope of the bilateral bargaining frontier. Our cost-of-transfers estimate indicates that countries did not have access to lump-sum transfers in the Uruguay Round, and so utility is not transferable across countries and the slopes of the bilateral bargaining frontiers will typically not be equal to -1. Instead, with the countries in any bilateral using tariff changes combined with costly transfers to transfer utility between them, the slope of the bargaining frontier in any given bilateral will reflect the cost of transfers and the relative degree to which the incidence of each country's tariff changes falls on, and only on, its bilateral bargaining partner.[17]

Figures 2 and 3 illustrate this feature for the US-EU and Japan-EU bilaterals. The bilateral bargaining frontier in each figure is constructed by optimally adjusting the tariffs under negotiating in that bilateral and the costly transfer between the two negotiating countries, holding all other tariffs and transfers fixed at their predicted agreement levels, to shift surplus between the two countries. As Figure 2 depicts, the slope of the bargaining frontier between the US and the EU is steeper than -1, indicating that the tariffs (and transfer) negotiated in this bilateral were more effective at shifting surplus from the US to the EU than in the other direction. This means in turn that for any given bargaining parameter for the US-EU bilateral, the division of the surplus under the Nash bargaining solution will be shifted in the direction of the EU relative to what it would be if the slope of the bilateral bargaining frontier were -1. Similarly, figure 3 reveals that the slope of the bargaining frontier between the EU and Japan is also steeper than -1; this implies that in the Japan-EU bilateral, the tariffs under negotiation were more effective at shifting surplus from the EU to Japan.

[16]This is the case for the EU in its bilateral with the US. Of course, if the actual disagreement point in a bilateral deviates significantly from that under the Horn-Wolinsky bargaining solution, the implied split and hence the implied bargaining parameters could be different.

[17]If countries were bargaining over a sufficiently complete set of trade taxes, they would be able to use adjustments in these trade taxes to transfer surplus between them in a lump-sum manner. For example, in a two-good two-country general equilibrium setting, Mayer (1981) shows that adjustments in the import tariff in each country that preserve the equality of the relative price in each country can affect lump-sum transfers across countries. This is infeasible in the bilaterals under study in the present setting, because the set of import tariffs under negotiation do not constitute a sufficiently complete set of trade taxes.

Figure 2: US and EU Welfare Frontier

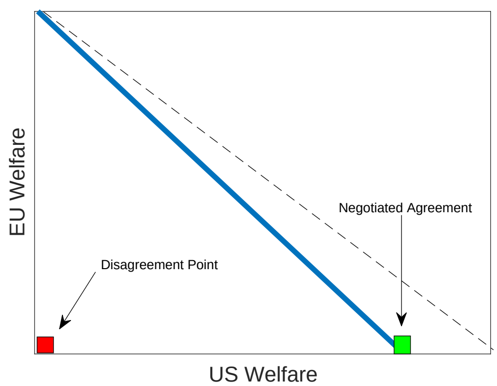
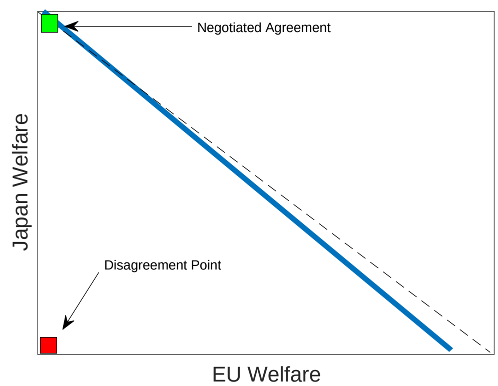


Figure 3: EU and Japan Welfare Frontier



Notes: These curves represents the frontier of feasible welfare pairs for the US-EU bilateral (left panel) and EU-Japan bilateral (right panel) negotiations holding the other pairs fixed at the equilibrium outcomes. The dashed line has slope equal to minus one.

In Table 6, we present evidence suggesting that asymmetries in market power, the position of the initial tariffs relative to their best-response levels, and the spillovers to third parties are all factors in understanding the slopes of the bilateral bargaining frontiers. Consider for example, the first two rows of this table, which relate to the US-Australia bilateral. With all other tariffs positioned at their agreed levels as predicted by our model, the first three columns of Table 6 report that, beginning from the US-Australia negotiated agreement tariffs as predicted by our model, when the US lowers its tariffs under negotiation in this bilateral by an amount that reduces its welfare by 1 unit, it increases the surplus of all other countries by 2.093 units, with Australia receiving 1.025 units and third parties receiving the remaining 1.068 units. By contrast, beginning from these same tariffs, when Australia lowers its tariffs under negotiation in this bilateral by an amount that reduces its welfare by 1 unit, it increases the surplus of all other countries by 0.639 units, with the US receiving 0.101 units and third parties receiving the remaining 0.538 units.

These asymmetric effects reflect a combination of factors. The feature that the US tariff cuts generate substantially more surplus gains for the rest of the world overall than do Australia's tariff cuts when Australia and the US make the above-described tariff cuts reflects in part the differences across these two countries in import volumes and market power over world prices with respect to the products on which they are bargaining. Another factor is the relative distance of the agreed tariffs from best-response levels for

Table 6: Spillover Benefits to Third Parties (MFN Negotiations)

			Tariff Reduction from Agreement			Tariff Reduction from Binding		
Country 1	Country 2	Reducing Country	Δ Welfare Country 1	Δ Welfare Country 2	Δ Welfare 3rd Parties	Δ Welfare Country 1	Δ Welfare Country 2	Δ Welfare 3rd Parties
US	Aus	US	-1.000	1.025	1.068	-1.000	1.591	2.127
US	Aus	Aus	0.101	-1.000	0.538	-13.519	1.000	57.977
US	EU	US	-1.000	1.098	1.445	1.000	13.842	52.396
US	EU	EU	0.418	-1.000	1.144	1.127	-1.000	4.225
US	Japan	US	-1.000	1.028	0.924	-1.000	2.079	3.368
US	Japan	Japan	0.570	-1.000	0.682	1.025	1.000	11.320
Aus	Korea	Aus	-1.000	0.543	3.335	1.000	0.046	0.280
Aus	Korea	Korea	0.548	-1.000	0.959	32.727	-1.000	11.012
EU	Japan	EU	-1.000	0.670	1.166	1.000	14.084	4.299
EU	Japan	Japan	1.005	-1.000	3.655	0.078	1.000	0.306
EU	Korea	EU	-1.000	0.549	3.464	1.000	0.892	5.802
EU	Korea	Korea	0.798	-1.000	2.575	1.774	1.000	7.718

Notes: Each row corresponds to a unilateral marginal decrease in tariffs by the "reducing country." The reducing country reduces tariffs on all goods that it negotiates with the partner country in that row. The welfare changes are normalized so that the reducing country has an absolute welfare change equal to one. The first set of welfare columns presents changes from MFN reduction from the pair's negotiated agreement. The second set of welfare columns presents changes from MFN reductions from the pair's 1990 tariffs.

the tariffs over which these two countries bargain; this factor governs the magnitude of the described tariff cuts.[18] And the feature that Australia captures a greater portion of the rest-of-world gains generated by the US's tariff cuts (roughly 49%) than is captured by the US when Australia makes the described tariff cuts (roughly 16%) reflects asymmetries in the degree of dominance that each country's principal suppliers play in serving the other country's markets.

The last three columns of Table 6 report analogous measures, but do so beginning from the bargaining pairs' disagreement (1990) tariffs rather than from the pairs' negotiated agreement tariffs (with all other tariffs still positioned at their agreed levels as predicted by our model). Similar asymmetric effects arise from this starting point and have similar interpretations, but now it is possible that unilateral tariff reductions can increase a country's welfare (if the 1990 levels of the tariffs it negotiates in this bilateral are above its best-response levels in light of the agreement levels of all other tariffs) and, because

[18]For example, if a country's agreed tariffs were at their best-response levels, then an envelope argument ensures that small tariff reductions would have no first-order effect on that country's welfare. This suggests that a country may need to make larger tariff cuts to generate a 1 unit welfare reduction when that country's tariffs are positioned closer to their best-response levels.

these calculations do not begin from a point on the bilateral bargaining frontier, could (but need not) increase the welfare of all countries.

Notably, the third-party spillovers reported in both columns 3 and 6 of Table 6 are uniformly positive. While the overall surplus gain for the rest of the world generated by an importing country's MFN tariff cuts is expected to be positive due to the induced terms-of-trade effects, the sign of the spillovers to individual countries is not guaranteed to be positive, and depends on trade patterns. That is, while the sum of the impacts on the bargaining partner and third parties should be positive when an importing country reduces its import tariffs as part of a bilateral bargain, the impact on third parties taken as a group could be positive or negative and is ultimately an empirical question for which columns 3 and 6 of Table 6 provide an answer.[19]

This point was emphasized by an early study commissioned by GATT which became known as the *Haberler Report*. Written by a Panel of Experts that included Roberto de Oliveira Campos, Gottfried Haberler, James Meade and Jan Tinbergen, the purpose of the report was to investigate the prevalence of agricultural protectionism and "...the failure of the export trade of the under-developed countries to expand at a rate commensurate with their growing import needs." (Campos et al., 1958). The issue of spillovers was explained by the Report in these terms:

> The problem of the interests of different primary producing countries outside industrialized Western Europe and North America is ... not only a question which of the other countries would gain by a moderation of agricultural protectionism in these two great industrialized regions; there are undoubtedly cases in which an increase in agricultural protectionism in these two regions, while it would be to the disadvantage of some of the unindustrialized countries, would actually be to the advantage of others. ... An increased stimulus to the production of wheat in any of the countries of North America or of Western Europe by increasing the exportable surplus of North America and decreasing the import requirements of Western Europe would depress the world market for wheat. This might mean that a country like India or Japan would obtain cheaper imports of wheat (either because of a fall in the world price or because of a development of special sales or gifts for the disposal of surplus

[19] In fact, even the overall impact could in principle be of either sign in a multi-product environment, depending on the signs and strengths of the interactions across products.

> wheat by the United States), but a country like Australia or the Argentine which competed in the world export market for wheat would be damaged. ...
>
> In general, if one considers any particular agricultural product, a protective stimulus to its production in any one country by increasing supplies relatively to the demand for that product will tend to depress the world market for that product. This will damage the interests of other countries which are exporters of the product on the world market. But it will be to the national interest of countries which import the product from world markets. Whether the initial protective stimulus confers a net benefit or a net damage to all other countries concerned depends, therefore, upon whether the country giving the protective stimulus to its own production is an exporter or an importer of the product; if it is an exporter it is conferring a benefit on the world by giving its supplies away at a cheap price; if it is an importer it is damaging the rest of the world by refusing to take their supplies. (Campos et al. (1958), footnotes omitted).

In the context of bilateral MFN tariff bargaining, the general principle described by the Haberler Report describes well the pattern of externalities that each bilateral bargain has to confront. Based on this principle, we would expect the overall surplus gain for the rest of the world generated by an importing country's MFN tariff cuts to be positive, and this is confirmed in the results reported in Table 6. What is also confirmed by the results in Table 6 is that both the bargaining partner and third parties as a group each gain from the importing-country MFN tariff cuts being negotiated in the Uruguay Round.

5.4 MFN Tariff Bargaining in the Uruguay Round

Comparing our Horn-Wolinsky model solution to the actual Uruguay Round tariff bargaining outcomes, we find that we can explain 61.75% of the variation in 190 tariffs under negotiation in the Uruguay Round using our cost-of-transfers parameter and four bargaining parameters. The welfare impacts of the Round's MFN tariff bargaining as predicted by our model are presented in the first and second columns of Table 7. The first column reports the impact of the negotiated tariff cuts predicted by our model, while the second column includes as well the impacts of the net transfers negotiated according to our model as part of the Round. The total world welfare gain is small in magnitude, which is not surprising in light of our benchmark findings that the gains in world welfare from eliminating all tariffs under negotiation in the Uruguay Round starting from their 1990 levels is small

(0.1% versus 0.12% respectively). That said, our Horn-Wolinsky model solution indicates that the tariff reductions from 1990 levels implied by the Uruguay Round negotiations by themeselves achieved roughly 42% of the potential world-wide welfare gains associated with a move from the non-cooperative Nash to the free-trade benchmark for these tariffs. Recalling that our benchmark results indicate that the GATT rounds leading up to the Uruguay Round had already achieved roughly 50% of the potential aggregate world-wide welfare gains in moving from the non-cooperative Nash to the free-trade benchmark for the tariffs under negotiation in the Uruguay Round, our results indicate that roughly 10% of the potential gains in moving from non-cooperative Nash outcomes to the free-trade benchmark for these tariffs remain as “unfinished business.” By comparison, the comparable unfinished-business number reported by Ossa (2014) is roughly 15%, though it should be recalled that Ossa’s numbers reflect a wider set of negotiated tariffs.

The first two columns of Table 7 also reveal that there is significant variation in the gains from the Uruguay Round’s MFN tariff bargaining across the member countries, with substantially higher than average gains going to a number of emerging and developing countries and smaller gains going to some of the industrialized countries. Among the emerging and developing economies with especially high gains are China (who was not a GATT member at the time of the Uruguay Round but enjoyed MFN treatment from the EU and the US), India, Indonesia, Thailand and the regional entities in Asia/Oceana NES and Europe NES. These countries were not among our bargaining pairs and hence these gains reflect favorable terms-of-trade movements as a result of the Round. Turning to the industrialized countries, the US gains are relatively small, and accrue mainly through the effects of the transfers it receives, not through the effects of the negotiated tariff reductions in the Round. South Korea’s gains are large, deriving primarily from the Round’s tariff cuts but also augmented by the net transfers it receives. Japan’s gains are also relatively large, and derive from the Round’s tariff cuts, offset to some degree by the transfers that Japan makes to others.

Moreover, according to our model predictions, not all countries gained from the Uruguay Round, with Switzerland and Turkey suffering small losses. As these two countries were not among our bargaining pairs and hence do not alter their own tariffs from 1990 levels, the losses they suffer as a result of the Uruguay Round reflect adverse terms-of-trade movements that resulted according to our model from the negotiated MFN tariff cuts of others. This illustrates the point highlighted in the Haberler Report and discussed above, that the MFN tariff reductions of each country are expected to generate positive

Table 7: Estimated Uruguay Round and Counterfactual Outcomes

	MFN		No MFN		Welfare Maximizing
	Tariffs				
Average Tariffs	-41.86%		-42.66%		-148.54%
Weighted Average Tariffs	-42.87%		-60.09%		-181.57%
	Country Welfare				
		with transfers		with transfers	
United States	0.01%	0.04%	0.01%	0.01%	-1.23%
Argentina	0.06%	0.06%	-0.02%	-0.02%	0.66%
Australia	0.11%	0.07%	1.18%	1.18%	2.38%
Austria	0.10%	0.09%	0.02%	0.02%	-1.18%
Belgium	0.03%	0.03%	0.02%	0.02%	-1.16%
Brazil	0.04%	0.04%	-0.03%	-0.03%	0.80%
Canada	0.01%	0.01%	-0.12%	-0.12%	0.86%
China	0.28%	0.28%	-0.10%	-0.10%	1.24%
Denmark	0.04%	0.04%	0.01%	0.01%	-0.97%
France	0.04%	0.04%	0.01%	0.01%	-1.08%
Germany	0.03%	0.02%	-0.05%	-0.05%	-1.37%
India	0.59%	0.59%	-0.21%	-0.21%	2.92%
Indonesia	0.55%	0.55%	-0.04%	-0.04%	3.48%
Italy	0.06%	0.04%	0.10%	0.10%	-1.25%
Japan	0.16%	0.13%	0.25%	0.25%	1.22%
Mexico	0.02%	0.02%	-0.05%	-0.05%	0.62%
Netherlands	0.06%	0.05%	0.02%	0.02%	-1.66%
Russia	0.05%	0.05%	0.02%	0.02%	1.21%
South Korea	0.31%	0.38%	0.20%	0.20%	1.01%
Spain	0.08%	0.06%	-0.02%	-0.02%	-1.55%
Sweden	0.09%	0.08%	0.05%	0.05%	-1.08%
Switzerland	-0.04%	-0.04%	-0.10%	-0.10%	-0.03%
Thailand	0.24%	0.24%	-0.07%	-0.07%	1.51%
Turkey	-0.03%	-0.03%	-0.09%	-0.09%	0.24%
United Kingdom	0.10%	0.09%	0.03%	0.03%	-1.02%
America NES	0.08%	0.08%	0.02%	0.02%	2.32%
Asia/Oceania NES	0.30%	0.30%	-0.14%	-0.14%	2.64%
MENA NES	0.07%	0.07%	-0.05%	-0.05%	1.72%
Africa NES	0.03%	0.03%	-0.02%	-0.02%	1.15%
Europe NES	0.29%	0.29%	-0.09%	-0.09%	2.88%
Total Welfare	0.10%	0.10%	0.06%	0.06%	0.14%

Notes: Each column represents changes in the row relative to the pre-Uruguay tariff levels. The first column represents the Horn-Wolinsky MFN solution at the estimated bargaining parameters. The second column represents the Horn-Wolinsky discriminatory solution at the estimated bargaining parameters. The third column represents the MFN tariffs which maximize total welfare.

effects for the rest of the world taken as a whole, but need not lead to positive effects for every country in the rest of the world.

We also note an important possibility in Nash-in-Nash bargains that is *not* found in the MFN results reported in Table 7: while under Nash-in-Nash bargains each bilateral negotiation must lead to an agreement over tariffs which, with the outcomes of all other negotiations taken as given, benefits both negotiating parties, the externalities across bargaining pairs raise the possibility that a country engaged in bargaining could nevertheless be made worse off as a result of the web of bilateral tariff bargains negotiated in the multilateral round than it would have been if the round had never taken place. Evidently, our results imply that, to the extent that GATT/WTO multilateral tariff bargaining is well-captured by the Nash-in-Nash approach, this possibility did not arise in the Uruguay Round.

Our findings here raise several questions about how alternative bargaining protocols might have altered the outcomes of the Uruguay Round. In light of the potential drag on tariff liberalization generated by the positive third-party externalities associated with MFN tariff cuts as reported in Table 6, could the abandonment of MFN have allowed countries to achieve greater tariff liberalization than occurred under the MFN restriction, and in so doing have allowed the Uruguay Round to achieve greater gains in world welfare? Could the introduction of a reciprocity constraint help to eliminate the third-party externalities of MFN tariff cuts and ensure that no country would have lost from the Uruguay Round? Would the distribution of the gains from the Uruguay Round across countries have been impacted in a substantial way if different bargaining protocols had been adopted? We turn to these and other counterfactual questions in the next section.

6 Counterfactuals

We now consider several counterfactuals, by comparing the outcomes from the Uruguay Round with the outcomes that would be predicted by our model had the Uruguay Round negotiations occurred under a different bargaining protocol. Recall that, in addition to allowing countries to make costly transfers as part of their tariff negotiations, we have represented the Uruguay Round bargaining protocol with three institutional constraints, namely, that countries (i) are restricted to bargain over MFN tariffs, (ii) must respect existing GATT tariff commitments and not raise their tariffs above these commitments, and (iii) abide by the principal supplier rule, which guides each importing country to limit its negotiations on a given product to the exporting country that is the largest supplier of that product to its market.

As a first counterfactual, we consider an alternative bargaining protocol under which the first and third of these constraints are removed and countries can negotiate discriminatory tariff bargains. Our primary interest is in how relaxation of the MFN requirement impacts tariff bargaining, and as the principal supplier rule was introduced into the GATT bargaining protocols in order to facilitate bilateral tariff bargaining in the presence of MFN, it is natural to consider removing these two constraints at the same time. Because the model does not perfectly predict tariffs under our representation of the Uruguay Round protocol, we compare simulated outcomes under the counterfactual protocol to simulated outcomes under our representation of the Uruguay Round protocol rather than to the observed post-Uruguay tariffs.

To predict outcomes under discriminatory negotiations, we again solve for a bargaining equilibrium with our estimated bargaining parameters. In the discriminatory case, however, each pair negotiates only over tariffs that they will apply to each other. These bilateral tariff bargains still affect the welfare of third countries because they affect production and consumption patterns in the trade equilibrium, but they lack the direct effect of altering tariffs on third countries automatically through MFN, and so the third-party effects will be different from the MFN case. More specifically, while we would expect and Table 6 confirms that the overall rest-of-world effect of a unilateral MFN tariff reduction is positive, and while as Table 6 confirms we also find a positive third-party effect from one country's unilateral MFN tariff reductions agreed within a bilateral, the third-party effect of an analogous unilateral *discriminatory* tariff reduction is likely to be negative, driving down the levels of these negotiated tariffs in the absence of the MFN constraint from what the negotiated levels of these tariffs would be under MFN, even as the liberalizing impact of the resulting tariff reductions are not automatically broadened by extension to apply to other trading partners under the MFN requirement.

To isolate the intensive-margin impact that the third-party effects of discriminatory tariff reductions have on tariff bargaining outcomes, we first consider a counterfactual in which, for each country, the set of its tariffs being negotiated is constrained to include only the sectors that were negotiated in the Uruguay Round, and the set of countries negotiating on these tariffs is constrained to include only the countries that it negotiated with in the Uruguay Round. That is, if county A was negotiating an MFN tariff cut on sector j imports with the principal supplier of sector-j exports into its market, then in our counterfactual country A is allowed to negotiate a discriminatory tariff cut on sector-j imports with each of the countries that it bargained with in the Uruguay Round and that also export sector-j goods to its market. But for this initial counterfactual, we do not allow additional extensive margin effects on the pattern of bargaining.

The third and fourth columns of Table 7 present the results of this counterfactual, with the third column presenting the welfare implications associated with the negotiated discriminatory tariff changes and the fourth column presenting the welfare implications once the negotiated transfers are also included. As a comparison across the first two columns (MFN) and the third and fourth columns (No MFN) reveals, average tariffs drop further under discriminatory negotiations than under MFN negotiations, as expected; but MFN negotiations are better for world welfare than discriminatory negotiations. More specifically, we would expect from the findings of Bagwell et al. (2017b) that in the absence of an MFN rule Nash-in-Nash tariff bargaining always results in inefficient over-liberalization, but what the findings in Table 7 indicate is that the degree of inefficient over-liberalization according to our model is sufficiently important to outweigh the inefficient under-liberalization that arises according to the model under MFN, resulting in worse outcomes under discriminatory tariff bargaining than under MFN tariff bargaining.

Moreover, developing and emerging countries are among the biggest losers from the abandonment of MFN, in some cases (e.g. China, India) faring substantially worse than under the 1990 status quo. The US also loses from the abandonment of MFN, as does Canada, but the reasons appear to be quite different: for the US, the impacts of the agreed tariff reductions are broadly similar across MFN and discriminatory negotiations, but the US suffers a loss of transfers under discriminatory negotiations relative to MFN; for Canada, the loss in moving from MFN to discriminatory negotiations comes in the form of adverse terms-of-trade movements associated with the agreed discriminatory tariff cuts.

Also of note is that the entries across columns three and four of Table 7 are essentially identical, reflecting the fact that with discriminatory tariffs the appeal of using costly transfers as a complement to tariffs in bilateral bargaining is greatly diminished, and as a consequence the predicted transfers under the discriminatory tariff bargaining protocol are very small. The reason that discriminatory tariffs obviate to some extent the desirability of transfers that would otherwise arise under bilateral MFN tariff bargaining is that discriminatory tariffs imply the existence of bilateral world prices, and these bilateral world prices can then be altered through discriminatory tariff adjustments to affect bilateral transfers of income without the positive spillovers to third parties that are generated under MFN tariff adjustments and the associated movements in common-across-country world prices that are implied by these adjustments (and that hence make direct bilateral transfer instruments valuable to bargaining partners in an MFN setting).[20]

Table 8 provides analogous information to Table 6 but now for the counterfactual case of discriminatory tariff bargaining. The most striking difference across the two tables is in the spillovers to third parties, which for MFN tariff bargaining is positive as we have noted but which for discriminatory tariff bargaining is now uniformly negative. It is this negative third-party externality that is driving down the levels of the negotiated tariffs in the absence of the MFN constraint from what the negotiated levels of these tariffs would be under MFN.

Table 8: Spillover Benefits to Third Parties (Discriminatory Negotiations)

			Tariff Reduction from Agreement			Tariff Reduction from Binding		
Country 1	Country 2	Reducing Country	Δ Welfare Country 1	Δ Welfare Country 2	Δ Welfare 3rd Parties	Δ Welfare Country 1	Δ Welfare Country 2	Δ Welfare 3rd Parties
US	Aus	US	-1.000	2.100	-0.021	-1.000	6.471	-0.461
US	Aus	Aus	0.260	-1.000	-0.247	0.606	-1.000	-0.197
US	EU	US	-1.000	1.492	-0.421	-1.000	3.282	-0.526
US	EU	EU	0.596	-1.000	-0.061	1.463	-1.000	-0.199
US	Japan	US	-1.000	1.299	-0.209	-1.000	2.303	-0.290
US	Japan	Japan	0.692	-1.000	-0.133	1.101	-1.000	-0.162
Aus	Korea	Aus	-1.000	0.694	-0.441	-1.000	80.529	-41.386
Aus	Korea	Korea	1.303	-1.000	-0.064	7.421	-1.000	-1.670
EU	Japan	EU	-1.000	0.874	-0.135	-1.000	2.588	-0.440
EU	Japan	Japan	0.979	-1.000	-0.108	1.645	-1.000	-0.006
EU	Korea	EU	-1.000	1.021	-0.161	-1.000	3.261	-0.037
EU	Korea	Korea	0.838	-1.000	-0.367	6.985	-1.000	-1.320

Notes: Each row corresponds to a unilateral marginal decrease in tariffs by the "reducing country." The reducing country reduces tariffs on all goods that it negotiates with the partner country in that row. The welfare changes are normalized so that the reducing country has an absolute welfare change equal to one. The first set of welfare columns presents changes from a discriminatory reduction from the pair's negotiated agreement. The second set of welfare columns presents changes from a discriminatory reduction from the pair's 1990 tariffs.

For comparison, the last column of Table 7 reports results under the levels of the tariffs negotiated in the Uruguay Round that would maximize total world welfare, corresponding to the utilitarian (Benthamite) point on the efficiency frontier. MFN negotiations achieve about 70% of the worldwide gain that could be achieved from choosing the tariffs negotiated in the Uruguay Round to maximize total welfare. Much of the increased gains

[20] See Bagwell and Staiger (2010), for an elaboration on this point.

relative to the negotiated MFN tariff cuts go to developing and emerging economies, as might be expected given that these countries were not among the bargaining pairs in the Uruguay Round and hence their interests were not directly represented in those bilateral bargains.

7 Conclusion

This paper embeds a quantitative model of world trade into a model of bilateral bargaining over tariffs to examine the welfare effects of the most-favored-nation (MFN) requirement that characterizes negotiations at the GATT/WTO. We estimate the model using trade flows and tariff outcomes from the Uruguay Round of GATT/WTO negotiations. As emphasized in the theoretical literature, the welfare effect of imposing is ambiguous and depends on trade patterns. In a trade model whose parameters are estimated to match observed trade flows, we find that MFN negotiations are superior to discriminatory negotiations in terms of increasing total welfare. While MFN negotiations do not reach full efficiency as third party effects remain, they outperform discriminatory negotiations which are characterized by too low, and often negative, import tariffs.

There are several promising avenues for future research. One obvious direction is expanding the current framework to deal with more products, that is, using a more disaggregated product classification. While this is essentially a computational challenge, it is an important extension to as actual tariff negotiations occur at much more disaggregate levels. More broadly, the framework used here could be paired with a coalition formation model to examine how tariff negotiations and regional trade agreements co-evolve. Finally, liberalization in the GATT/WTO occurred over several rounds which created inter-temporal linkages across rounds. The static framework here could be embedded into a larger model that examines how the GATT/WTO affected world trade on a longer term basis.

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A Data Appendix

Trade Data

The main source of trade data is NBER-United Nations Trade Data 1962-2000[21]. We supplement the 1995 Russian import data and the 2000 Indian import data with the Comtrade data. We aggregate the trade data up to the level of regional and product category used in the text. Our 49 product categories are defined in Table 9. Our first 13 product categories cover agriculture, with product categories 14-49 covering manufactures.

Tariff Data

The tariff data is from the TRAINS data accessed through WITS[22]. We use the MFN Applied rate throughout the analysis. If the tariff data is not available for any of the year 1990, 1995 and 2000, we borrow it from the closest year available. We then calculate the trade-weighted import tariff by the importing country (region) and the product category. For European countries, we calculate the euro-zone common import tariffs and apply to each country product-wise. For a given importing country (region) and a product category, if the import tariff is missing for a particular partner, we simply assume that the MFN tariff is applied to this partner.

Export Ratio

Export ratio is calculated using the GTAP 5 data (Dimaranan and McDougall, 2002), which provides the total production and the export for each country and sector in 1997. We then match the GTAP industries with our product classification to derive the export ratio by each product category.

Gravity Data & Preferential Trade Agreements

Gravity variables and the PTA relations between countries are from CEPII (Mayer and Zignago, 2011). For gravity variables, we use information on distance, GDP, population and common language. For distance between regions, we apply population weighted distance.

Domestic Value-Added

The domestic value-added is from INDSTAT 2 (2016), ISIC Revision 3.[23] We calculate the total manufacturing value-added by region.

[21] http://cid.econ.ucdavis.edu/nberus.html

[22] http://wits.worldbank.org/

[23] https://stat.unido.org/

Table 9: Product Classification

Product Category	Corresponding SITC rev.2	Description
1	0	Live animals chiefly for food
2	1	Meat and meat preparations
3	2	Dairy products and birds'eggs
4	3	Fish,crustaceans,mollucs,preparations thereof
5	4	Cereals and cereal preparations
6	5,22	Vegetables and fruit; Oil seeds and oleaginous fruit
7	6	Sugar,sugar preparations and honey
8	7	Coffee,tea,cocoa,spices,manufactures thereof
9	8	Feeding stuff for animals,not incl.unmil.cereals
10	9	Miscel.edible products and preparations
11	11	Beverages
12	12	Tobacco and tobacco manufactures
13	21,61	Hides,skins and furskins,raw; Leather, leather manuf., n.e.s.and dressed furskisg
14	23	Crude rubber (including synthetic and reclaimed)
15	24	Cork and wood
16	25	Pulp and waste paper
17	26	Textile fibres (except wool tops) and their wastes
18	27,55,56,57	Crude materials; Essential oils & perfume mat.;toilet-cleansing mat; Fertilizers; Pyrotechnic products
19	28	Metalliferous ores and metal scrap
20	29	Crude animal and vegetable materials,n.e.s.
21	32	Coal,coke and briquettes
22	33,34	Petroleum,petroleum products and related; Gas,natural and manufactured materials
23	41,42,43	Animal oils and fats; Fixed vegetable oils and fats; Animal-vegetable oils-fats,processed,and waxes
24	51	Organic chemicals
25	52	Inorganic chemicals
26	53	Dyeing,tanning and colouring materials
27	54	Medicinal and pharmaceutical products
28	58	Artif.resins,plastic mat.,cellulose esters/ethers
29	59	Chemical materials and products,n.e.s.
30	62	Rubber manufactures,n.e.s.
31	63	Cork and wood manufactures (excl.furniture)
32	64	Paper,paperboard,artic.of paper,paper-pulp/board
33	65	Textile yarn,fabrics,made-upart.,related products
34	66	Non-metallic mineral manufactures,n.e.s.
35	67	Iron and steel
36	68,69	Non-ferrous metals; Manufactures of metal,n.e.s.
37	71	Power generating machinery and equipment
38	72,73,74	Machinery specialized for particular industries; Metalworking machinery; General industrial machinery & equipment,and parts
39	75,76	Office machines & automatic data processing; Telecommunications & sound recording apparatus equip.
40	77	Electrical machinery,apparatus & appliances n.e.s.
41	78	Road vehicles (incl. air cushion vehicles
42	79	Other transport equipment
43	81	Sanitary,plumbing,heating and lighting fixtures
44	82	Furniture and parts thereof
45	83,84	Travel goods,handbags and similair containers; Articles of apparel and clothing accessories
46	85	Footwear
47	87,88	Professional,scientific & controling instruments ; Photographic apparatus,optical goods,watches
48	89	Miscellaneous manufactured articles,n.e.s.
49	90,91,93,94,95,96,97	Others