



# The Strategic Use of Tariff Phaseouts in US Free Trade Agreements

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Paper Link



## 1. Abstract

**Question:** How does the executive determine which products are politically sensitive to protect when negotiating FTAs?  
**Argument:** Beyond mitigating import shock, sources of political sensitivities stem from the executive's interests in either insulating themselves electorally or facilitating FTA ratification.  
**Contributions:**

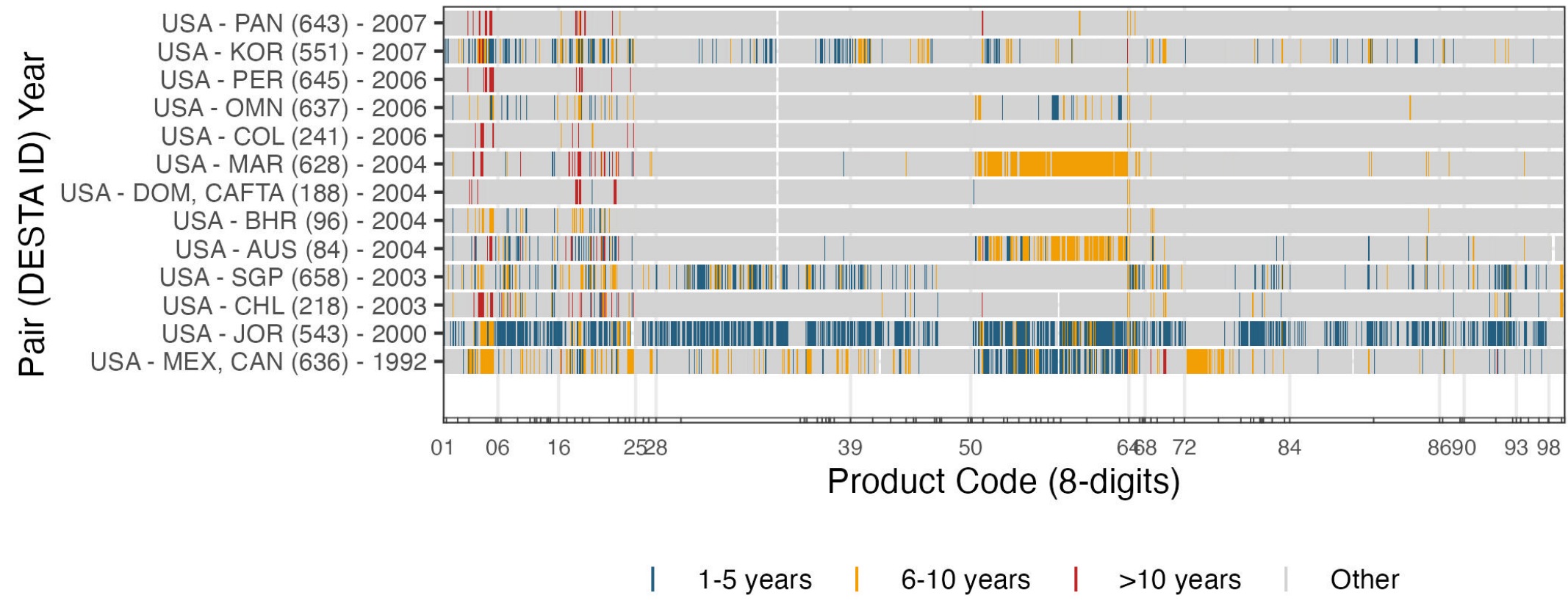
- Testing competing political motivations in negotiating international agreements (electoral insulation vs ratification promotion)
- Novel data on phaseout duration at 8-digit HTS code for all 13 US free trade agreements (FTAs).
- Novel measure of import threat (ex-ante to agreement).

### Results:

- On average, products made by industries concentrating in swing states receive longer phaseout duration, significantly longer if the partner poses an import threat.
- The executive cannot address both concerns simultaneously. Targeting varies by agreement.

## 2. Tariff Phaseouts

**Tariff staging** are rules prescribing the treatment of tariffs. 26.2% of products are phased out.



**Core Argument:** Longer phaseout stagings are allocated to products made by politically sensitive industries.

## 3. Sources of Political Sensitivities

**Electoral Insulation:** Products made by industries concentrating in electorally competitive states are phased out longer.

- Executive's desire to *maintain or improve margins* in electorally competitive states (high vote-electoral college vote elasticity in majoritarian system)
- Political sensitivity arise from historical concentration in swing state  $\Rightarrow$  *policy path dependency*

**Ratification Promotion:** Products made by industries concentrating in median legislators' districts are phased out longer.

- Strategically target phaseout duration to flip votes
- Median legislator(s) are more credible with their ratification threats and promises
- Staunchly pro and anti-trade legislators' preferences are shaped by the underlying interests of their districts

**Trade Committee:** Products made by industries concentrating in districts of legislators in trade-related committees are phased out longer.

- Although Trade Promotion Authority (TPA) or Fast Track Authority allows for the automatic discharge of FTA implementation bills from committees...
- It is critical that negotiators gain the approval of members from the House Ways and Means and Senate Finance committees before the floor votes.

## 4. Data Contribution and Measurement

**4.1. PTariff:** an original dataset slated to code the tariff treatment for over 140 PTAs (collaboration with Elisabeth Van Lieshout, OECD).

- DV: phaseout duration (0-20 years)

### 4.2. Industry Concentration in Electorally Competitive States

$$CompetitiveMargins_{kt} = \sum_{s=1}^S \left( \frac{E_{sk\tau}}{E_{k\tau}} \times \psi_{st} \right) \quad (1)$$

$$\psi_{st} = 0.50 - (|V_{st} - 0.50|) \quad (2)$$

$V_{st}$  = the average two-party vote share over three previous elections.

### 4.3 Industry Concentration in Median Legislators' Districts

$$MedianTPA_{kt} = \sum_{d=1}^D \left( \frac{E_{dk\tau}}{E_{k\tau}} \times \gamma_{dt} \right) \quad (3)$$

$\gamma_{dt}$  = binary indicator if the district is represented by a legislator whose average TPA-approval rate is within the middle one-third among legislators in the Congressional term.  
 $\gamma_{dt} = 1$  also if the legislator has not voted on any TPA extension bills.

### 4.4 Industry Concentration in Districts Represented by Legislators in Trade Committees

$$Committee_{kt} = \sum_{d=1}^D \left( \frac{E_{dk\tau}}{E_{k\tau}} \times \theta_{dt} \right) \quad (4)$$

$\theta_{dt}$  = binary indicator if the district is represented by a legislator in either House Ways and Means or Senate Finance Committee.

### 4.5 Import Threat

$$ImportThreat_{jpt}^{HS6d} = \log(Export_{jpt,i \neq USA}^{HS4d} \times (1 - (1 + BaseRate_{ipt}^{HS6d})^{-\sigma_{ip}^{HS2d}})) \quad (5)$$

$Export_{jpt,i \neq USA}^{HS4d}$  = partner's  $j$  export of product  $p$  to rest of the world aside from the US.

$1 - (1 + BaseRate_{ipt}^{HS6d})^{-\sigma_{ip}^{HS2d}}$  = change in demand level for product  $p$  once tariff is eliminated.

## 5. Research Design

Fixed effects OLS regression pooling estimates across FTAs from NAFTA (1992) to KORUS (2007) (i.e., cross-sectional regression within each FTA).

$$P_{pj}^{HSSd} = \gamma_j + \delta_k^{Sector} + \beta_1 X_{kt}^{NAICS6d} + \beta_2 X_{kt}^{NAICS6d} + \beta_3 X_{pt}^{HSS6d} + \varepsilon_{pt} \quad (6)$$

- $P_{pj}^{HSSd}$ : Phaseout Duration (8-digits HTS)
- $\gamma_j$ : FTA fixed effects
- $\delta_k^{Sector}$ : HTS Sector fixed effects
- $\beta_1 X_{kt}^{NAICS6d}$ : Main variables
- $\beta_2 X_{kt}^{NAICS6d}$ : Industry-level controls
- $\beta_3 X_{pt}^{HSS6d}$ : Product-level controls

## 6. Main Results

- On average, products made by industries concentrating in more electorally competitive states receive longer phaseout duration.
- Executive doesn't allocate phaseouts in accordance with ratification promotion hypothesis.

Dependent Variable:	Phaseout Duration		
Model:	(1)	(2)	(3)
<i>Variables</i>			
Competitive Margins	0.167*** (0.059)	0.167*** (0.059)	0.115** (0.048)
Median TPA (HoR)	0.028 (0.079)	-0.045 (0.079)	-0.003 (0.067)
Median TPA (Senate)	-0.160* (0.086)	-0.113 (0.102)	-0.155** (0.076)
Ways and Means Committee	-0.072* (0.039)	0.006 (0.031)	-0.011 (0.028)
Finance Committee	-0.010 (0.050)	0.052 (0.040)	-0.018 (0.038)
Import Threat	0.426*** (0.047)	0.415*** (0.049)	0.385*** (0.050)
Union PAC (HoR)	0.156 (0.099)	0.144 (0.093)	0.138** (0.069)
Union PAC (Senate)	-0.051 (0.088)	-0.080 (0.084)	-0.102*** (0.032)
Base Rate	0.756*** (0.218)	0.624*** (0.175)	0.609*** (0.170)
Industry Size (ln)	-0.017 (0.046)	-0.024 (0.046)	-0.065* (0.038)
Capital Mobility	0.076 (0.049)	0.095* (0.049)	0.060 (0.047)
Intermediate product	-0.374*** (0.088)	-0.074* (0.045)	-0.106** (0.041)
Agricultural product	-1.39*** (0.241)	-0.808*** (0.311)	-0.840*** (0.304)
Capital product	-0.404*** (0.125)	-0.237*** (0.088)	-0.264*** (0.079)
Consumer product	0.016 (0.122)	-0.156** (0.075)	-0.201*** (0.072)
Upstream product	-0.080** (0.039)	-0.100 (0.066)	-0.125** (0.058)
Differentiated product	-0.114 (0.157)	-0.004 (0.080)	-0.013 (0.075)

<i>Fixed-effects</i>			
FTA	Yes	Yes	
HTS Sector		Yes	
FTA-HTS Sector			Yes
<i>Fit statistics</i>			
Observations	102,834	102,834	102,834
R <sup>2</sup>	0.22	0.23	0.36
Within R <sup>2</sup>	0.13	0.04	0.04
<i>Clustered (NAICS 6d) standard-errors in parentheses</i>			
<i>Signif. Codes: ***: 0.01, **: 0.05, *: 0.1</i>			

Results are robust with:

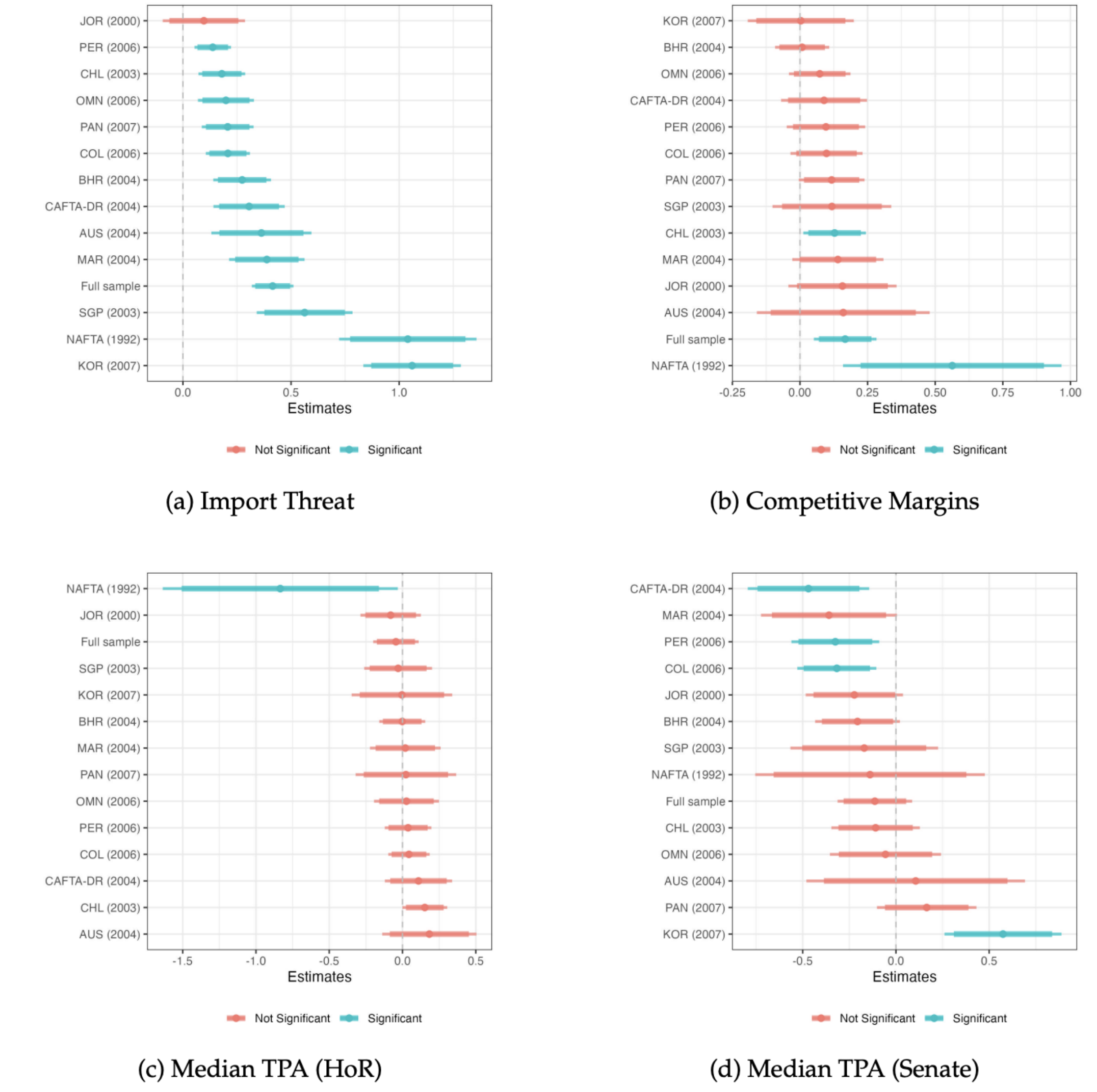
- Inclusion of rust and sun belt states
- Alternative measures of median legislator using DW-NOMINATE
- Alternative measures of competitive margins
- Omitting US-Jordan FTA

## 9. Conclusion

- Concerns of electoral insulation usually trump ratification promotion but vary by agreements.
- Executives cannot address both concerns simultaneously
- Pressure for phaseouts is more salient from senators than from representatives.

## 7. Coefficients by FTA (Model 2)

Executives cannot simultaneously target both swing states and districts of key legislators. Both NAFTA and KORUS are equally salient in import threat. However, tariff staging responds more to electoral concerns for NAFTA and to ratification concerns for KORUS (in the Senate).



## 8. Marginal Effects w/ Import Threat

- Pressure for (and thus the resulting) phaseout allocation to politically sensitive industries increases as the partner poses a greater import threat.
- Allocation of phaseouts is more responsive to senators than representatives as import threat increases. Possibly due to (1) producers efficiently allocating lobbying efforts to Senators and (2) Senators' votes hold more weight (100 Senators vs 435 Representatives).

