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"Heterogeneity or homogeneity in the tariff-growth experience? Why history and institutions matter"

Abstract

Although an extensive literature has grown up around the relationship between tariffs and growth, the conclusions are often contradictory and panel data techniques make it difficult to test for causal relationships and to account for the heterogeneity there must have been between the experiences of individual countries. We suggest that much can be learned by using time series techniques on a country-by-country basis. We make use of the co integrated VAR model and a database of 22 countries. We note that GDP growth appears to be a stationary process, whilst average tariffs are non-stationary, I (1). We thus look for a relationship between levels of GDP and levels of the average tariff rate – this also makes more sense theoretically. Our results demonstrate the importance of country-level studies: for some the sign is negative, and for some it is positive. The positive sign seems to be related to those countries which have made use of a growth-promoting trade policy (infant industry protection). Moreover, for many countries, a negative sign implies a causal relationship from GDP to tariffs rather than the other way around: as Rodrik (2006) suggested, countries liberalize as they grow richer.

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