HOW MUCH IS IT WORTH TO PROTECT SENSITIVE PRODUCTS WITH TARIFF-RATE QUOTAS?—A KOREAN CASE

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Abstract
The tariff-rate quota (TRQ) system is a hybrid import regime that conveys both tariff- and quota-like characteristics. Established by the tariffication process during the Uruguay Round, TRQs harmonize the needs for improved market access and protection from import surges. This paper aims to identify economic and policy consequences from TRQ implementation and to test whether the trade-off between formula tariff cuts and quota expansion is adequate and thus is beneficial to the protection of declared sensitive products. Using Korea’s case of soybean imports, this paper illuminates the importance of quota administration in terms of mark-ups, economic rents and the state-trading enterprises (STEs). Application of a one-product partial equilibrium model to Korea’s soybean market suggests that it would be better for Korea to designate soybeans as a category of sensitive products. The derived quota equivalents under the option of sensitive products turn out to be smaller than otherwise. Examination of quota equivalents for formula tariff cuts indicates different proportionality or trade-offs among options. Finally, it concludes with potential areas to improve the TRQ administration under the WTO modalities.

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I. Introduction

Under the Doha Round, a proposed modality is to designate sensitive products at the expense of quota expansion. This proposed modality has designated sensitive products subject to lower tariff cuts than under the tiered formula. A commonly chosen venue with which to treat certain staples as sensitive products is through the use of a tariff rate quota or TRQ mechanism that is introduced below. This study has two goals. The first is to compare and test whether the proposed modality for sensitive product treatment is equivalent to simply accepting tiered cuts for tariffs on non-sensitive products. Second, the study focuses on an important and current Korean case of a sensitive product, imports of soybeans that are subject to a TRQ. Such is done through the application of a partial equilibrium model to Korea’s soybean market to discern whether a regular tiered tariff regime or the current special product treatment under the proposed modality’s TRQ option is the optimal path for Korean policy makers. The results demonstrate that regular tiered cuts elicit lower imports than treatment under the sensitive products treatment.

Such goals are accomplished in a number of ensuing sections. First, this introduction provides a background on the Uruguay Round’s tariffication and Tariff Rate Quota regime, with a focus on selected staple import markets for Korea and some of its Asian neighbors. Second, the study introduces an economic framework of a TRQ with focus on tariff equivalents, quota fill rates and economic rents, as well as administrative issues related to quota fill rates. Third, a review of the case of the Korean soybean market is presented, including a discussion of issues related to Korean administration of its soybeans TRQ; Korea’s market patterns under the TRQ in recent years, and a focus on issues concerning state trading enterprise definitions and justification. The fourth section presents issues and complexities concerning TRQ reforms. Included are discussions of relevant modalities under the Doha Development Agenda, as well as an analysis of comparative Korean benefits elicited by reforms using quota increases vs. those elicited from tariff cuts. Finally, a summary and study conclusions are presented.