

Global Supply Chains and the Political Economy of Preferential Tariff Liberalization

Both global supply chains and intra-industry trade are becoming increasingly important. We argue that these two developments interact in changing the political economy of trade. For finished goods, high intra-industry trade facilitates trade liberalization. The reason for this is that the adjustments costs of liberalization are lower when countries trade varieties of the same good. By contrast, for goods that are used as inputs in the production process high intra-industry trade makes trade liberalization more difficult. This is so because under the condition of high intra-industry trade downstream companies have heterogeneous interests, which reduces net support for liberalization. We find support for this argument relying on an original dataset with highly disaggregated tariff data for a sample of 156 tariff schedules agreed upon in 61 preferential trade agreements signed between 1995 and 2013. The paper contributes to the literatures on intra-industry trade, global supply chains and the political economy of trade.