

Tariff Evasion and Trade Policies

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Governments use tariffs to manage the politics of international economic integration. To navigate competing demands on trade policy, governments can target tariff rates to individual products. But existing theories miss an important aspect of tariffs: they also need to be enforced at border crossings, which for some governments creates substantial challenges. Faced with high tariffs, firms can misclassify their products into categories with lower tariff rates. Pointing to the potential for such tariff evasion, I discuss the difficulties for governments in targeting tariffs for political gain, and I derive implications for trade politics. Constraints on the ability of governments to enforce tariffs, in the form of low bureaucratic capacity, emerge as an institutional determinant of trade policy, discouraging the use of product-specific tariff rates. Disaggregated tariff data provide empirical evidence for this argument. The article identifies an institutional constraint on trade politics, contributes to growing literatures on firm heterogeneity and on illicit cross-border economic activity, and speaks to debates on trade policy and government revenue.

Exposure to international markets has distributional consequences for the domestic economy. To manage competing demands over economic globalization, governments frequently reach for targeted policies. For example, immigration policies discriminate between low-skill and high-skill workers (Peters 2015, 2017), while capital account policies distinguish among different asset classes and inflow versus outflow restrictions (Quinn and Inclan 1997; Simmons 2000; Pond 2018a). Such targeting is prevalent for trade policies as well. As a tax levied at border crossings, tariffs insulate domestic firms from international markets. For governments, targeting tariff rates to individual products is politically expedient. Product-specific tariff rates allow governments to sustain coalitions among supporters and opponents of international trade. By maintaining high tariffs on some products and lowering them on others, governments can reconcile competing demands on trade policy.

A growing literature documents the heterogeneity in trade policy demands across firms, examines the resulting differences in tariff rates across often substantively similar products, and establishes the relevance of these patterns for theories of comparative and international political economy (Gilligan 1997; Bombardini 2008; Bombardini and Trebbi 2012; Goldstein and Gulotty 2014; Madeira 2016; Betz 2017; Kim 2017; Osgood 2017; Plouffe 2017; Baccini, Dür and Elsig 2018; Wu 2018). Yet, many governments fail to take advantage of targeted trade policies. Instead, they implement flat tariff rates across products—sometimes imposing tariffs on products even where no domestic producers exist. Why would governments forgo this politically expedient targeting of trade policies?

To answer this question, I highlight the difficulties for governments in enforcing tariff rates. Existing theories miss an

important aspect of tariffs: they need to be enforced by customs agents at the border, which for some governments creates substantial challenges. Differentiated tariff rates open room for tariff evasion. Importing firms can dodge high tariffs by misreporting their products as similar products that are subject to lower tariffs. For example, for imports into Russia, Johnson & Johnson declared a shower gel, subject to a 20 percent tariff, as a soap substitute, subject to a 15 percent tariff (Economist Intelligence Unit 2000). In a single year, the government of Pakistan lost nearly 400 million US dollars in revenue from tariff evasion on just thirty-seven products (Business Recorder 2015).

With tariff evasion, governments lose revenue; firms lose protection. Recognizing the potential for tariff evasion, I offer a theory of trade politics that identifies constraints on the ability of governments to enforce tariffs as an institutional determinant of trade policy. Tariff evasion undermines the use of product-specific tariffs for political gain. Selective tariff cuts create holes in the tariff schedule that importers can exploit, eroding targeted protection on other products. Constraints on the ability of governments to enforce tariffs should therefore be reflected in trade politics and lobbying over trade policy. Where customs agents lack the training or the willingness to enforce tariffs, importers can take advantage of tariff evasion—because there is less risk of being detected or because tariff evasion is enabled by bribes. The heightened potential for tariff evasion, in turn, dampens the enthusiasm of governments and firms for targeted tariffs. The government's ability to enforce tariffs at the border, determined by its bureaucratic capacity, shapes to what extent trade policy breaks down to individual products.

To assess this argument, I exploit that governments draw on a standardized format for implementing tariff rates: the Harmonized System, devised by the World Customs Organization, which classifies products into over five thousand distinct categories using six-digit codes. The Harmonized System covers about 98 percent of global trade flows and is the de facto standard used by members of the World Trade Organization (World Customs Organization 2018). The availability of this template rules out that differences in the policy-making capacity of governments explain the targeting of tariff rates. Relying on applied tariffs in the Harmonized System six-digit classification, I offer evidence that

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bureaucratic capacity drives trade policy choices. Lower bureaucratic capacity results in more uniform tariffs, fewer tariff peaks, and fewer selective tariff cuts across similar products. Additional evidence comes from data on differences in tariff rates between men's and women's apparel, where otherwise identical products are frequently taxed at different rates. Two cases – U.S. sugar tariffs in the 19th century and Philippine offal tariffs after its accession to the World Trade Organization – further illustrate how political contests over trade policy unfold in response to tariff evasion.

Tariff evasion, and constraints on the capacity of governments to prevent tariff evasion, thus emerge as a determinant of trade policy: where enforcing tariffs is difficult, firms and governments reach for less targeted tariff rates. Concerns over tariff evasion also offer a new perspective on the difficulties of trade reform in developing countries with weak bureaucracies; and they explain why governments maintain tariffs even on products with no meaningful domestic production, impeding a gradual move toward trade openness. More generally, the example of tariff evasion illustrates how targeted and discriminatory policies create opportunities for fraud and evasion. Domestic capacity constraints therefore explain not necessarily whether, but how governments engage with global markets.

Recognizing the challenges posed by tariff evasion has several broader implications. First, it matters to debates about the difficulties of regulating cross-border transactions. These difficulties are frequently discussed in the context of licit and illicit financial flows (Vernon 1971; Mosley 2003; Andreas 2004; Sharman 2011; Arel-Bundock 2017), but ignored when it comes to international trade. Indeed, trade taxes are sometimes viewed as a convenient fiscal tool especially in low-capacity states (Riezman and Slemrod 1987; Queralt 2017). I suggest limitations to such arguments. Tariff evasion constitutes an illicit activity with significant consequences for governments, because it harms their ability to protect citizens from the effects of economic globalization and undermines their ability to collect taxes – important markers of state power and state capacity (Levi 1988; Dincecco 2011). Tariff evasion adds to the challenges of asserting state sovereignty at territorial borders in an era of increasing production fragmentation and product differentiation—challenges felt more severely in countries with low capacity.

Second, governments play an important role in sustaining open markets where they compensate the losers from economic globalization (Ruggie 1982; Kurtz and Brooks 2008; Hays 2009; Walter 2010; Rickard 2012; Nooruddin and Rudra 2014; Pond 2018b). Tariff evasion blurs the domestic distributional consequences of trade policies. And it potentially erodes the confidence of voters in a government's commitment to managed openness, creating new sources of discontent with globalization and distrust in government.¹

Finally, scholars usually regard an effective bureaucracy as a public good, necessary to provide government services to citizens (Pepinsky, Pierskalla, and Sacks 2017) and to reduce political interference (de Figueiredo 2002). The example of trade policy illustrates how governments can also use strong bureaucracies to administer particularistic policies more effectively, delivering private goods—tariffs and tariff cuts—to interest groups.

Trade Misreporting, Bureaucratic Capacity, and Trade Policy

Governments use tariff rates to raise revenue (Hansen 1990) and on behalf of interest groups exposed to international markets (Schattschneider 1935; Gerschenkron 1943; Mansfield, Milner, and Rosendorff 2002). In choosing tariff rates, governments have strong incentives to target tariffs to individual products. Product-specific tariff rates allow governments to simultaneously accommodate the competing demands on trade policy that arise from revenue considerations, consumer preferences, and producer preferences (Goldstein and Gulotty 2014; Gawande, Krishna, and Olarreaga 2015; Betz and Pond 2019). For instance, governments can selectively cut some tariffs and raise others to maintain government revenue (Hansen 1990). And they can grant tariff protection selectively to firms and in exchange tax the excess profits earned by these firms (Queralt 2017).

Recent models of trade policy with heterogeneous firms, based on Melitz (2003), further demonstrate how tariffs vary across products as a function of the productivity of domestic and foreign firms (Costinot, Rodriguez-Clare, and Werning 2016). Political economy models, likewise, increasingly recognize the effects of firm-level lobbying on the fragmentation of industry-wide coalition or examine the resulting differences in tariff rates across often substantively similar products (Gilligan 1997; Bombardini 2008; Bombardini and Trebbi 2012; Madeira 2016; Betz 2017; Kim 2017; Osgood 2017; Owen 2017; Plouffe 2017; Baccini, Dür and Elsig 2018). Governments can lower tariffs on some imports used by domestic firms or in the context of reciprocal trade negotiations, and they can maintain protection on others to shield domestic firms from foreign competition. Given the advantages of tailoring tariffs to individual products for firms and governments, the following discussion thus presupposes governments and firms interested in product-specific tariffs.

Customs Agents and Tariff Evasion

Product-specific tariffs are straightforward to implement. Simple legislation, and in many cases executive discretion, is sufficient. They can also be targeted narrowly. Modern tariff schedules list distinct tariff rates for thousands of products, many of which are produced by only a small number of firms. Yet, enforcing product-specific tariff rates can be exceedingly difficult, because they allow importing firms to engage in tariff evasion. When moving products across international borders, firms declare under which product categories their imports are classified. This classification determines the tariff rate that is applied. Differentiated tariffs allow importing firms to leverage this discretion. They can misclassify their products as similar products that are subject to lower tariff rates.² For instance, in Russia in the late 1990s, imports of chicken were frequently misclassified by importing firms as turkey, which lowered the tariff rate from 25 percent to 15 percent (Afontsev 2012, 6). This strategy is simple, and given the small profit margins in competitive industries, the benefits to importing firms are substantial. Systematic evidence on the extent of misreporting is provided, for instance, by Fisman and Wei (2004), Javorcik and Narciso (2008), or Kellenberg and Levinson (2019).

²Firms can also underreport the value of imports. Underinvoicing has been reduced considerably through international cooperation between customs agencies, driven by harmonized reporting standards introduced with GATT Article VII (Javorcik and Narciso 2013). On the relationship between trade agreements and misreporting trade values, see also Gray and Hicks (2017).

¹For a review of the literature on trust in government, see Levi and Stoker (2000).

Whether misreporting is likely to be detected, and therefore deterred, hinges on customs agents. To detect misreporting, they need to identify the correct tariff category of imports, which requires thorough inspections and detailed knowledge of the customs code. For example, standard tariff schedules distinguish for “shoes with outer soles and uppers of rubber and plastics” between “sports footwear” and “footwear”—a fine line when considering athletic footwear. Likewise, the difference between a silk and a polyester tie, distinct products in standard tariff schedules, may be apparent upon close inspection. It is more difficult to identify those differences in passing.

Two factors facilitate tariff evasion: the inability of customs agents to inspect all imports and collusion between importers and customs agents. Importing firms benefit from an inherent asymmetry. Customs agents have to identify classifications for hundreds or thousands of different products, imported by many different firms. Each importing firm only has to identify classifications, and potentially cheaper product categories, for its own products. This asymmetry is reinforced by the volume of international trade, which renders a thorough inspection of all traded products all but infeasible. This is evident from considering just maritime container trade: the standard shipping container holds 1,170 cubic feet, and major ports handle millions of containers every year. The port of Los Angeles, the largest port in the United States, handles the equivalent of about nine million standard-sized containers per year—over twenty thousand per day (Port of Los Angeles 2018).

Given resource constraints, customs administrations have to compromise on the quality of inspections or the amount of inspections. Where customs administrations inspect only select products, they need to devise mechanisms for which shipments should be inspected. For example, the customs administration of the Maldives inspects about 30 percent of shipments. The shipments are not inspected randomly or on an ad hoc basis. Instead, the customs administration aims to select shipments that are likely subject to misclassification (WTO Secretariat 2016, 31). Identifying these high-risk items, in turn, requires expertise by customs agents.

The problems arising from the quantity and complexity of traded goods are compounded by a principal-agent problem. The government may be interested in the correct application of its tariff code. Individual customs agents may have interests of their own. In exchange for bribes, they can turn a blind eye to firms that are misclassifying their products. For customs agents, this can be lucrative, especially where taking financial advantage of their discretion is unlikely to have consequences. Corruption is especially acute in the customs administration because of the high frequency of high-value interactions. In 2003–2004, each customs officer in India handled transactions of on average 29 million rupees per month, compared to an average salary of 9,000 rupees per month; a customs agent would earn three times the monthly salary if corruption amounted to only 0.1 percent of the value of transactions (Mishra, Subramanian, and Topalova 2007, 18).

Detecting misclassification strains even the most sophisticated customs administrations. A subcommittee hearing of the US Congress in 2009 discussed the problem of tariff evasion in US textile imports. The problem is more pronounced in countries with weaker recruitment, less professionalized training, and wider corruption.³ The probability

that misreporting is detected is, therefore, a function of bureaucratic capacity: the ability of governments to enforce policies through professional bureaucracies (Weber 1922). Where states lack the capacity to detect misreporting, because customs agents lack the ability or the willingness to enforce differentiated tariff rates, importing firms can evade tariffs.

Political Consequences of Tariff Evasion

Tariff evasion poses a challenge for governments and firms on several dimensions. For example, it undermines a government's ability to keep a record of international transactions. Most notably for trade politics, it strains the use of targeted tariffs, dampens the support of both firms and governments for product-specific trade policy, and results in less fragmented trade policy.

With tariff evasion, lobbying over tariffs should extend beyond narrow products. First, firms that seek protection on their own products need to be concerned with tariff rates on similar products that could be used for tariff evasion. Second, demands for tariff cuts have to overcome additional opposition. Attempts at trade liberalization should be more contested where bureaucratic capacity is low, because more firms are affected by the consequences of tariff cuts—which potentially offsets lobbying for tariff cuts by domestic firms (such as users of imported products or exporters in the context of reciprocal tariff cuts). Where forward-looking firms anticipate the consequences of tariff evasion, they should oppose tariff cuts on related products that would erode protection on their products, and they should either refrain from lobbying for tariff peaks altogether or lobby for broad protection across the board. Where firms fail to anticipate tariff evasion, they should alter their lobbying once they experience the consequences; exasperated with their government's inability to enforce tariffs, they should mobilize for reversing tariff cuts or, in the case of tariff peaks, lobby for expanding protection.⁴

This dynamic changes coalitions and lobbying competition over trade policy. Broader coalitions should support protectionist policies. While tariffs can be targeted narrowly to allow for product-specific protection and liberalization, tariff evasion diffuses the effects of tariffs across similar products. As a result, a broader set of firms becomes involved in contests on any specific product, dampening the overall support for product-specific tariff peaks and tariff cuts.

Governments have incentives to respond to these demands. Where tariff evasion is likely, governments collect less revenue than anticipated, which reduces the appeal of selective tariff cuts, but also of tariff peaks, given that little of the projected revenue materializes. These revenue concerns are reinforced by interest group politics: tariff evasion frustrates a government's attempts at currying favor with domestic firms. It also casts doubt on a government's ability to protect firms and domestic constituents from foreign competition—and, more generally, on a government's ability to control its borders, which can be a salient political concern. An inability to respond to challenges raised by international economic integration can alienate voters and domestic constituencies and undermine government support—especially where the government fails to deliver on its promises (Thomson 2011). Tariff evasion opens governments up to charges of being ineffective, and

³As noted by the customs commissioner of the Philippines, “[e]ven the most technologically advanced customs agencies face the same problem. The only difference is the magnitude of the problem” (Philippine Daily Inquirer 2014).

⁴An alternative response is relatively ineffective: raising product-specific tariffs, to compensate for tariff evasion, would only increase the incentives for evasion and the opportunities for collusion with customs officials.

it allows constituents and opposition parties to pin the negative consequences of economic integration on their government. From the perspective of governments, this undercuts the benefits of product-specific tariffs. While product-specific tariffs allow governments to escape difficult decisions among competing interests, this strategy becomes less effective with tariff evasion.

Anecdotally, the connection between tariff evasion and failed attempts by governments to protect them is apparent to firms. Philippine textile producers blamed their economic difficulties on tariff evasion enabled by the government's policies (Bacala 2004). In South Africa, a report prepared for the Department of Trade and Industry highlighted the frustration of firms with their government: "as long as there is underresourcing . . . and the lack of political will to deal with all the inefficiencies at the borders, the local industries and local jobs can never be protected" (FRIDGE Research 2010, 3). Likewise, legislators appear to be aware of such concerns. US Representative Heath Shuler, in a subcommittee hearing, remarked that for every misclassified import, "there's a job out there that Americans are losing every single day" (U.S. Congress, House Committee on Small Business 2009).

Where bureaucratic capacity is low, therefore, governments lose the ability to use product-specific tariff rates for managing international trade. First, tariff evasion impedes a government's ability to liberalize trade selectively. It creates new constituencies that oppose selective liberalization and undermines a government's ability to maintain tariff cuts once they are implemented. Second, tariff evasion reduces the appeal of tariff peaks and encourages the use of broad protection across products. Hence, trade politics take a different form: lobbying extends across products, and firms and governments reach for more uniform tariff rates. This argument has ambiguous implications for average tariff levels: differentiated tariff rates, which are tailored to each product, need not be lower than uniform tariff rates, where more firms are competing over trade policy.

The contrast with the literature on domestic tax systems is instructive. Parts of that literature observe that complex tax systems encourage evasion, especially in contexts of weak and corrupt tax administrations, and attribute the implementation of simple tax systems not to political concerns, but to welfare-minded governments (Tanzi 1998). Yet, the underlying political dynamics differ. The beneficiaries of tax evasion are domestic firms and individuals, which form a constituency in favor of the complex legislation that allows them to dodge taxes. Few domestic firms lose directly from tax evasion by others. They, of course, lose indirectly if firms that evade taxes gain an advantage, but they can leverage tax complexity themselves, leveling the disadvantage relative to others while reducing their own tax burden.

With tariff evasion, by contrast, domestic firms lose directly to foreign firms that avoid paying import taxes. And firms producing in the domestic market cannot use tariff evasion to catch up with foreign competition. That foreign firms benefit, at the expense of domestic firms, tilts the political debate. Unlike tax evasion, tariff evasion creates domestic constituencies in support of more uniform rates across products, and governments have incentives to implement uniform tariffs because of the changed political environment.

In sum, bureaucratic capacity emerges as an institutional determinant of trade politics. The potential for misreporting created by low bureaucratic capacity imposes constraints on the types of trade policies that governments and firms

pursue. Conversely, high bureaucratic capacity affords governments the opportunity to target trade policies.

Proposition 1: *As a government's bureaucratic capacity decreases and trade misreporting is less likely to be detected,*

1. *unusually high tariffs, relative to similar products, should be less likely,*
2. *selective tariff cuts should be less likely, and*
3. *uniform tariffs across similar products should be more likely.*

The scope condition for the proposition is that firms interested in trade policy exist in the domestic market and that governments are able to translate those preferences into trade policy. This resembles the literature that emphasizes firm-level lobbying and how it breaks up class- or industry-based coalitions over trade policy (Gilligan 1997; Bombardini 2008; Bombardini and Trebbi 2012; Madeira 2016; Betz 2017; Kim 2017; Osgood 2017; Plouffe 2017). Unlike in those theories, however, the presence of firms for every single product is not necessary. Where tariff evasion is likely, firms become interested in tariff rates on products they do not produce, and that perhaps are not produced at all domestically, because they need to be concerned with tariff evasion. This explains the prevalence of tariff rates on otherwise "irrelevant" products and the reluctance of governments to liberalize those. With respect to the second scope condition, and as discussed in more detail in the next section, the Harmonized System provides a standardized template for classifying imports that is adopted by virtually all governments in the world. Within the confines of the Harmonized System classification, the capacity of governments to define tariff categories is effectively held constant.

Examples

Several recent reforms buttress the plausibility of the theory. For example, the 2005 Report on Foreign Trade Barriers, prepared by the office of the US Trade Representative, remarks that the "Russian government proceeded with the tariff unification to help combat customs fraud and improve collections" (Office of the United States Trade Representative 2005, 518). And the government of Pakistan recently released a proposal for tariff reform "to reduce tariff dispersion since high variation in tariff[s] of similar items leads to issues of misclassification" (Business Recorder 2018).

Two cases illustrate how political debates over tariffs are shaped by tariff evasion. In several reforms to its sugar tariffs throughout the nineteenth century, the US Congress had implemented tiered tariff rates on sugar imports, with higher tariff rates levied on more refined sugars with higher sucrose content. The motivation was a combination of revenue concerns—sugar tariffs were the largest single source of customs revenue (US Senate 1981)—and a desire to protect domestic refiners. At the same time, because US production fell short of domestic demand, the system allowed for inexpensive imports of raw sugar (Wells 1878; Griffin 1897).

The Tariff Act of July 14, 1862, introduced four different tariff rates on sugar based on the color of the product in a classification known as the Dutch Standard. The color of the sugar was a relatively close match to its grade, as determined by its sucrose content. Lower numbers on the Dutch Standard corresponded to darker, lower-grade sugars. With the Tariff Act of 1862, the United States levied the lowest rate of 2.5 cents per pound on sugars below No. 12 Dutch Standard.

This tiered system opened the door for tariff evasion, which kept occupying the US Congress, Treasury, and the refining industry for years. At customs, importers could simply declare higher-grade sugar as lower-grade sugar and save nearly 50 percent in duties. The detrimental effects on government revenue and the refining industry were widely recognized by refiners and policy-makers. In 1870, referencing testimony by sugar refiners, Representative Robert C. Schenck, chairman of the Ways and Means Committee, noted “proof abundant before the committee that a large proportion of [sugar] brought in at the lower price was [imported] by collusion with custom-house officers and ought to have paid the higher price” (US Congress 1870a, 197). Another representative concurred, admitting “that there was testimony showing that there was fraud; that sugars that should have been rated above No. 12 Dutch standard came in as No. 12 Dutch standard” (US Congress 1870a, 198).

Policy-makers identified an obvious solution to the problem: to tax all raw sugars at a uniform rate of 2 cents per pound, as a proposal of the House of Representatives suggested. The proposal, as Representative Schenck observed, rendered misclassification obsolete: “[w]e have taken away all possibility of that now” (US Congress 1870a, 197). Surprisingly, and quite inexplicably to the House of Representatives,⁵ the Senate took the bill in the opposite direction: it created several new tiers for the lowest-grade sugars below No. 12.⁶

As anticipated by the members of the House of Representatives, this new policy compounded the problems of tariff evasion. The problems were repeatedly brought up in congressional testimony and debates, which also referenced the problems caused by corruption and understaffing in the customs administration. The chief appraiser of sugars in New York detailed the difficulties of preventing fraud in testimony to the Ways and Means Committee in 1978. To classify sugars at imports, customs agents drew samples from the sugar packets. Because raw sugar draws moisture from the air during transport, differences in moisture exposure and settling within sugar packets caused predictable differences in the sugar color and therefore applicable duty, depending on where in the sugar packet the sample was drawn. Customs officials could therefore achieve a lower duty by choosing where to draw samples. A customs official confirmed in testimony that sampling “is a matter of faithfulness and discretion,” which allowed for fraud (US Congress 1879, 2250).

Pushing imported sugar down by at least one grade was thus easily feasible (Wells 1878, 41). The refining industry was aware that it now had to compete with high-grade sugars coming in at rates lower than projected, and it also was aware of the role of corruption in the customs administration coupled with the tiered tariff rates in causing these problems. The *Sugar Cane*, a trade magazine of the sugar industry, reported that tariff evasion was made possible “by collusion between unscrupulous persons in the trade and the Government samplers, a class of poorly paid officials who practically determine the duties . . . able to misrepresent the true character of the cargo” (Sugar Cane 1880, 83). By contrast, uniform rates “would elevate the [refining] business by

doing away with all this cheating” (US Congress 1879, 2250), even if that implied higher prices for raw sugar, the refining industry’s main input.

In 1878, the Secretary of the Treasury joined the case for uniform tariffs: “the duty should be one rate on all sugars, up to a point, which will exclude temptation . . . to commit fraud by means of sampling and classification. The duties now are, to a large extent, dependent upon the fidelity of the sampler, one of the lowest-paid officers in the public service” (US Congress 1878, 47). The domestic industry responded with enthusiasm. A memorandum by refiners stated that “[w]e heartily agree with the recommendation of the Secretary of the Treasury . . . in which we believe he points out the only practical, sensible, and safe remedy” (Sugar Cane 1880, 87–88). While a reform proposal was first crowded out by an ultimately unsuccessful debate at encompassing tariff reform, the 1880s eventually saw a turn to a simpler, uniform tariff schedule on raw sugar. Representative Randall L. Gibson praised a uniform rate as “the only way to prevent evasion or fraud” (US Congress 1882, 32).

A second case highlights the consequences of selective tariff cuts. In its accession to the World Trade Organization in 1995, the Philippine government secured an exemption that allowed it to maintain quantitative restrictions on rice imports for a period of ten years. These exemptions were renewed twice. Because the quantitative restrictions violated its commitments under the World Trade Organization, the Philippine government agreed to offer several concessions, among them a drop in its tariff on pork offal, a byproduct of the butchered animal (such as internal organs and entrails).⁷ With the settlement, the tariff on pork offal dropped to 5 percent.

Unsurprisingly, this tariff cut encouraged the import of pork offal. However, the numbers for imported offal turned out to be inflated. A large share of the products imported as offal were prime cuts and other meat products. Tariff evasion suddenly had become lucrative: before the settlement, the tariff on offal was similar to that on other pork products, which remained between 30 and 50 percent.⁸ Meat importers took advantage of the lower tariff rate on offal by misclassifying their products, facilitated by corruption in the customs administration (Manila Times 2016).

This development spurred demands to raise the tariff rate on offal. Despite the increase in offal imports, offal producers were relatively silent in the matter. Instead, vocal supporters of a tariff increase on offal were found among meat producers, which clearly recognized the problems posed by tariff evasion. The director of the Swine Development Council, an industry group, noted that importers “misdeclare imported prime pork cuts as pork offal to evade paying the right taxes” (BusinessMirror 2014). Leveraging mirrored trade statistics, the group pointed to a case in point. Based on official trade statistics, Canada exported nearly thirty million kilos of pork belly to the Philippines; the Philippines, by contrast, recorded only fourteen million kilos of imports from Canada. At the same time, the missing imports of pork belly appeared elsewhere in the trade statistics: whereas Canada recorded bilateral exports of just more than three million kilos of pork offal, the Philippines recorded

⁵ See remarks by Representative Horatio C. Burchard in an 1879 speech in the House of Representatives: “in some unexplained way . . . the discriminating duty became the law” (US Congress 1879, 2253).

⁶ The Senate had initially voted against striking the tariff proposal of the House in favor of the proposal created by the Senate Finance Committee (the House proposal was left in the bill with a vote of 28-30 against striking it) (US Congress 1870b, 4896). Only later did the Senate reverse course. The Ways and Means Committee opposed the Senate proposal and only accepted it in conference (US Congress 1879).

⁷ The Philippines is also an important market for influential members of the World Trade Organization. It is, most notably, among the top export destination for the US pork industry (data from the US Department of Agriculture).

⁸ A report of the US Department of Agriculture observes the sharp increase, innocuously noting that “the Philippines has not been a major importer of edible offal, but in 2010, the country almost doubled its annual total” (Marti, Johnson, and Mathews 2011, 23).

about thirteen million kilos of bilateral imports ([Philippine Daily Inquirer 2012](#)).

Meat producers launched a staunch campaign to raise the offal tariff back to the level of other pork products to prevent tariff evasion. Edwin Chen, a lobbyist, was explicit in the demands for a uniform tariff rate: “[w]hat we want is to level [the tariff] with that of the prime cuts” ([Philippine Star 2016](#)). The lobbying was met with sympathy from policy-makers and customs officials. “Meat is commonly declared as offal when it reaches the Philippines,” the agriculture secretary, Emmanuel F. Piñol, announced in November 2016 after meeting with pork producers ([BusinessWorld Online 2016](#)). To prevent the misclassification of prime cuts as offal and to raise revenue, “we will consider the cancellation of special tariff on offal, and impose [a] uniform 35 percent tariff on all meat products imported to the country. . . . The data that I saw really showed that there’s technical smuggling” ([BusinessMirror 2016](#)). The agriculture secretary was joined in December 2016 by the Philippine customs commissioner, Nicanor Faeldon, who called for uniform tariffs across meat products. In a statement, he noted that “[o]ne way of stopping [smuggling] is for our regulatory offices to work together in endorsing the position that the tariff for offal should be equal to [the] meat tariff at 40 percent. I will strongly support this position” ([Manila Times 2016](#)). While disagreement persisted over where the tariff should be set, customs officials, policy-makers, and producers agreed on the attractiveness of uniform tariff rates across meat products, given the problems in enforcing differences in tariffs between offal and other meat products.

Empirical Results

To evaluate the propositions systematically, I combine data on product-specific tariff rates with measures of bureaucratic capacity. To hold constant the capacity of governments to legislate product-specific tariff rates (rather than to enforce them at the border), I leverage that governments can draw on a standardized format for classifying tariff rates: the Harmonized System, developed and maintained by the World Customs Organization, an intergovernmental organization. The Harmonized System was introduced in 1988 to provide a unified template for categorizing trade flows. The Harmonized System covers about 98 percent of global trade flows and is used by nearly all customs administration in the world ([World Customs Organization 2018](#)). It is also the standard used by members of the World Trade Organization to classify trade flows and to communicate and negotiate over trade barriers on specific products, both in the context of trade disputes and the negotiation over tariff concessions. The Harmonized System categorizes more than five thousand distinct products, identified by six-digit codes. These six-digit codes are embedded into four-digit headings, which in turn are embedded into two-digit chapters. For example, chapter 62 covers apparel and clothing accessories (not knitted or crocheted). The four-digit product category 6203 covers men’s and boy’s suits and ensembles and differentiates, among others, between suits made of wool (620311), suits made of synthetic fibers (620312), and suits made of other textile materials (620319).

The availability of this template for classifying imports reduces the role of differences in the capacity of governments to devise tariff rates. Governments can, of course, create tariff rates at a more fine-grained level. Some governments define distinct tariffs for hundreds of products

within these standardized categories. Both the number of additional tariff lines and the pattern of tariff rates across these reflect product-specific protection and liberalization. Because these tariff lines expand on the template provided by the Harmonized System, this analysis no longer holds constant the ability of governments to legislate product-specific tariffs. I therefore focus on the analysis based on six-digit tariff lines in the following. The appendix provides results when drawing on tariff rates beyond six-digit categories.

I obtain six-digit effectively applied tariff rates from the World Integrated Trade Solutions database, which are available for years from 1988 to 2014 (similar results obtain with applied most-favored nations rates). For specific tariff rates that are not applied *ad valorem*, I rely on the United Nations Conference on Trade and Development (UNCTAD) conversion provided by the World Integrated Trade Solutions, which converts specific tariff rates into *ad valorem* equivalents using estimated unit values. The coverage of the tariff data is unbalanced over time, with most countries entering the data set only after 1995. For the median country, tariff data are available for fourteen years.⁹

I use four-digit Harmonized System product categories to define six-digit products within those categories as similar and potentially subject to misreporting.¹⁰ The misclassification of products should occur primarily across similar products within four-digit categories, where tariff evasion is more difficult to detect. Because the independent variable, bureaucratic capacity, is specific to each country, I construct three dependent variables at the country-year level. The first dependent variable is the share of product categories with uniform tariff rates; the second dependent variable is the share of product categories with tariff peaks (defined as tariff rates one standard deviation above the category average); the third dependent variable is the share of product categories with selective trade liberalization (product categories where at least one, but not all, products have a tariff rate of zero). All three dependent variables vary substantially across countries and, within countries, over time; the within-country variance is on par with the between-country variance.

This operationalization of the dependent variables is not sensitive to differences in comparative advantage across countries, because it is based on the structure of tariff rates across similar products within narrowly defined industries. Class- and industry-based theories of trade expect few differences across similar products, because classes (in theories based on Heckscher-Ohlin) or industries (in theories based on Ricardo-Viner) align in their trade policy stances. These theories offer broad accounts of trade politics and cannot explain differences in trade policies within industries that rely on the same comparative advantage (nor, of course, are they claiming to). And to the extent that low capacity is associated with less productive firms, regardless of comparative advantage, one would expect more targeted protection, not less, opposite to Proposition 1.

To measure a government’s capacity to prevent tariff evasion, I rely on the bureaucratic capacity variable from the International Country Risk Guide (ICRG) ([PRS 2012](#)). The variable is based on expert ratings and used frequently in studies of state capacity. The measure “captures the important components of the theoretical construct of

⁹ Imputing data for missing years with the average of neighboring years does not alter the results (reported in the appendix). On missing data, especially when it is a function of covariates, see [Arel-Bundock and Pelc \(2018\)](#).

¹⁰ Where product categories list only one six-digit tariff rate, the product category is dropped.

bureaucratic/administrative capacity: professionalism, insulation from political pressure, and efficacy in delivering government services” (Hendrix 2010, 278). Higher scores reflect bureaucracies that have established mechanisms for recruitment and training and that operate with little political interference (PRS 2012). These attributes offer a close match to the theory, which emphasized the training, professionalism, and integrity of customs agents. The variable has two additional attractive features. First, unlike other popular measures of bureaucratic capacity, such as the government effectiveness measure from Kaufmann and Kraay (2016), it includes no component of policy-making capacity, which avoids muddling legislative capacity with bureaucratic capacity. Second, the ICRG bureaucratic capacity variable is also used in other subfields of political science, which allows for comparisons to other arguments about the role of bureaucracies in domestic and international politics.

The advantages of being widely used and being available for a large cross-section time-series come with a notable downside: the capacity measure is not specific to the customs administration. It would be preferable to have a measure specific to customs—such as resources devoted to the customs administration (and, ideally, relative to trade volumes and the number of commercial border crossings), training standards and compensation for customs agents, or the adoption of computer-assisted systems in customs (which is a relatively recent phenomenon). However, comparable data specific to the customs administration is not available across countries. The more generic ICRG bureaucratic capacity measure serves as a suitable substitute to the extent that the customs administration is part of a country’s broader bureaucratic and administrative apparatus and usually follows similar standards of recruitment and training.

In the appendix, I report results using three alternative capacity measures, which reflect distinct aspects of bureaucratic capacity. Most importantly, I draw on a statistical capacity measure from the International Monetary Fund. The variable is an average across three dimensions of the ability of countries to produce accurate economic statistics in a timely manner. The presumption for the validity of this measure is that a government’s capacity to produce economic statistics also approximates a government’s capacity to monitor trade flows on individual products. The variable captures a more outcome-oriented dimension of bureaucratic capacity that is specific to economic data and thus offers a useful complement to the capacity variable used in the following.

The main models include a sparse set of control variables. Larger and wealthier countries tend to have higher state capacity and more developed economies. Thus, I include variables for the size of a country’s economy, measured by log gross domestic product (GDP) and a country’s wealth, measured by GDP per capita. Both control variables are from the World Bank. All models also include year fixed effects to account for common time trends.

With these control variables included, the sample covers up to 121 countries for years between 1988 and 2014. Most of the sample restriction arises because of limitations on the capacity variable for smaller island countries; the average population size of countries for which tariff data, but no data on the predictor variables, are available is fewer than seven million (using 2014 population data from the World Bank). Alternative capacity measures, reported in the appendix, expand the sample to 147 countries but restrict the temporal coverage.

The dependent variables are, as aggregated binary outcomes, proportions and therefore bounded between 0 and 1. To accommodate this bounded dependent variable, I esti-

mate fractional logit models (Papke and Wooldridge 1996). This model overcomes the shortcomings of linear models when applied to fractional dependent variables, which are analogous to the problems of linear probability models. As a generalized linear model, the fractional logit model maps the conditional mean of the dependent variable to the linear predictor using a logit link function. With y_{it} as the dependent variable and x_{it} the predictors for country i and year t , this implies that $g(E[y_{it}|x_{it}]) = x'_{it}\beta$, for which the link function $g(z) = \ln(z/[1-z])$ is the logit function and β is the vector of coefficients. The model is estimated via quasi-maximum likelihood. To account for nonindependence within countries, standard errors are clustered by country.

Table 1 presents the main results for the three dependent variables. Higher capacity is associated with fewer product categories with uniform tariffs, more categories with tariff peaks, and more categories where at least some, but not all, tariffs were eliminated. The coefficient on the capacity variable is statistically significant in all three models. Substantively, the estimated effect sizes are considerable. Figure 1 displays, for the three dependent variables, the expected value of the dependent variable across the sample range of the capacity measure; the sample average is marked by the dashed horizontal line. The sample distribution of the data on state capacity is shown in the background of the graphs. Moving from the twenty-fifth percentile to the seventy-fifth percentile on the capacity measure, which corresponds to the difference between Niger (with low capacity) and Mexico (with high capacity) in the year 2010 or, for an example of within-country movements, to the difference between Gabon in the year 2010 (with low capacity) and Gabon in the year 1995 (with high capacity), reduces the share of product categories with uniform tariff rates from 57 percent to 45 percent, or by more than 20 percent; increases the share of product categories with tariff peaks from 16 percent to 26 percent, or by almost 60 percent; and increases the share of product categories with partial trade liberalization from 9 percent to 16 percent, or by more than 70 percent.

Column 4 of Table 1 shows that these effects also are evident in the dispersion of tariff rates across products (the average standard deviation across tariffs within product categories). The advantage over the previous measures is that the standard deviation provides a continuous measure of differences in tariff rates across products that it is less sensitive to the specific definition of tariff peaks and selective liberalization; the drawback is that it does not allow to distinguish targeted protection from targeted liberalization. As column 4 reports, higher capacity is associated with more dispersed tariff rates.¹¹ Moving from the twenty-fifth to the seventy-fifth percentile on the capacity variable is associated with an increase in the tariff dispersion of about 15 percent relative to the sample average.

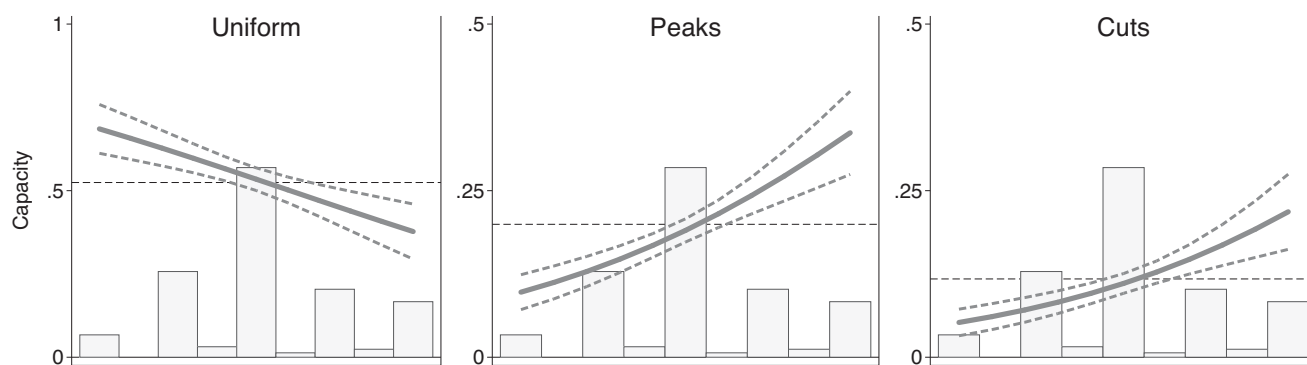
Most of the variance in bureaucratic capacity arises between countries. The standard deviation of the variable is about three times as high between countries than within countries. Still, nearly half of the countries in the sample experienced at least some changes in bureaucratic capacity during the sample period. The appendix reports that the association between bureaucratic capacity and product-specific tariff rates decreases in size, but is robust to including country fixed effects.

¹¹ Because the standard deviation is a function of the mean, the models also include the average tariff. The results are similar when using the coefficient of variation as the dependent variable.

Table 1. Bureaucratic capacity and product-specific tariff rates

	(1) <i>Uniform</i>	(2) <i>Peaks</i>	(3) <i>Cuts</i>	(4) <i>Dispersion</i>
Bureaucratic capacity	-1.34*** (0.348)	1.57*** (0.277)	1.65*** (0.351)	1.29*** (0.386)
GDP	0.023 (0.058)	-0.030 (0.044)	-0.061 (0.050)	-0.094 (0.063)
GDP per capita	0.018** (0.007)	-0.014*** (0.005)	-0.012** (0.005)	.004 (0.014)
Average tariff				0.089*** (0.021)
Constant	0.84* (0.446)	-2.16*** (0.364)	-3.06*** (0.400)	0.66 (1.12)
Year FE	yes	yes	yes	yes
Number obs.	1607	1607	1607	1607
Number countries	121	121	121	121

Notes: (1) Columns (1–3): GLM, coefficient estimates, standard errors in parentheses. (2) Column (4): linear regression, coefficient estimates, standard errors in parentheses. (2) Standard errors clustered by country. (3) Statistical significance: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. (4) Uniform: share of product categories with uniform tariffs. (5) Peaks: share of product categories with tariff peaks (one standard deviation above mean). (6) Cuts: share of product categories with at least one, but less than all, tariffs reduced to zero. (7) Dispersion: average standard deviation across tariffs within product categories.

**Figure 1.** Illustration of results, based on Table 1

Note: Columns correspond to dependent variables. Expected value (solid line), 95 percent confidence interval (dashed lines), and sample average (dashed horizontal line). Histograms in the background show the sample distribution of the capacity variable.

Additionally, Figure 2 reports data from three countries that experienced changes in bureaucratic capacity over time that were associated with corresponding changes in tariffs: Gabon, the Philippines, and Bolivia.¹² The columns correspond to the three dependent variables, following Table 1 and Figure 1. The light grey solid line in each panel depicts the dependent variable, and the darker dashed line depicts the capacity score; all variables are reported net of the control variables included in Table 1. Each panel includes the Spearman rank correlation coefficient between the dependent and the independent variable, and the p -value in parentheses; the correlation is statistically significant at the 5 percent level in each case. Gabon, with a decline in capacity, implemented more uniform tariffs, fewer tariff peaks, and fewer selective cuts. The reverse applies to the Philippines and Bolivia, where an increase in bureaucratic capacity was associated with an increase in product-specific tariff rates in the mid-2000s.

¹² Of course, changes in bureaucratic capacity are neither the only nor a deterministic driver of tariff rates—some countries experienced changes in capacity with no attendant changes in tariff rates, and others experienced no change in capacity but changes in tariff rates.

The experience of Bolivia over the last three decades illustrates the argument. Until the early 2000s, Bolivia maintained, with few exceptions, a uniform tariff of 10 percent. Implemented in 1985, this tariff was in part a response to a weak customs administration and a large informal sector, which rendered a highly dispersed tariff schedule ineffective (WTO Secretariat 1999, 13). Reforms to strengthen the customs administration in particular and the Bolivian bureaucracy more generally continued throughout the 1990s and 2000s (Jemio, Candia, and Evia 2009). These reforms are also reflected in the increase in the bureaucratic capacity measure during that time period. The improved customs administration eventually allowed the Bolivian government to provide product-specific tariff rates in an attempt to target individual sectors and firms. Notably, these reforms were not only protectionist in spirit. They coincided with reforms to facilitate imports, such as the implementation of parts of the World Trade Organization's Trade Facilitation Agreement (despite not being a member to it) and with temporary tariff reductions on select products. In 2011, for instance, tariffs were eliminated for a period of five years on vaccines and some agricultural inputs (WTO Secretariat 2017, 10).

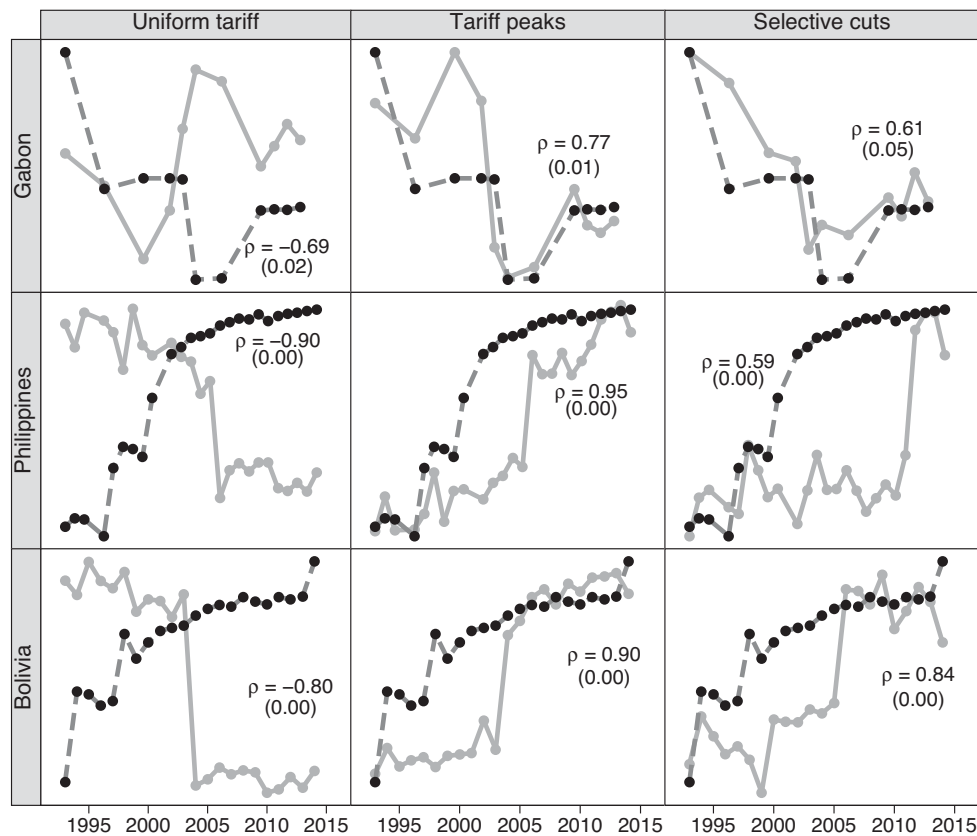


Figure 2. Bureaucratic capacity and product-specific tariff rates – within-country examples

Note. Share of product categories with uniform tariffs, tariff peaks, and selective liberalization (light grey, solid lines) and bureaucratic capacity (dark grey, dashed lines) in Gabon, the Philippines, and Bolivia. The variables are reported net of the control variables included in Table 1. Each panel lists the Spearman rank correlation coefficient for the two series (p -value in parentheses).

The previous analyses took bureaucratic capacity as exogenous, which is plausible to the extent that investments into bureaucratic capacity tend to take a long time. Reforms to strengthen the customs administration in Bolivia, for example, took place over a period of nearly two decades (Jemio et al. 2009). One challenge for reforms is that the potential income from bribery in the customs administration is so enormous that it is difficult for salary increases to make up for those opportunities. Hence, more structural and long-term reforms are required to address the problem.

Still, this does not rule out that bureaucratic capacity and the structure of tariff rates are both determined by other unobserved factors. The appendix reports that, with the exception of the dispersion variable, the results are also robust to instrumental variable estimates, which treat bureaucratic capacity as endogenous, using the gender gap in education as an instrument. The assumption underpinning this strategy is that countries with more equal educational opportunities can, for any given educational level, draw on a broader set of qualified candidates for recruitment into the bureaucracy. At the same time, differences in educational opportunities should not have a direct effect on the structure of tariff rates across products.

In sum, the results support the argument that, where low capacity facilitates tariff evasion, firms have less to gain from product-specific tariffs and governments refrain from tailoring protection and liberalization. Where bureaucratic capacity is low, governments are less likely to protect individual

products and to eliminate tariffs selectively. They either cut tariffs across the board or, alternatively, refuse to eliminate any tariffs.

Additional Analyses

A potential explanation for these results is that governments with higher bureaucratic capacity have more economic and political incentives to provide product-specific tariffs. Table 2 and the appendix offer several attempts to address this concern; all models include year fixed effects and the previous control variables.

REGIME TYPE

Democratic institutions, by allowing a larger and more diverse set of interest groups to gain access to policy-makers, may be associated with more product-specific tariff rates. At the same time, democracies should have stronger bureaucracies. I include a variable coded 1 when a country's polity score reaches a score of at least seven (Marshall and Jaggers 2006; the results are similar when using alternative measures of democracy). To isolate the effect of bureaucratic capacity from corruption in the political process, I also include a variable for corruption in the legislature, obtained from the Varieties of Democracy project (Coppedge, Gerring, Lindberg, et al. 2016). The coefficient estimates reported in Models 5–7 of Table 2 have the expected sign for regime type: democracies provide more product-specific tariff rates.

Table 2. State capacity and product-specific tariff rates—control variables

	(5) <i>Uniform</i>	(6) <i>Peaks</i>	(7) <i>Cuts</i>	(8) <i>Uniform</i>	(9) <i>Peaks</i>	(10) <i>Cuts</i>
Bureaucratic capacity	−1.22*** (0.360)	1.33*** (0.304)	1.06*** (0.404)	−1.17*** (0.420)	1.25*** (0.341)	0.80** (0.401)
GDP	0.014 (0.061)	−0.018 (0.046)	−0.053 (0.052)	0.043 (0.054)	−0.032 (0.038)	−0.040 (0.049)
GDP per capita	0.014* (0.008)	−0.012** (0.006)	−0.014** (0.006)	0.008 (0.008)	−0.007 (0.006)	−0.008 (0.009)
Democracy	−0.30* (0.162)	0.32*** (0.125)	0.53*** (0.161)	−0.19 (0.160)	0.19 (0.115)	0.36** (0.150)
Legislative corruption	0.047 (0.080)	−0.002 (0.060)	0.12* (0.070)	−0.075 (0.069)	0.079 (0.052)	0.16*** (0.056)
Exports				0.15 (0.147)	0.016 (0.127)	0.39** (0.178)
FDI				0.022*** (0.005)	−0.017*** (0.004)	−0.014*** (0.005)
Natural resources				−0.004 (0.010)	−0.005 (0.007)	−0.029*** (0.010)
Manufacturing				−0.047*** (0.012)	0.029*** (0.010)	−0.013 (0.013)
HHI imports				10.7*** (3.90)	−10.5*** (3.19)	−14.4*** (3.96)
Constant	0.77* (0.431)	−2.11*** (0.356)	−2.89*** (0.404)	1.20* (0.652)	−2.61*** (0.507)	−3.36*** (0.702)
Year FE	yes	yes	yes	yes	yes	yes
Number obs.	1493	1493	1493	1077	1077	1077
Number countries	114	114	114	94	94	94

Notes: (1) GLM, coefficient estimates, standard errors in parentheses. (2) Standard errors clustered by country. (3) Statistical significance: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. (4) Uniform: share of product categories with uniform tariffs. (5) Peaks: share of product categories with tariff peaks (one standard deviation above mean). (6) Cuts: share of product categories with at least one, but less than all, tariffs reduced to zero.

ECONOMIC STRUCTURE

Countries with lower capacity likely have less developed economies, which may reduce demands for product-specific tariffs. I include a set of control variables to account for the structure of a country's economy. These include the Herfindahl-Hirschman Index of imports, which should be related to the incentives to provide targeted protection; log exports, obtained from the World Bank, because larger export sectors are associated with more competitive industries, hence less need for protection, and likely higher capacity; natural resource production and manufacturing as a percentage of gross domestic product, obtained from the World Bank, because countries dependent on natural resources tend to have less diversified economies and thus less need for differentiated tariff rates, whereas countries with large manufacturing sectors tend to produce a wider variety of products, justifying more differentiated tariff rates; outward foreign direct investment as a percentage of gross domestic product, obtained from UNCTAD, because multinational corporations have incentives to lobby for domestic trade liberalization on inputs and related-party trade, and, given their size, are likely to hold substantial political influence. Models 8–10 of Table 2 include these variables in addition to the regime type and corruption variables.

Alternatively, to focus on politically relevant product categories, I drop all six-digit products that record no imports or exports before calculating the dependent variable and reestimate the models. The results are robust to this modification, which ensures that they are not driven by an absence of domestic production or consumption in low-capacity countries. The results also remain when restricting the sample to upper-middle and high-income countries (with the ex-

ception of uniform tariffs, where the coefficient retains its sign but loses significance), which are relatively wealthy economies, and when dropping nondifferentiated products.

PREFERENCE AGGREGATIONS

Stronger bureaucracies plausibly help governments to aggregate diverse constituency preferences. To account for this alternative explanation, I exploit two observable government actions that require input from domestic constituencies: the initiation of trade disputes and the declaration of specific trade concerns. Given the large number of trading partners and traded products, governments lack the resources to monitor all relevant policies of trade partners. Instead, they typically rely on information provided by domestic firms affected by foreign trade barriers (Dai 2002, 425). This reliance on domestic firms is especially pronounced for specific trade concerns (Betz 2018, 632), which identify potential violations of a trading partner's World Trade Organization commitments in the form of nontariff barriers (and, because they fall short of formal trade disputes, are raised with much higher frequency). Governments are unlikely to learn about the types of nontariff barriers raised as specific trade concerns—regulatory policies and other behind-the-border measures—without information from affected firms.

Trade disputes and specific trade concerns therefore likely reflect a government's ability to process information provided by domestic firms and a willingness to act on it. That this information is provided by firms involved in international trade, and that both trade disputes and specific trade concerns usually identify specific products at the Harmonized System six-digit level that was also used for the

construction of the dependent variable, makes the measure particularly suitable in the present context (on the product-specific nature of trade disputes, see also [De Bièvre, Poletti, Hanegraaff, et al. 2016](#), 290). The results, reported in the appendix, are robust to the inclusion of these control variables. The coefficients on trade disputes and specific trade concerns have the expected signs: governments that initiate more trade disputes and more specific trade concerns are also more likely to implement product-specific tariff rates.

ALTERNATIVE DEFINITIONS OF SIMILAR PRODUCTS

A drawback of defining similar products within four-digit categories is that similar products also exist across categories. As an alternative, I use the Harmonized System that lists different tariff codes for otherwise identical men's and women's clothes. For instance, the Harmonized System code 620311 applies to men's or boys' suits of wool or fine animal hair; code 620411 applies to women's or girls' suits of wool or fine animal hair. Both products are produced by the same industries and require identical materials. Differences in comparative advantage, industry size, or industry geography cannot explain differences in tariff rates across these products. Moreover, most countries have firms producing textile products, ensuring that an incentive to protect these goods exists. Being able to enforce different tariff rates on these products should therefore be symptomatic of a government's ability to enforce differentiated tariff rates across otherwise similar products more generally. Different tariff rates on clothing products that are differentiated solely by gender should be less likely where governments are unlikely to enforce such differences.

I identify sixty-five product pairs for which the Harmonized System provides different codes for otherwise identical men's and women's products (there is no evidence of a gender bias in tariff rates on average). For each country-year, I calculate the dependent variable as the share of product pairs where men's and women's clothes face the same tariff rate. I include the same control variables as before; standard errors are clustered by country. The appendix shows that higher bureaucratic capacity is associated with more differentiated tariff rates across pairs of men's and women's clothes. This relationship holds also in the disaggregated data of product pairs and when additionally including product fixed effects.

ADDITIONAL RESULTS

Additional models reported in the appendix (1) account for international institutions, (2) control for the number of product categories in a country's tariff schedule, (3) disaggregate the data to product categories, (4) account for substitution between nontariff barriers and tariffs, and (5) report results using tariffs beyond the standardized Harmonized System six-digit classification.

Conclusion

Tariff evasion touches on key issues for modern states: their control over territorial borders and the domestic economy. Recognizing the challenges posed by tariff evasion, I identified constraints on the ability of governments to enforce tariffs, in the form of low bureaucratic capacity, as an institutional determinant of trade politics. This emphasis complements existing political economy models, which take the ability to enforce tariffs as a given and focus on the incentives for governments to manipulate trade policies. In a departure from the tradition of open economy politics, institu-

tions not only aggregate preferences, they also shape preferences over policy choices.

Tariff evasion—where the principal-agent relationship between the government and its customs agents is coupled with vast opportunities for graft—also emerges as an application in the research agenda on bureaucratic politics and the delivery of government services (for a review of this literature, see [Pepinsky, Pierskalla, and Sacks 2017](#)), suggesting new links among the literatures on economic globalization and the political economy of development. For example, tariff evasion is not limited to product misclassification. Firms can also underreport the value of their imports. More uniform tariff rates do little to address this form of tariff evasion. Mirrored trade data allows uncovering estimates of such underreporting, which could be used to create a cross-national measure of bureaucratic capacity.

Beyond facilitating the management of domestic conflicts over economic globalization, product-specific tariffs provide states with leverage in foreign policy-making. Trade disputes within the World Trade Organization, but also trade sanctions as part of broader diplomatic efforts, frequently rely on threats of product-specific tariffs ([De Bièvre, Poletti, Hanegraaff, et al. 2016](#), 290). Such tariffs allow governments to target politically relevant firms abroad, while at the same time appealing to domestic firms that benefit from tariffs and creating exemptions for firms that would be hurt by them ([Pond 2017](#))—as exemplified most recently in the disputes between the United States, on the one hand, and China and the European Union, on the other hand. The effectiveness of such threats hinges on the ability of governments to enforce product-specific tariffs, which gives rise to a specific mechanism through which domestic state capacity gives rise to global state power.

For governments that struggle with the collection of domestic taxes, tariffs are an important revenue source ([Hansen 1990](#); [Bastiaens and Rudra 2016](#); [Ha and Rogers 2017](#)). In such contexts, trade liberalization puts governments in a challenging position—especially in democracies, where the decline in revenue meets increased policy demands ([Bastiaens and Rudra 2018](#)). Taking into account to what extent tariff cuts create opportunities for tariff evasion therefore improves our understanding of the relationship between government revenue, political stability, and economic development. Governments may be able to lower average tariff rates and simultaneously increase collection rates with a move toward more uniform rates. That the specific attributes of trade liberalization, and the resulting tariff structure across products, can have a substantial impact on the collection of revenue has been largely missing from this literature.

Moreover, the same countries that lack the capacity to collect revenue domestically likely also struggle collecting revenue at their borders. This casts doubt on whether trade taxes are in fact such an easy-to-collect substitute for income taxes in these environments. An interpretation of state capacity as the ability to raise revenue, as in [Levi \(1988\)](#), should therefore extend to both domestic taxes and tariff revenue. In historical perspective, that the collection of trade taxes requires a sophisticated bureaucratic apparatus, which in turn may spur the development of the capacity to collect domestic taxes, suggests a new perspective on the sequencing of state development and its origins in cross-border commerce.

Finally, observers have long recognized that capacity constraints undermine the long-term viability of international cooperation. Bureaucracies explain, for example, compliance with international agreements, foreign aid delivery,

and cooperation on nuclear energy (Chayes and Chayes 1993; Börzel, Hofmann, Panke, et al. 2010; Arel-Bundock, Atkinson, and Potter 2015; Alcaniz 2016), and international bureaucracies play an important role in perpetuating international cooperation (Johnson 2013, 2014). With respect to trade policy specifically, bureaucratic capacity constraints account for limitations in the ability of governments to implement trade agreements and to take advantage of their legal provisions (Busch and Reinhardt 2003; Shaffer 2006; Kim 2008; Gray 2014).

This article suggests that the difficulties of implementing trade agreements extend even to their most basic aspects, including the application of tariffs at border crossings and the need to enforce different tariff rates depending on the country of origin. At the same time, product-specific protection and liberalization can be necessary to make trade agreements politically feasible, as carve-outs and exemptions in trade agreements indicate. An inability to implement product-specific measures may therefore cause governments to refrain from joining trade agreements in the first place. This concern should be most pronounced where negotiations proceed product by product, which directs attention to the rules and norms that guide international negotiations (Goldstein and Gulotty 2015).

Partially in response to such concerns, the World Trade Organization and the International Monetary Fund are increasingly investing in capacity-building efforts, including the improvement of customs procedures (Keen 2003; Shaffer 2005). Experience in international institutions also provides an impetus for capacity-building (Sinha 2007; Davis and Bermeo 2009; Shaffer, Nedumpara, and Sinha 2015; Sinha 2016). These developments suggest that, over time, domestic capacity becomes endogenous to membership in international institutions. By allowing governments to tailor the domestic consequences of policy choices, such capacity-building facilitates policy reform and contributes to the long-term effectiveness of international institutions—not by mobilizing interest groups, issue linkage, or a hands-tying logic, but by gradually overcoming institutional constraints to reform. Its involvement in capacity-building also raises new questions about the World Trade Organization. Moving beyond its interpretation as a contract organization (Shaffer 2005), it confers the World Trade Organization with more agency than international relations scholarship generally anticipates. That membership in international institutions can unfold a dynamic of domestic reform points to new perspectives on the relationship between the multilateral trade regime, state capacity, and trade policy and the consequences for the politics over international economic integration.

Supplementary Information

Supplementary information is available at <http://people.tamu.edu/timm.betz> and at the *International Studies Quarterly* data archive.

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