Viewpoint: Tariffs and Trade Liberalization in Developing Countries

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2003-02-07

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There is a consensus emerging that momentum towards a more open global trading system has been dissipating rapidly since the Doha World Trade Organization (WTO) meetings of 2001. It is worth assessing why this is the case, particularly as high levels of protection in developing countries continue to receive attention.

On the face of it, the facts are clear. Despite two decades of trade liberalization, often as part of a Structural Adjustment Program supported by the International Monetary Fund (IMF) and the World Bank, tariff levels are highest in developing countries. While average tariffs amount to about 5% of the value of trade in developed countries, they are around 15% in Latin America and Sub-Saharan Africa, and around 25% in South Asia. Moreover, developing countries impose tariffs on each other’s goods that are as high as those they impose on goods originating in developed countries. And thanks to a series of measures enacted by developed countries, the share of goods from developing countries that can enter duty free is steadily growing.

The Canadian government has announced, for instance, an initiative that would see imports from the 48 least-developed countries (LDCs) — with the exception of supply-managed goods such as dairy products, eggs and poultry — enter Canada duty- and quota-free. With this program Canada follows the lead of the European Union, which in February 2001 introduced its “Everything but Arms” initiative.

Clearly, there is unfinished business in reducing protectionism in developing countries. And yet, this is not why Doha is floundering. First, the volume of trade between developing countries is low enough that it does not contribute significantly to the export woes faced by developing countries. The problem, clearly, remains how to crack the lucrative marketplaces of the industrialized West.

More importantly, perhaps, the logic of putting the focus on protection in developing countries ignores the crucial contextual questions of how a host of parallel policies, promoted by developed countries, makes it more difficult for their poorer trading partners to move towards lower tariff regimes.

None of this is intended to disparage the idea that lower tariffs promise significant benefits to developing countries. Fewer barriers to imports would provide people in developing nations with access to the best goods the world has to offer, at the best possible prices. Equally important, with that flow of goods would come advantages such as technology transfer and the enhancement of productive capacity.

Current conditions, however, do not yet allow for a quick transition to lower tariffs. An immediate impediment is the lack of a broad tax base within developing countries that would see a greater proportion of public spending funded through consumption, income and land taxes. In many developing countries, revenue from taxes on trade account for 10-20% of government revenues. Reducing this stream of income without the necessary public finance reforms in place would be an invitation to fiscal calamity.

When it comes to market access, tariffs do not tell the full story. One area where frustration is high relates to non-tariff barriers to trade. It is possible to view these “technical barriers to trade” — such as product content and packaging requirements, mandatory labeling, sanitary and phyto-sanitary measures — as more serious impediments to the trade of products from developing countries than duties or quotas. This is because failure to meet these standards effectively bars developing countries from trading in those markets.

Although there are some solid scientific and public health concerns underlying the discussion of matters such as sanitary and phyto-sanitary standards, it is also clear that these concerns have been manipulated for protectionist purposes. It has been the experience of several countries that just when they meet the requirements set by developed countries, the goalposts are shifted and a new set of standards is imposed.

However, the biggest stumbling block remains agriculture. Most developing countries define their comparative advantage through this sector. And yet, this is the sector that remains the most protected in developed countries. Some of the statistics defy imagination. Subsidies to agriculture in developed countries amount to more than CAD $1 billion a day, about six times the level of aid to developing countries. The World Bank’s Chief Economist, Nicholas Stern, has made the point that while the average European cow is subsidized about $2.50 per day, and the average Japanese cow is subsidized $7.00 a day, 75% of the population in sub-Saharan Africa live on less than $2.00 a day. A more sensible global agricultural regime would increase incomes around the world, including in developing countries, by multiples of what they currently receive in aid.

Ultimately, these are the issues that must be resolved before the world can expect developing countries to lower their tariffs. In global trade negotiations, the low-hanging fruit has already been picked. What is now needed is a concerted attempt to deal with the difficult issues that have, to this point, defied resolution. Tariffs in developing countries are a small piece of the puzzle.

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