A DEVELOPING COUNTRY VIEW ON LIBERALIZATION OF TARIFF AND TRADE BARRIERS

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1.- Introduction

There is a consensus that the Doha Trade Round should link trade and development; in this respect, trade policy is considered to be a key development tool. In the meantime, developing countries have realized that integration to the world economy is a necessary condition for achieving higher growth rates. Many developing countries have implemented quick and deep unilateral tariff liberalization processes during the last two decades. Trade liberalization helps growth through two distinct mechanisms; it generates a better environment for private investment, and (due to the reduction of the anti-export bias) it stimulates exports. There are several developing countries experiences showing that exports could be an important engine for development and growth.

The key issue of the Doha Development Agenda (DDA) is, in my judgment, the following: What type of OMC rules would maximize the rate of development of developing countries? For this purpose, developing countries export expansion becomes an essential objective; the dual of this objective is increasing market access, particularly to DC (developed countries) economies. Why this DC bias? First, because DC markets are the most significant ones given the high purchasing power of its population. Second, the increased access to other developing countries (i.e. the so called South-South trade) is happening through two distinct mechanisms (which are outside of OMC) which are unilateral trade liberalization process and free trade agreements.

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It could be argued that market access was the main subject of the GATT Trade Rounds, and that OMC Rounds should focus on the new trade issues, i.e. trade in services and "behind the border issues". However, from the point of view of developing countries, there still exists a wide variety of trade barriers in DC which are mainly biased against developing countries exports; these DC trade barriers include tariffs peaks and tariff escalation for agricultural and labor intensive goods, agricultural subsidies (for exports and domestic production), rules of origin, pyramid trade preferences, and antidumping laws. What is the trade theory providing the rationale for this DC trade protective structure?

Why should developing countries liberalize service exports and protect IP (intellectual property) when LDC exports of goods having comparative advantage to DC markets do not face a leveling field?

There is an inconsistency in the DC trade economic argument. On the one hand it is recognized that developing countries exports are a key tool for development; on the other hand DC maintain trade barriers to significant products which developing countries could export. The DC emphasis on "behind the border issues" and developing countries tariff barriers looks like a trade deviation tool from a real debate on DC trade distortions.

In this short note, we will provide a short synthesis of DC disturbing trade barriers which affect negatively developing countries export growth. Also, we will suggest some guidelines which would represent the ideal outcome of the Doha Trade Round from an developing countries perspective.

2.- Brief Picture of Developed Countries Trade Barriers

- **Tariff Peaks**

GATT has been praised for achieving a substantial reduction of tariffs and trade barriers. The example usually provided is that one related to USA. Average tariffs in USA were reduced from 92% in 1945 to 5% in 1980. The present level of bound mean tariffs (simple average) of DC industry products is around 4% (European Union: 4.1% ; USA: 3.8% ; Japan: 3.6%) . Given these prevailing low tariff levels, it looks reasonable to introduce new issues into the trade world discussion.

In short, the prevailing view is provided by Graph 1 (see also Graph2 and Table 1) Average tariff levels in DC are at the one digit level and below 5%, while LDC tariff levels are at the two digit level and in quite many cases over 20%.

The previous values refer to average product groups (industry, all product lines). However, when specific goods are considered we get a completely different picture. Graph 3 provides selected tariff peaks in DC for agricultural imports from developing countries (1998-1999). The ten selected items have tariff peaks over 50%; eight of them have three digit level tariffs. The list of products is the following: tobacco (350%), butter (336%), milk concentrates (309%), chocolate (277%), oil seeds (171%), milk (140%), poultry (134%), barley (102%), wheat (82%), maize (50%).

How were these tariff peaks established?, what is the economic rationale for these values?, what is the consumer welfare loss at each DC country level?, how many are the privileged DC domestic producers?

Agricultural products do not have the monopoly of DC tariff peaks. DC also have tariff peaks for manufacture products; however, peak values are smaller in this case. It is interesting to observe a similar and special pattern of tariff peaks across the three DC regions. The lower technology based groups have higher tariff peaks. Textile /fashion products have low technology and have tariff peaks of 48% in USA, 37.5% in Japan, and 17% in EU (European

Union). Car products have a medium technology and have tariff peaks of 25% in USA, 22% in EU and 0 in Japan. Electronic products have a high technology and have tariff peaks of 15% in USA, 14% in EU and 3.3% in Japan (Graph 4).

Why have DC established higher trade barriers to lower technology based products?

- **Tariff Escalation**

The DC tariff structure for several products, specially those that are labor intensive follows a similar pattern to the one that had the Latin American countries during the import substitution strategy; i.e., goods having more stages of production have higher levels of protection, that is tariff escalation according to increasing value added. It is clear that effective rates of protection for the final products are much higher than those shown by nominal tariff rates [1].

Textile products provide a clear picture of this tariff escalation phenomenon. In this case raw material for textile goods have 0 tariff in the three DC regions (see Graph 5); semi-finished textile products have one digit tariffs: 3.8% in USA, 2.8% in EU, and 2.5% in Japan. Finished textile goods have (on average) two digit tariffs: 11.5% in USA, 10.6% in EU, and 10.5% in Japan.

Table 4 provides other examples of tariff escalation in DC for agricultural products. Meat products in EU have the following tariff structure: 0.5% for raw products, 5.2% for semi-finished goods, and 13.0% for finished goods. Coffee, tea and spices in Japan have the following tariff structure: 1.6% for raw products, 10.6% for semi-finished goods, and 20.1% for

[1] If raw materials represent one third of the final price of the good, and (these raw materials) have zero tariff, the effective rate of protection of the final good would be 50% higher than the nominal tariff (of the final good)

finished goods. Cereal products in USA have the following tariff structure: 1.4% for raw products, and 11.7% for semi-finished goods and for finished goods.

Given the prevailing tariff escalation in DC it is really strange that there have been no studies computing the effective rate of protection for the final good.

The rationale for having tariff escalation in the Latin American import substitution strategy was the infant industry hypothesis. The DC could not use this explanation; also, it does not make sense to use the modern technology strategic industry argument for textile and agriculture. Then, what is the rationale for having tariff escalation in DC?

- **Non-Tariff Barriers**

DC apply several technical and non-tariff measures which are perceived as trade barriers by developing countries. There are clear tariff barriers like quotas, import licenses, prior authorization, preferential origin norms, enter price, trade names.

There are also health and sanitary regulations which specify the allowed additives, colorants, preservatives, hormones, etc. and the maximum quantities which could be used. Furthermore, there are eco-labeling regulations oriented toward the promotion of goods having a small environmental impact over their entire life cycle.

Specific examples in this respect will be provided for EU non-tariff barriers against Latin American products ((Thorstensen & Peña, 1999): (i) fruits & vegetables face quotas/ enter price /import license/ special safeguard; (ii) cocoa & canned sardines face trade names /product standards,; (iii) coffee, flowers, tobacco, fish products face quotas; (iv) maize & sugar face import license; (v) textiles & clothing face quantitative restrictions; (vi) footwear face Surveillance/ prior authorization; etc. etc.

- **Agricultural Subsidies provided by DC**

The agricultural sector of DC receives substantial Government support. OECD estimation of public support to DC farmers for year 2001 provides the following figures: In Japan, US$23,000/ farmer ; in EU US$20,000/ farmer, and in USA US$16,000/ farmer.

Another way of measuring the DC level of agricultural subsidies (The Economist, 08/04/03): In Japan and in EU agricultural subsidies represented 58% and 35% respectively, of total value of production in year 2001; in USA the equivalent figure was 21%.

These numbers could be compared to the value of developing countries agricultural exports per farmer. On average, developing countries agricultural exports are around US$200/farmer; this figure increases to US$1,500/farmer when only are considered successful LDC agricultural export countries. DC government subsidies to DC farmers are larger than wage differentials among DC and developing countries. In addition , the use of more modern technology by DC farmers generates an additional productivity differential between DC and developing countries farmers.

Then, even if tariff peaks of agricultural products were reduced, and these levels of DC public subsidies were maintained, it is very difficult for developing countries agricultural exporters to be able to compete.

When DC push the same leveling field principle for having “fair” competition among DC and developing countries economic agents in the international world markets, how then could be justified such large public subsidies to the DC agricultural sector? What is the economic calculus backing the above numbers?

It is said that EU CAP (Community Agricultural Policy) is concerned with the defense and preservation of the way of life of the European rural regional people. However, this

policy has a huge negative effect far away upon poor peasants living in the Andean and African valleys, subtropical belts, developing countries small and medium farms, etc. ; DC agricultural subsidies are contributing "to the destruction of those same values, social networks and cultural heritage" of developing countries rural life that they are trying to save in their own countries (Bekinschtein, 1999). Moreover, in developing countries the rural poor are likely to represent a large share of the total poor .[2]

- **Antidumping duties**

The use of antidumping (AD) actions have increased notoriously in the last time. Developing countries perception is that AD has become the main tool used by DC for restraining developing countries successful exports. In a seven year period (1985-1992) there were 164 AD investigations per year; of the total AD cases of the period, 300 were by USA and 242 by EU.

It is interesting to remember that "AD was a minor instrument when GATT was negotiated, and the provision for AD regulations was included with little controversy" (Finger, 2002). Let us look at the present "virtues" that have made AD so attractive to DC governments and producers (Auboin & Laird 1999, & Finger2002): (i) AD is a better tool for targeting foreign suppliers having lower costs; (ii) the action is unilateral, and no compensation is required; (iii) the "injury test" is lower than for safeguards; (iv) no requirement of adjustment by domestic producers; (v) no need to prove existence of subsidies (compared to countervailing measures); (vi) the rhetoric of foreign unfairness facilitates the political support for protection; (vii) the beginning of the judicial process curbs exports.

[2] The French newspaper Le Canard Enchané (June 4, 2003) provides the following numbers: European cows receive two euros per day provided by EU Government subsidies; three billion people of developing countries live with two euros per day.

The simple existence of AD rules (and even its sporadic use) have a highly negative effect upon successful LDC producers; it is a deterrent to developing countries exports and long run investments are discouraged because " if an developing countries exporter becomes too efficient, it will eventually be penalized". Which is the economic theory that suggests that efficient producers should not expand their level of production, and moreover, that should be penalized? Economists are the high priests of efficiency. Are there economists supporting inefficient producers?

3. Developing Countries Wishful Thinking of DOHA Outcome

How to deal with DC tariff peaks and tariff escalation? The best way would be an OMC rule establishing that each country (DC and developing countries) should have a flat tariff system.

A uniform tariff regime has several advantages (see Tarr 2002): (i) It provides the government with a powerful tool to resist corporate protectionist pressures; each exception to the general rule is publicly exposed. (ii) It eliminates incentives for corruption and reduces smuggling. (iii) It simplifies many administrative procedures. All these elements increment the efficiency of the institutionalism in which operate the economic agents.

DOHA Round Trade should have the following goal: to achieve in the international world markets a leveling field across all countries, DC and developing countries. For this purpose, the following set of rules would constitute the 1st Best:

- Flat tariffs , without exceptions, for all countries.
- Zero subsidies (for exports and for domestic producers) for all goods, including agricultural products.

- Elimination of AD.

Given the fact that we do not leave in an ideal world, it is necessary to have a 2nd Best set of rules:

- Tariff peaks having at most two times the level of the mode (median) value of the tariff structure.
- Subsidies (for exports and for domestic producers) for all goods, including agricultural products, providing a protection at most equivalent to the level of two times the mode (median) value of the tariff structure.
- An annual limit to the number of AD investigations that the producers of a country could request. This limit could be 1 to 2 cases per month. In this way, AD would become a scarce resource at each country level; the government would have to define which cases really deserve using the "existing (annual) AD budget limit"

Bottom line (from an developing countries University professor). What guides DC WTO position: ¿economic principles or private corporate interests?

As Michael Finger said "trade theory is about identifying whose hand is in whose pocket; trade policy (and trade rules) is about who should take it out"

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Table 1: Bound Mean Tariff (simple average) for DC and LDC (%)

Product group		Agriculture	Industry	All lines
Developed Countries	*EU*	19.5	4.1	7.4
	Japan	11.7	3.6	5.1
	USA	5.5	3.8	4.1
Less Developed Countries	*Argentina*	32.8	30.6	30.9
	Brazil	35.3	29.7	30.3
	India	124.3	59	67.4
	Indonesia	47.2	38.6	39.8
	Korea	62.2	11.4	18.3
	Mexico	42.9	34.8	35.5
	Thailand	34.6	28.4	29.1
	Tunisia	116.7	41.2	59

Source: OECD (1999)

Table 2: Selected Tariff Peaks (MFN) in DC on Agricultural Imports from LDC 1998-99

Product	*Tariff Peak (%)*
Tobacco	350
Butter	336
Milk concentrates	309
Chocolate	277
Oil seeds	171
Milk	140
Poultry	134
Barley	102
Wheat	82
Maize	50

Source: UNCTAD, Cernat, Laird and Turrini (2002)

Table 4: Selected Tariff Escalation in DC by Major Product Group. Recent years (weighted average MFN applied tariffs, %)

Product Group	*USA*			*EU*			*Japan*		
	R	*S*	*F*	*R*	*S*	*F*	*R*	*S*	*F*
Meat Products	0.6	6.2	3.4	0.5	5.2	13.0	0.1	12.9	10.7
Fish Products	0.2	1.9	2.0	9.3	14.6	13.3	3.9	5.1	11.6
Cereal Products	0.9	4.3	3.1	1.4	11.7	11.7	6.4	12.9	20.8
Coffee, tea, spices	0.4	0.1	5.4	0.1	8.6	8.0	1.6	10.6	20.1
Textil	0.0	3.8	11.5	0.0	2.8	10.6	0.0	2.5	10.5

Source: UNCTAD, Cernat, Laird and Turrini (2002)

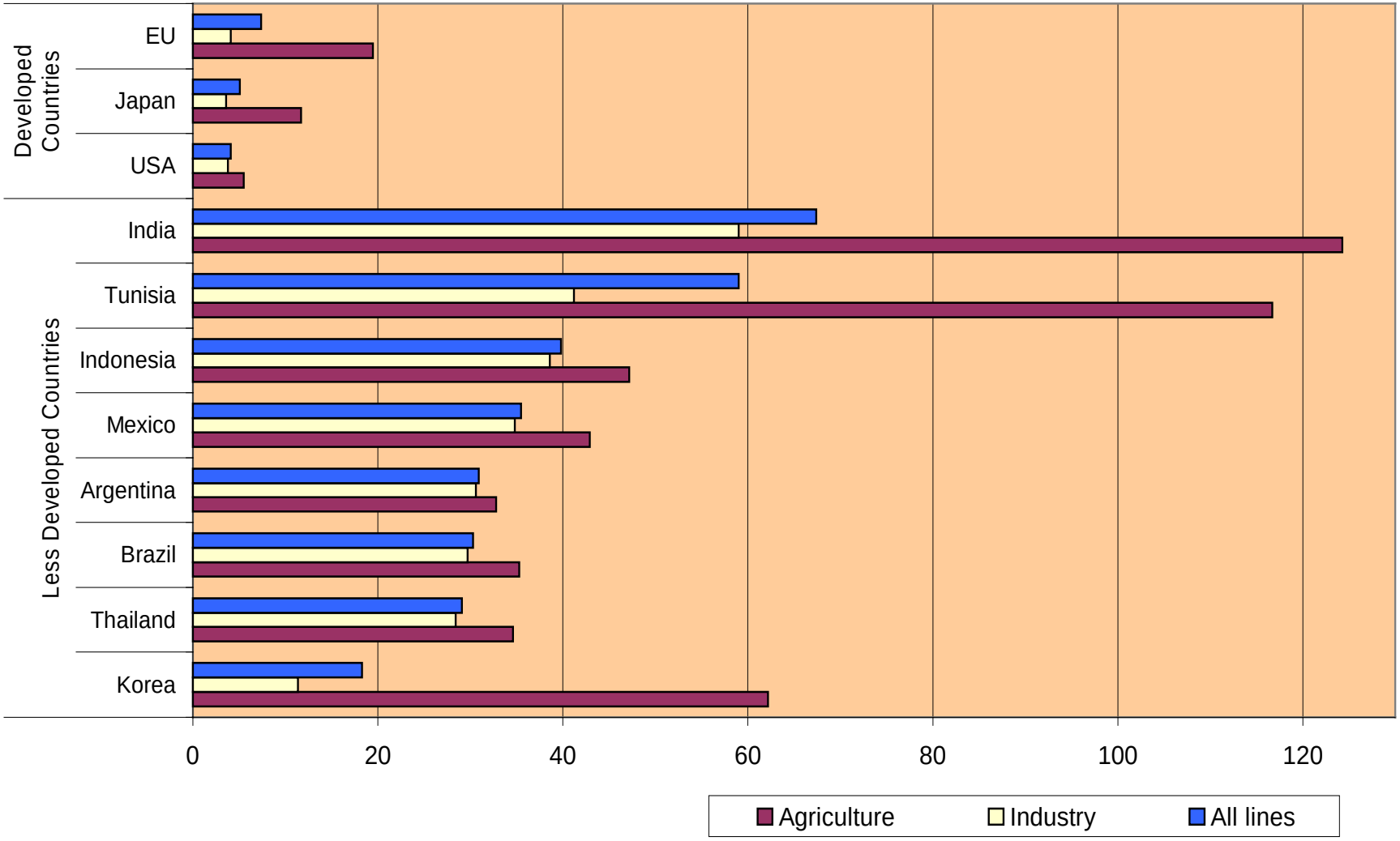
R: Raw material; S: Semi-finished products; F: Finished Products

Table 3: Tariff Peaks (MFN) in Manufactures by Technology-based product group (%) year 2000

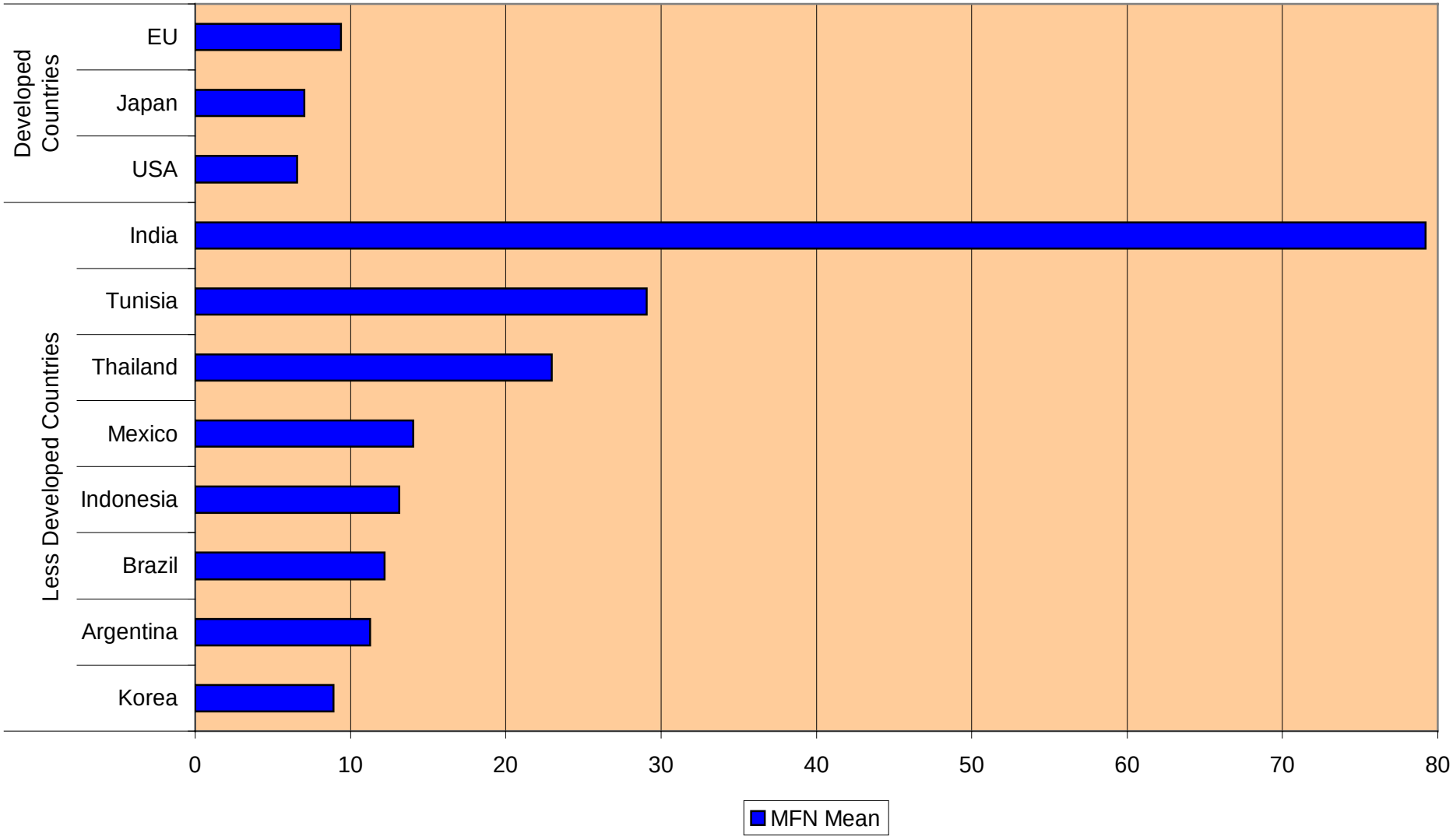
Product group	*USA*	*EU*	*Japan*
Textil/Fashion (low technology)	48.0	17.0	37.5
Car Products (medium technology)	25.0	22.0	0.0
Engeneering Industries (medium technology)	14.0	14.0	8.4
Electronic/Electrical (high technology)	15.0	14.0	3.3

Source: UNCTAD, Cernat, Laird and Turrini (2002)

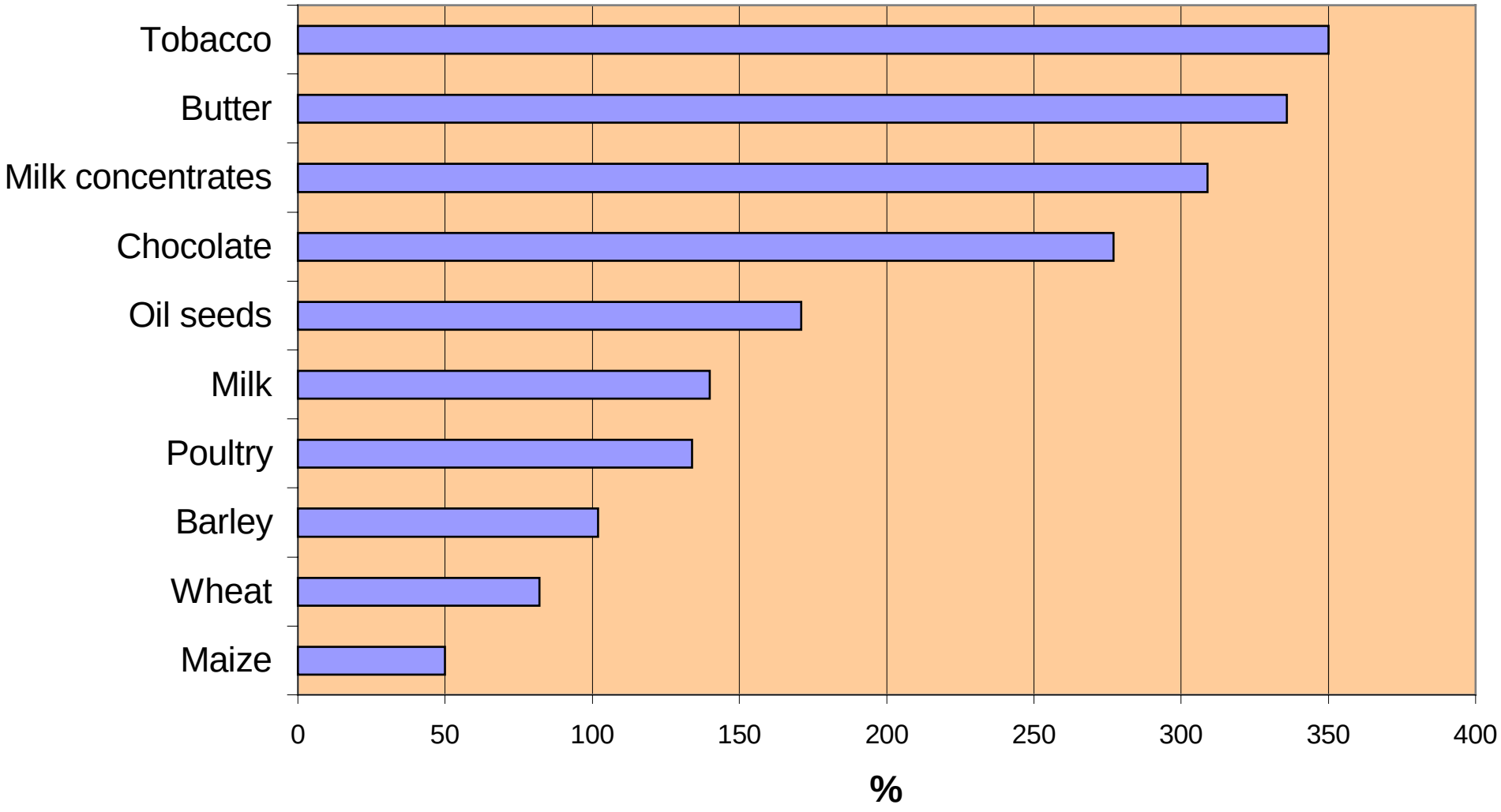
Graph 1: Bound Mean Tariff for DC and LDC (%)
"The Marketing Image"



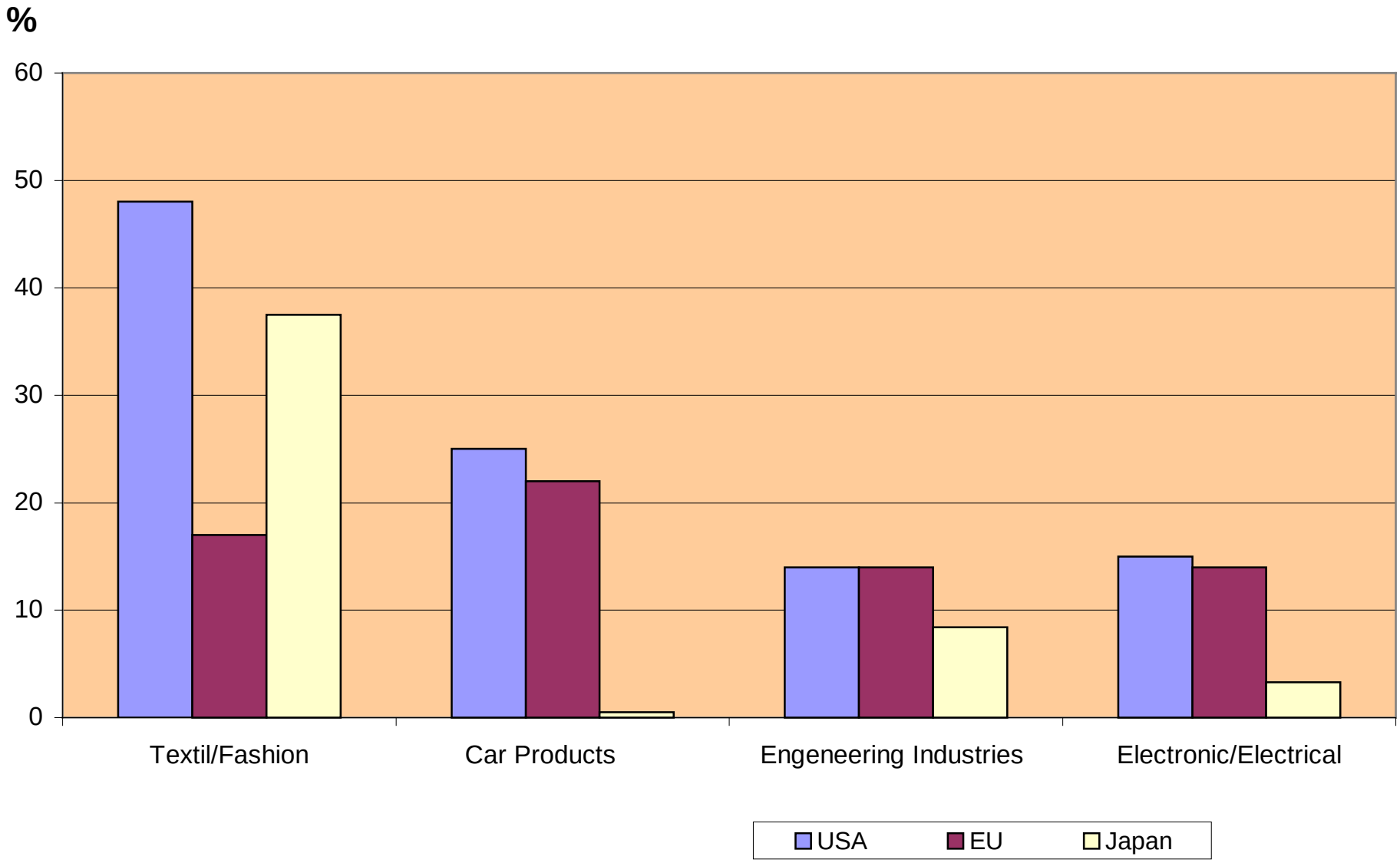
Graph 2: Applied Tariff Rates for DC and LDC



Graph 3: Selected Tariff Peaks (MFN) in DC on Agricultural Imports from LDC 1998-99 "The Real Picture"



Graph 4: Tariff Peaks (MFN) in Manufactures by Technology-based product group. Year 2000



Graph 5: Textil Tariff Escalation in DC