Changing Trade Patterns and Implications for Market Access Negotiations

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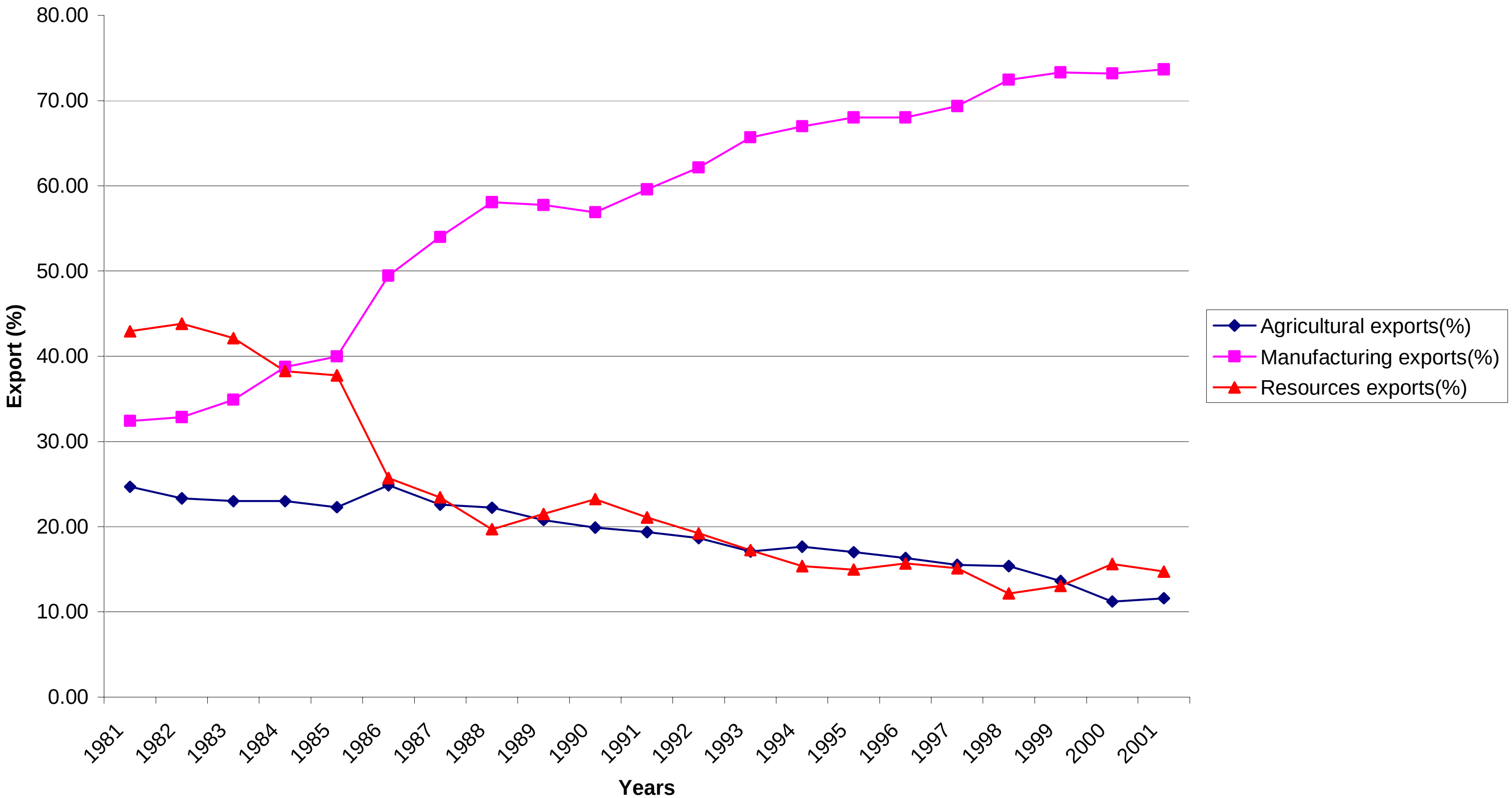
22 April 2003

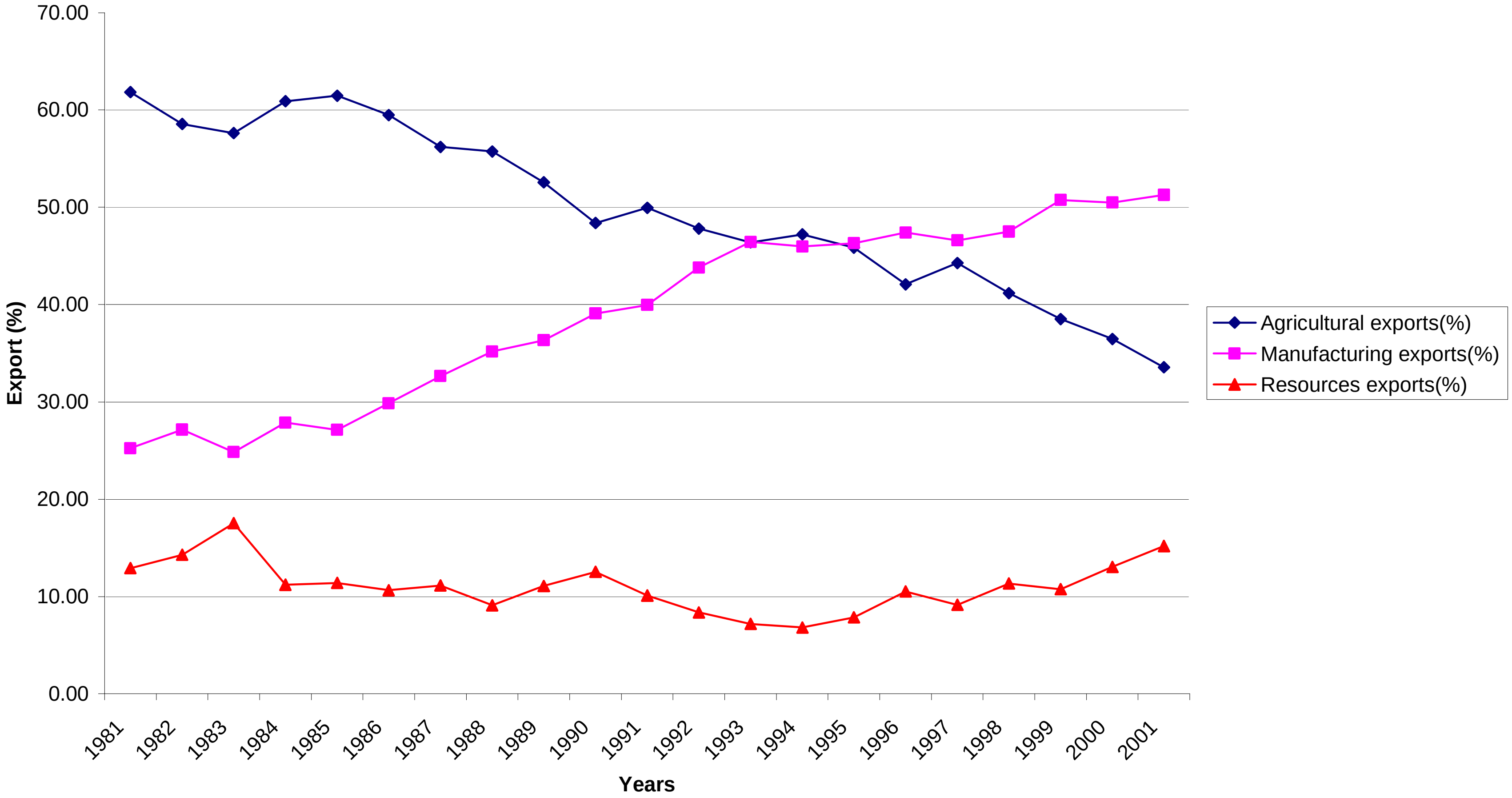
Issues

- Rapid changes in the structure of developing country exports
  - Why?
- Interests in the negotiations
  - Tariffs facing exporters
  - Specific vs *ad valorem* tariffs
- Possible modalities

Export Structure of Middle Income Countries



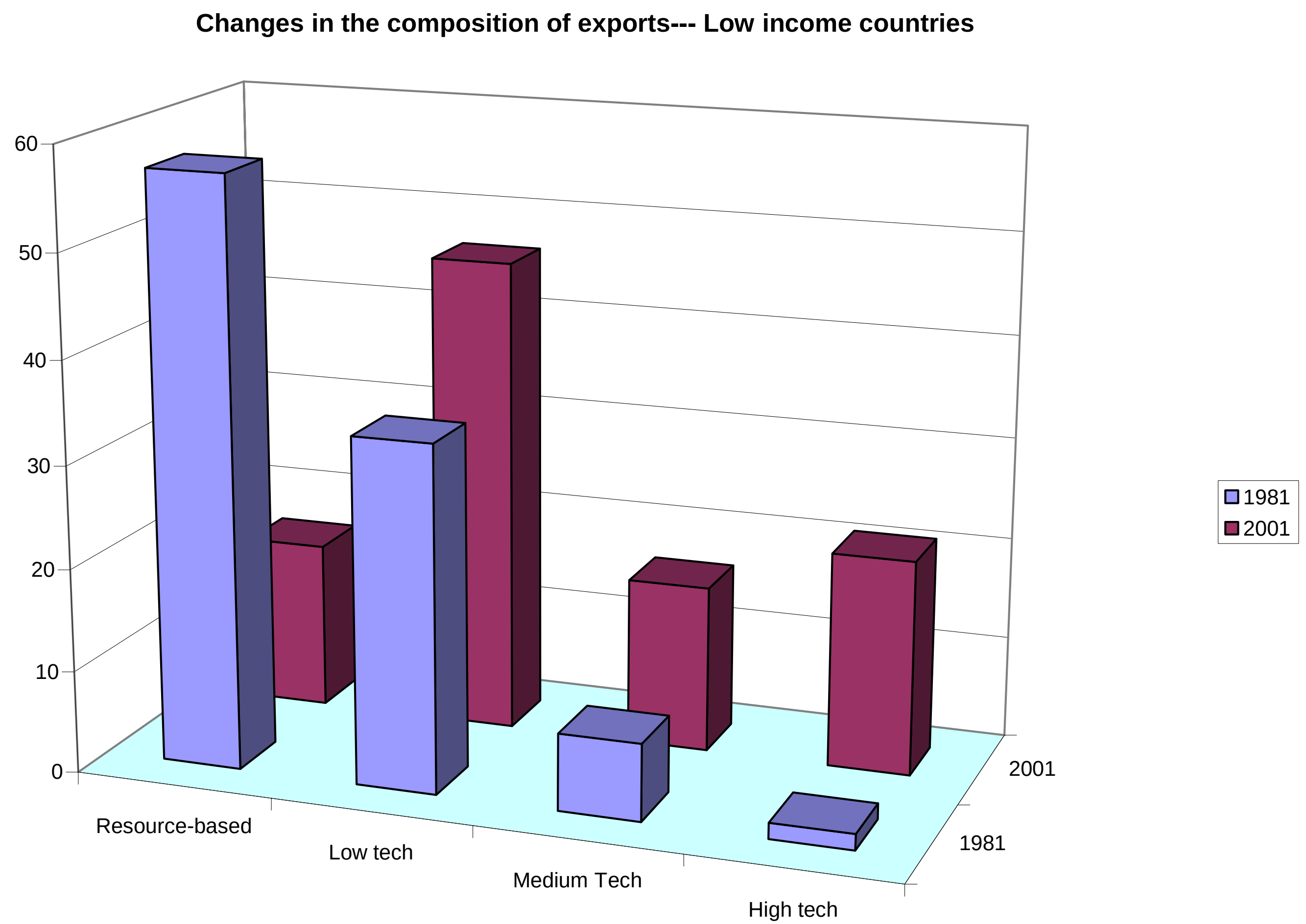
Export Structure of Low Income Countries (average)



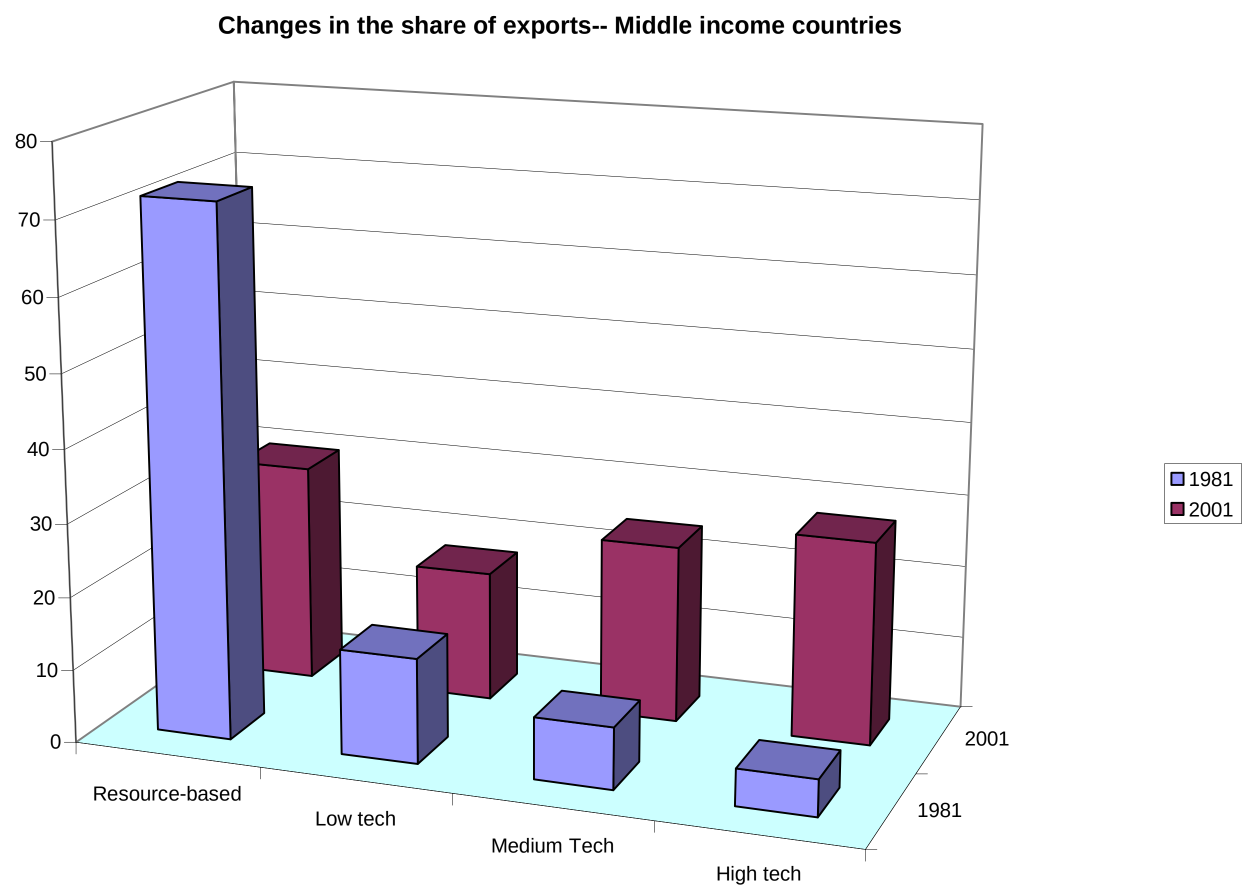
Annual export growth 1981-01

	Low Inc	Middle Inc	High Inc	World
	%	%	%	%
Primary products	6	2	2	2
Resource-based manufactures				
Agricultural	11	6	5	6
Other	9	6	5	5
Low-technology manufactures				
Textiles	15	9	5	8
Other	20	11	6	8
Medium technology manufactures				
Automotives and compone	19	19	7	8
Process industry products	12	11	6	7
Engineering products	24	14	7	8
High technology manufactures				
Electronic	35	18	11	13
Other	20	12	9	9
Total	14	8	6	6

Export shares– low income



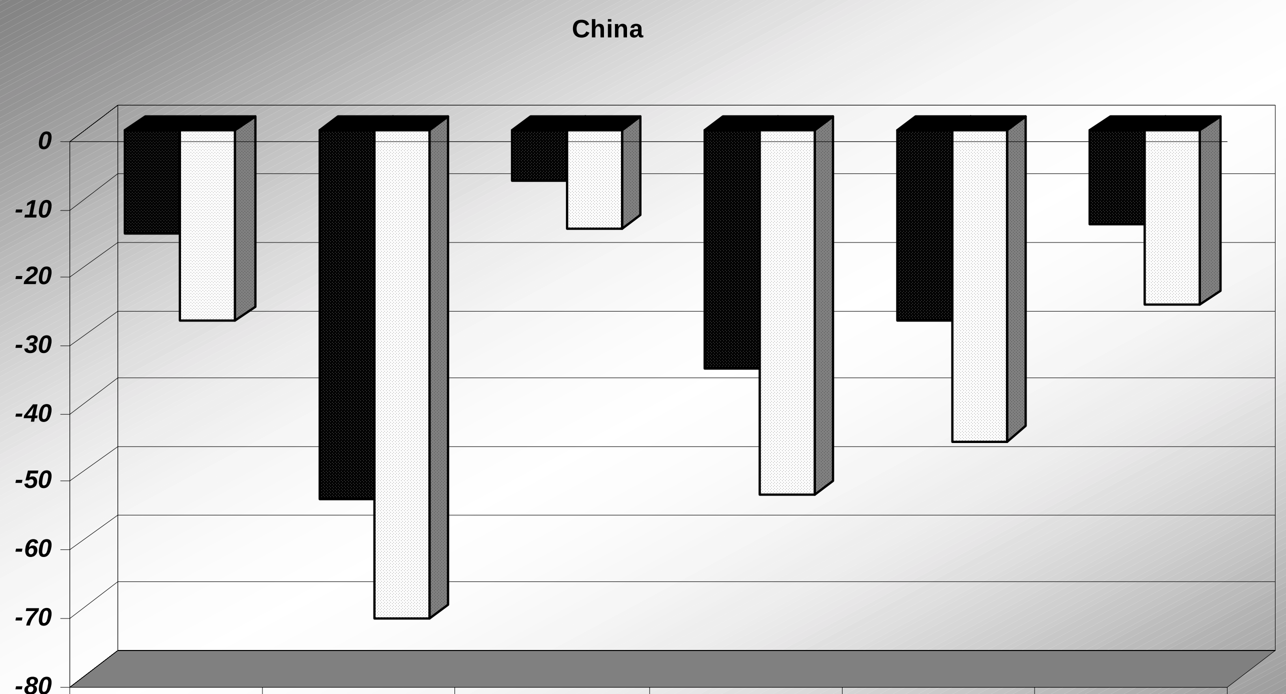
Export shares: Middle income



Changes in factor endowments

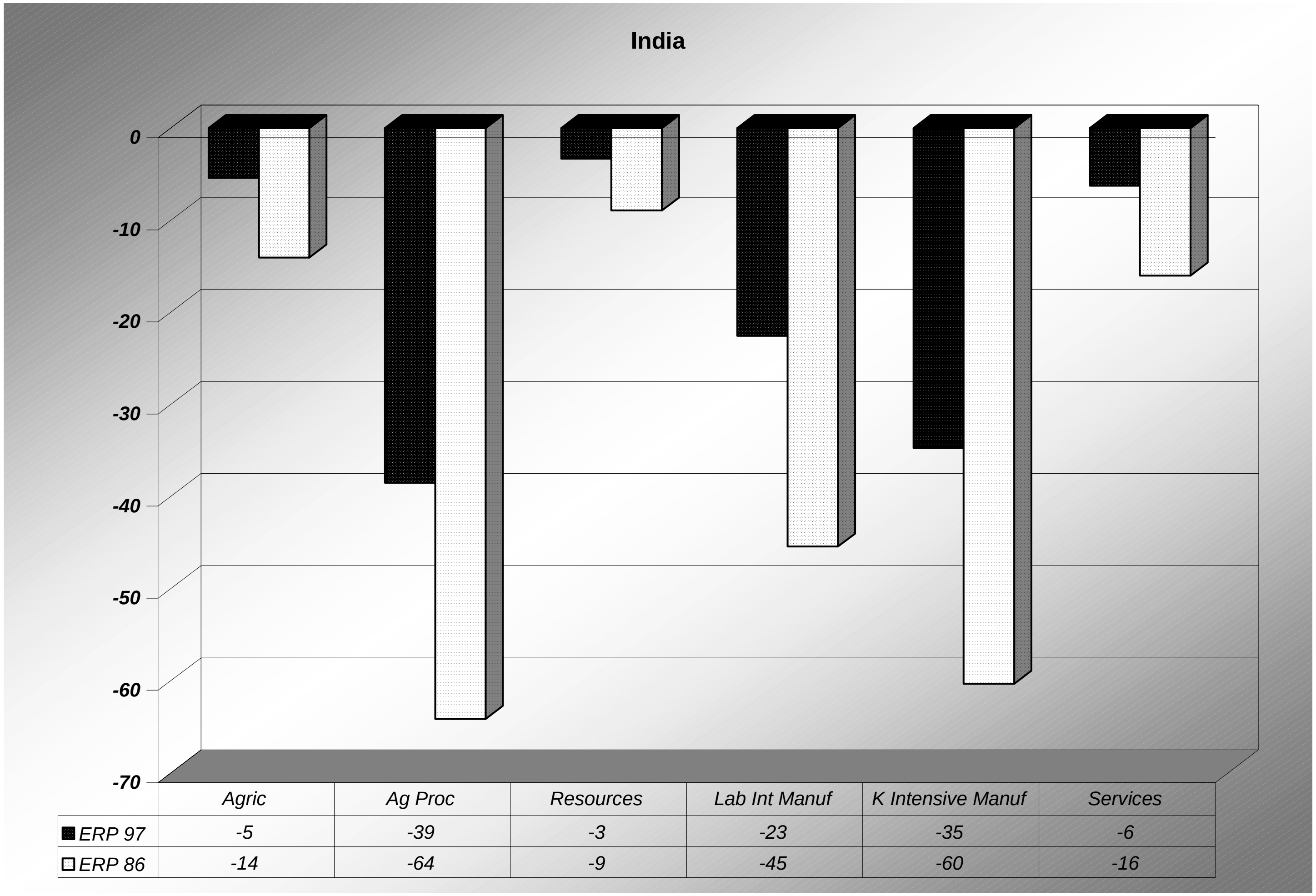
	K/L %	Edn/L %
Industrial	3.7	0.3
Developing		
East Asia	5.1	4.2
South Asia	3.2	3.3
Latin America	2.4	2.0
Sub-Saharan Africa	2.1	4.2
M. East & N. Africa	3.4	2.3

ERP on exports: China



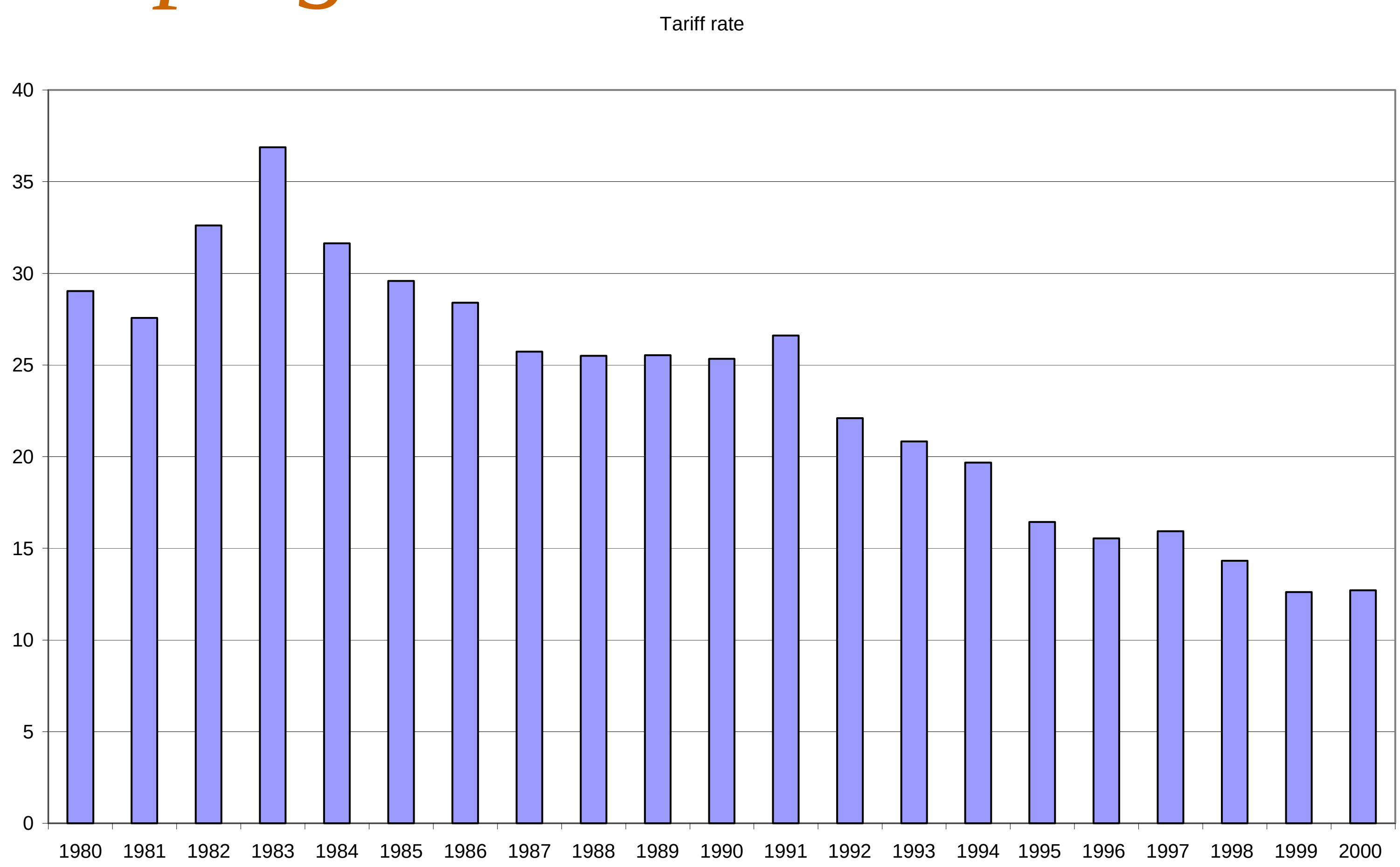
	Agric	Ag Proc	Resources	Lab Int Manuf	K Intensive Manuf	Services
■ ERP 97	-15	-54	-7	-35	-28	-14
□ ERP 86	-28	-72	-14	-54	-46	-26

ERP on exports: India

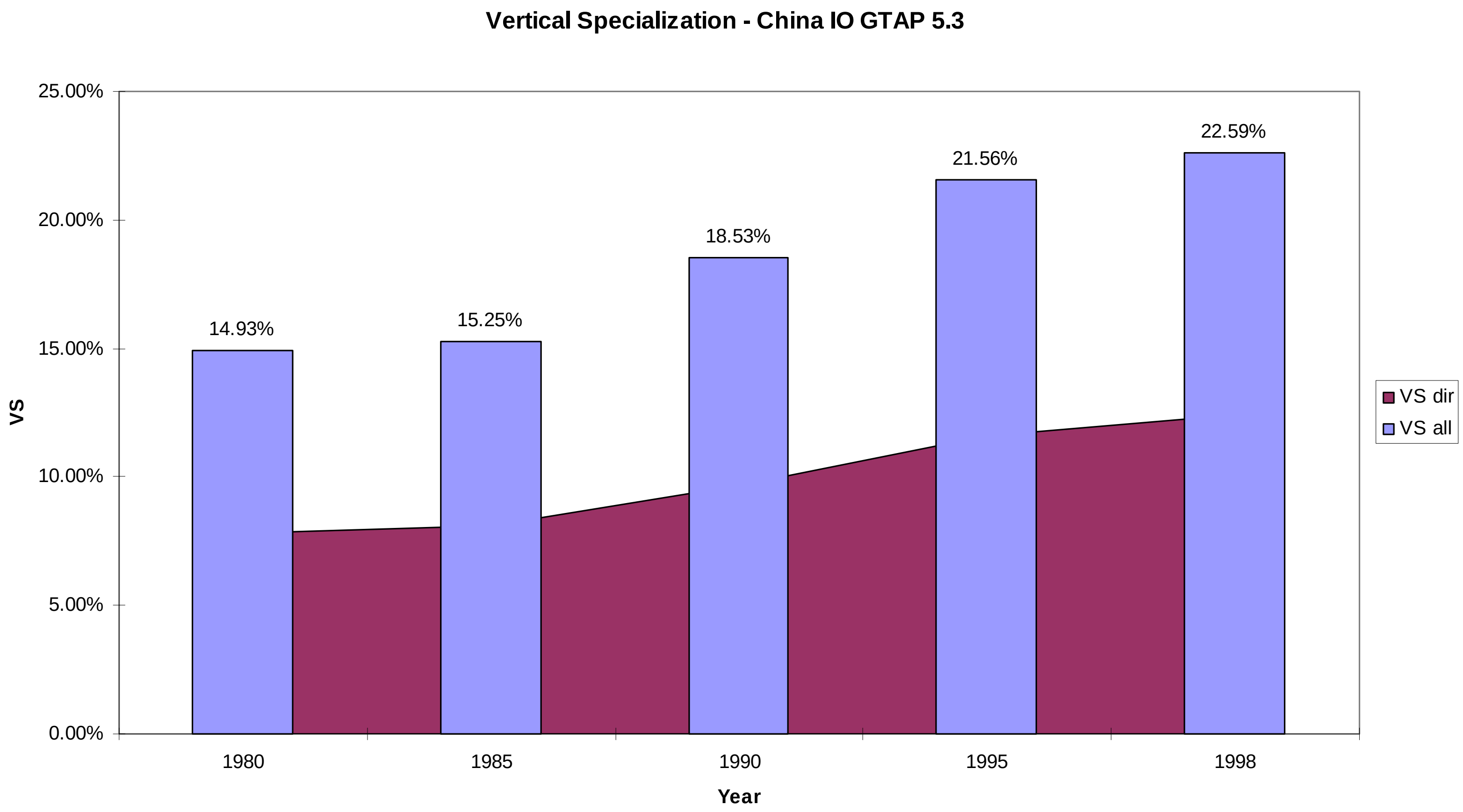


	Agric	Ag Proc	Resources	Lab Int Manuf	K Intensive Manuf	Services
ERP 97	-5	-39	-3	-23	-35	-6
ERP 86	-14	-64	-9	-45	-60	-16

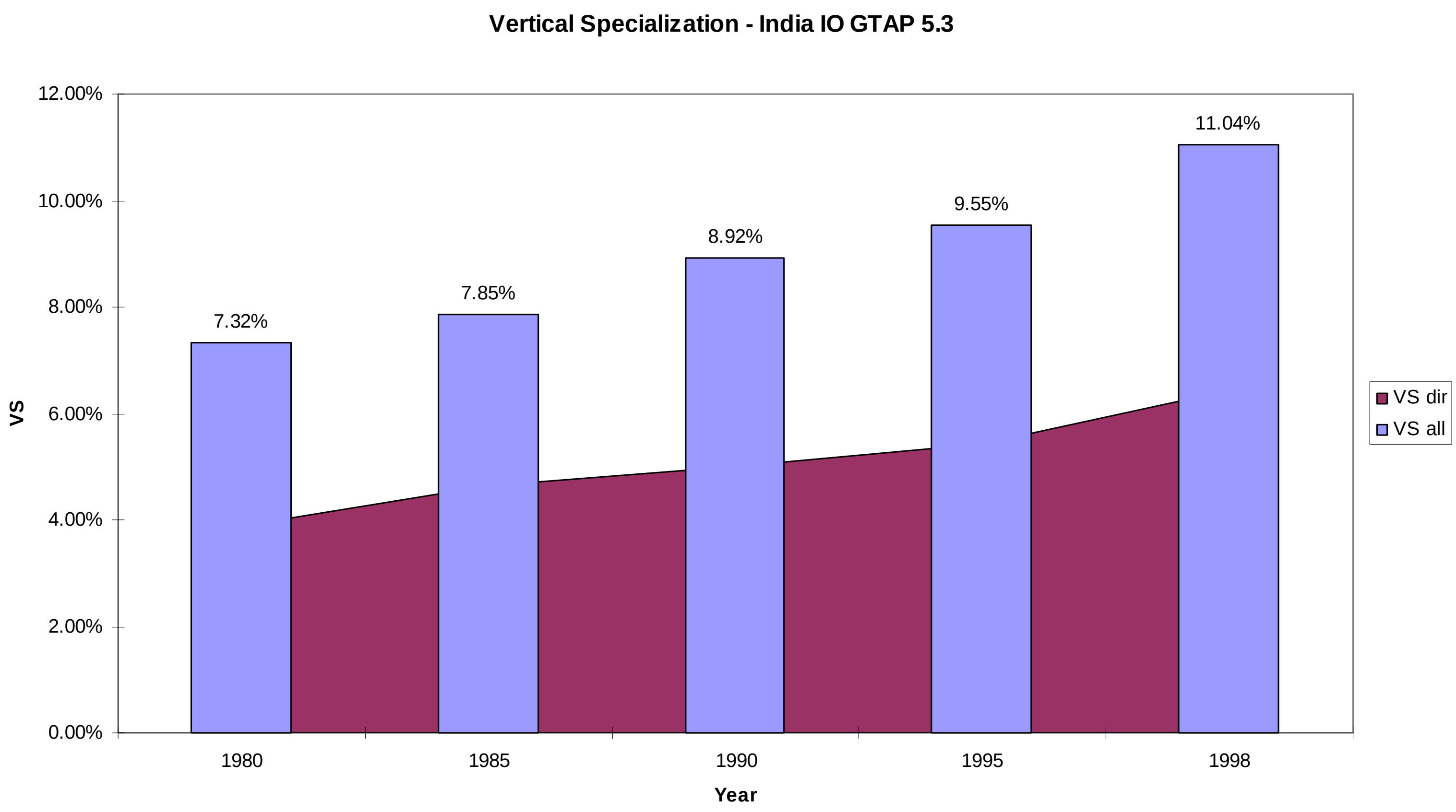
Protection reductions in developing countries



Global production sharing: China



Global production sharing: India



Tariff rates against exporters

Agriculture Exporter	EAP %	ECA %	Rich %	LAC %	MENA %	SAS %	SSA %
EAP	31.0	30.3	30.5	15.5	45.3	38.4	19.0
ECA	24.2	36.4	35.1	23.8	55.3	34.2	12.7
Industrial	33.3	43.7	15.3	20.1	65.4	16.4	24.0
LAC	42.1	36.0	20.4	14.8	50.3	29.7	24.7
MENA	23.0	43.4	23.4	14.9	76.4	31.8	18.9
SAS	16.6	34.6	25.8	13.7	41.1	27.7	11.0
SSA	26.7	20.3	23.6	14.4	39.1	30.9	33.6

Tariff rates exporters: Non-ag

Exporter	EAP %	ECA %	Rich %	LAC %	MENA %	SAS %	SSA %
EAP	8.2	13.8	5.1	15.1	12.2	28.1	14.5
ECA	6.4	6.4	5.9	11.4	8.6	25.8	12.8
Industrial	7.4	9.6	1.0	8.5	10.4	25.2	12.2
LAC	4.3	6.7	2.1	15.4	8.9	19.4	11.9
MENA	5.4	11.5	6.0	8.8	11.4	33.6	11.7
SAS	7.1	11.0	8.1	13.6	10.2	19.0	17.4
SSA	4.4	6.1	4.2	11.7	6.1	27.6	20.6

Tariffs levied

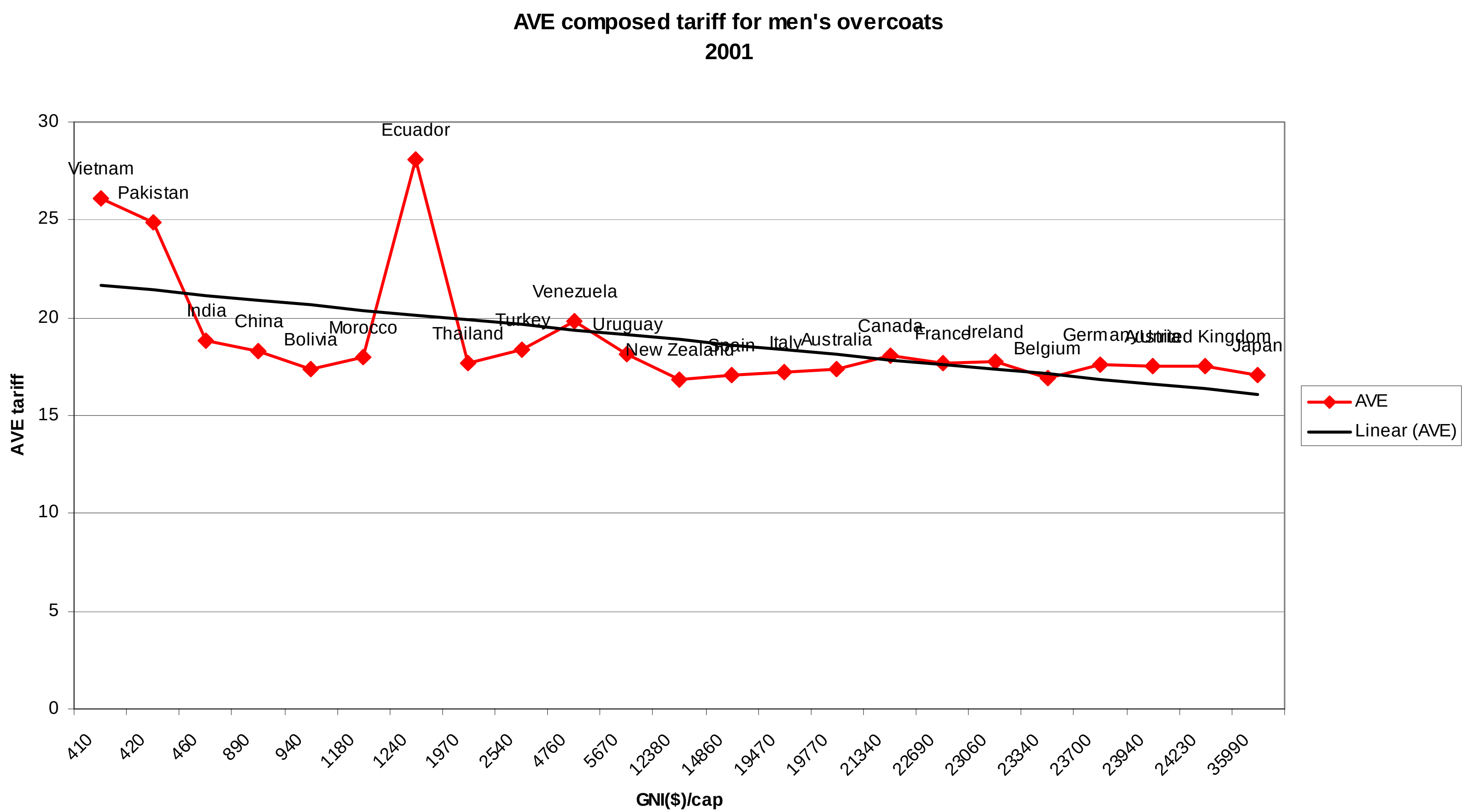
Exporter	E Asia %	ECA %	Rich %	LAC %	MENA %	SA %	SSA %
East Asia	37	2	40	6	5	6	4
ECA	3	14	71	2	6	2	3
Industrial	31	7	20	15	14	7	6
Latin America	4	0	28	64	2	1	2
Middle East	8	2	43	2	12	29	3
South Asia	9	1	63	3	10	7	8
Sub-Saharan	9	1	36	4	2	8	40

The "Scourge of the Specific"

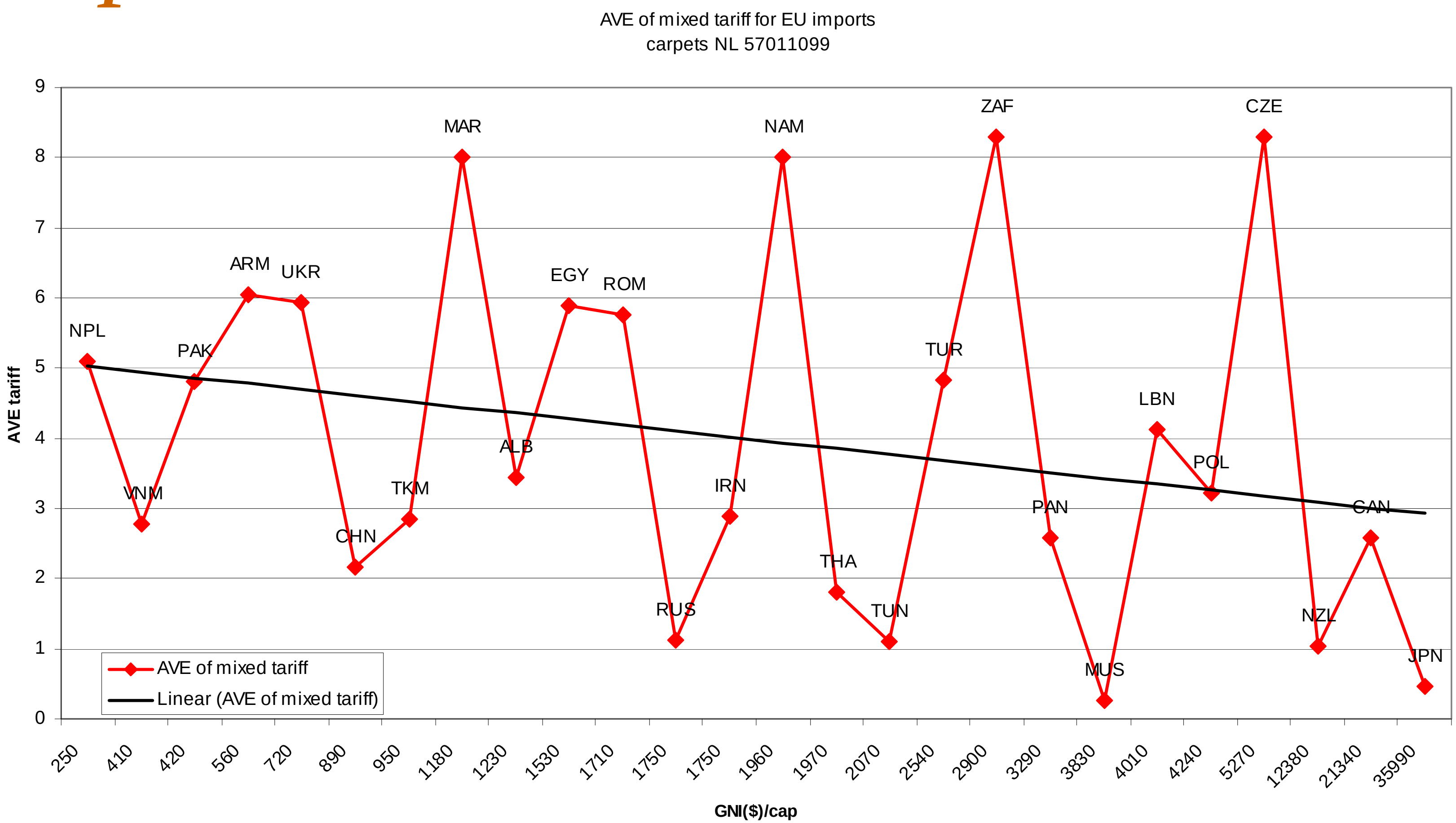
- Lower income countries tend to have lower unit values for many products than high income countries

- With specific tariffs, the *ad valorem* equivalent of the tariff is higher on poorer countries

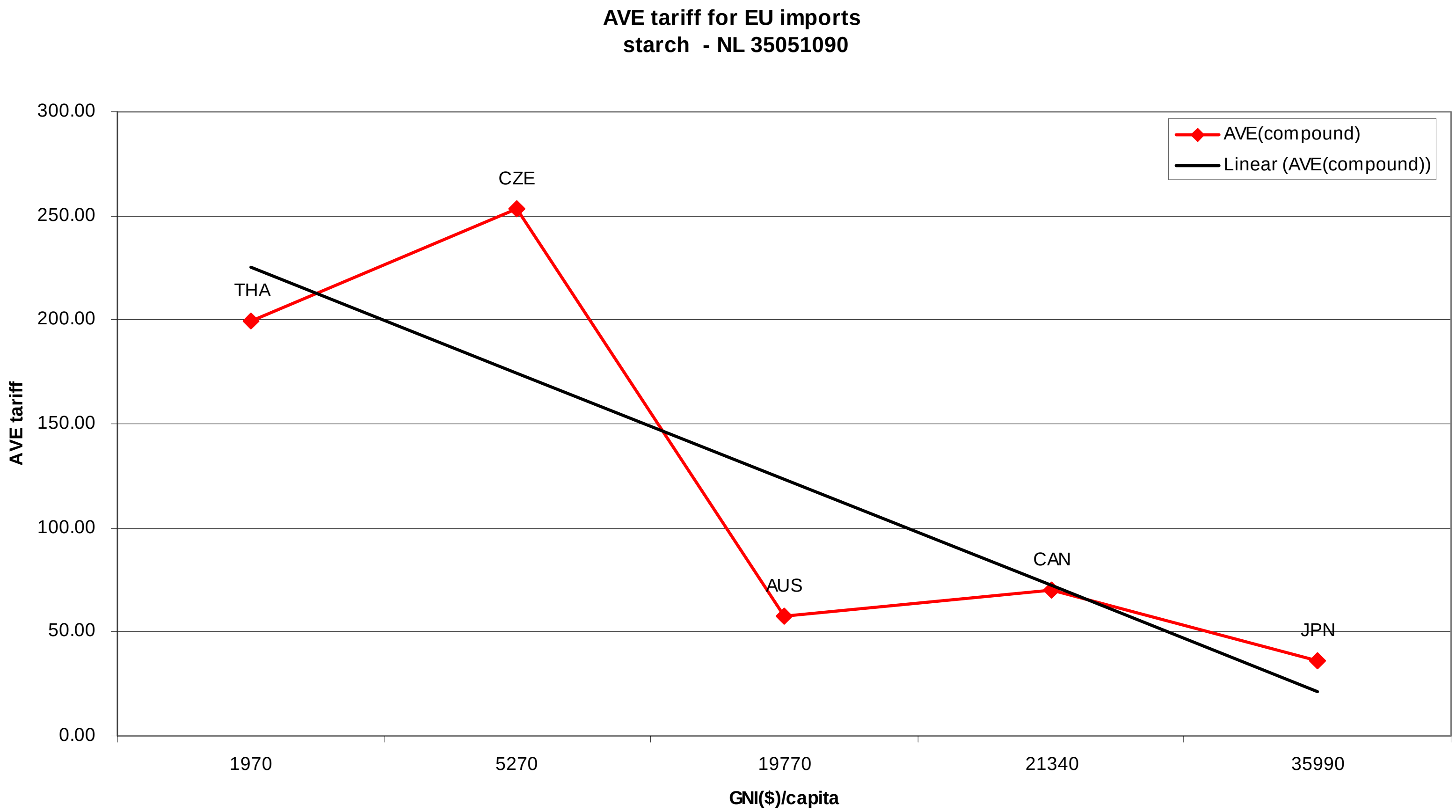
Overcoats to the US



Carpets to the EU



Starch to the EU



Desirable modalities

- Formulas help achieve reform
  - Not just any formula. Formulas in average cuts meaningless. Consider only the cut in the average
- Reduce tariffs considerably
- Reduce high tariffs by more than lower tariffs
  - Improves efficiency in the importer
  - Likely to increase access of developing countries

Swiss formula and extensions

- $T_1 \;=\; a.T_0/(a + T_0)$

- Can increase flexibility to any option between the Swiss formula and a proportional cut
  - $T_1 \;=\; a.T_0/(a.b + T_0)$

- Can also target a cut in the average tariff
  - Allow a to adjust to meet the target

Some interesting proposals

- Chinese formula
  - Base on applied rates in rich countries, bound in poor
  - Extended Swiss formula
  - $T_1 = (a+P).T_0/((a+P^2) + T_0)$

- European formula
  - Piecewise linear $t_1 = B_1^L + (t_0 - B_0^L)*\gamma$
  - Larger cuts on high tariffs– we use 1/3 below the average and 2/3 above

Some interesting proposals

- Indian formula
  - 50% cut for developed; 33% for low inc.
  - Upper bound 3 times the average
  - Unbound tariffs at max. bound rate
- US formula
  - Under 5% $\Rightarrow$ 0
  - Over 5%   Swiss formula with coeff of 8
  - All tariffs to zero in 15 years

Results of different formulas

	Base	China	Europe	India	US
Europe tarif	%	%	%	%	%
LIC	5.3	1.9	2.5	2.6	1.9
MIC	3.8	1.4	1.8	1.8	1.3
Developing	4.1	1.5	2.0	2.0	1.4
US tariff on					
LIC	4.3	2.3	2.0	2.0	1.4
MIC	3.2	1.6	1.5	1.5	0.8
Devel	3.5	1.1	1.8	1.6	1.0

Results: India and Brazil

	Base	China	Europe	India	US
India tariff on					
LIC	28.1	24.5	17.1	24.2	6.6
MIC	26.7	22.2	14.8	22.0	6.4
Devel	27.1	22.8	15.4	22.5	6.4
Brazil tariff on					
LIC	14.6	12.3	9.9	14.2	5.9
MIC	14.0	10.8	8.5	12.3	5.4
Devel	14.1	10.9	8.6	12.5	5.4

Conclusions

- Developing country export patterns have changed radically
- Interests in market access both in industrial and developing countries
- Modalities need to bring down high tariffs.
    - Gap between bound and applied rates has a big impact