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GLOBAL OVERVIEW OF TRADE POLICIES

The lack of progress in the Doha negotiations does not mean that trade policies have remained just as they were at the start of the Cycle in 2001. A new version of the MAcMapHS6 database, which contains the bilateral tariff protection agreements of 170 countries, covering more than 5,000 products, can be used to give the most recent picture of these protections. We are interested not only in measuring the tariff barriers which countries maintain to protect their domestic markets, but also evaluating those encountered by their exports in external markets, including tariff preferences. The whole of this data taken together highlights the interests of the various players and helps us understand the positions they defend in multilateral negotiations.

Trade policies make use of many different tools, from the most simple and transparent (ad valorem tariffs), to the most complex technical and health standards (*e.g.* the chromatographic breakdown of tomato juice eligible for import into the United States). These various instruments are often the subject of intense negotiations. But, even though the WTO advocates the principle of transparency, a complete, robust and accessible database simply on customs regulations has not yet been set up by the international institutions.[1] The gathering of the information, its harmonisation and processing, such as the conversion of mixed and composed duties into ad valorem equivalents, is a far from simple matter. The CEPII, with the cooperation of the International Trade Centre in Geneva, has built the MAcMapHS62 database.[2] A first version dealt with the year 2001, the Doha Cycle's starting date. The update of the database gives us a view of global trade policies in 2004.

Protection of the domestic market: an environment of contrasts

Let us begin by looking at the average level of protection corresponding to large product groups and categories of countries (table 1). For over two centuries, trade policies have retained the same characteristics:

✦ the average level of protection diminishes with the level of development: in 2004, the rich countries had an average protection of 3.5%, developing countries (DC) 9.6% and underdeveloped countries (LDC) 12.3%;

✦ agriculture is more protected (20.6%) than manufacturing industry (4.6%) or mining (1.9%). This gap is a consequence of the exclusion of agriculture from the previous GATT cycles and numerous preferential agreements. It reflects the special role of agriculture for all countries: of the 170 countries in our database, only 13 have average agricultural duties which are lower than the industrial duties;[3]

Table 1 – Average applied protection in 2004 (in %)

	World	Rich countries	DC	LDC
Agricultural products:	20.6	20.1	21.9	14.4
primary and semi-processed	14.9	14.8	15.3	9.8
processed	24.3	23.4	26.3	17.1
Industrial products:	4.6	2.6	9.0	11.8
primary and semi-processed	3.1	1.5	6.5	9.5
processed	5.9	3.6	11.7	13.9
Extraction and energy	1.9	0.9	4.9	12.9
primary and semi-processed	1.4	0.6	3.8	13.6
processed	3.8	1.9	7.5	12.1
All products	5.3	3.5	9.6	12.3
primary and semi-processed	3.4	1.9	6.7	10.1
processed	7.3	5.0	13.0	14.2

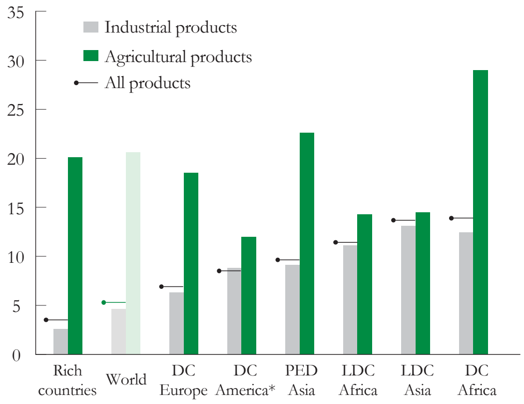
Source: MACMAPHS6V2.03.

1. The difficulty of coordinating institutions with distinct mandates and the question of the official recognition of the figures largely explains this situation. Currently, the WTO, the UNCTAD, the ITC and the World Bank are working to remedy this.
2. A. Bouët and other (2004), "A Consistent, *ad valorem* Equivalent Measure of Applied Protection Across the World: The MAcMap-HS6 Database", *Working Document of CEPII*, No 2004-22, December.
3.They are Argentina, Brazil and Uruguay (members of the MERCOSUR), Australia and New Zealand, as well as island or desert economies, not self-sufficient in food and wishing to keep agricultural prices low (the Maldives, Yemen, Libya).

✦ processed goods are more protected than intermediate goods. This "tariff escalation" is used to maximise the effective protection of the national added value in the sectors using imported inputs.

These two last points are borne out in particular when the development level is high: relative to their average level of protection, the rich countries protect their agriculture appreciably more (they tax agricultural imports seven times higher than they do manufactured products, the global average rate is 4.5)[4] and have effective protection which is much stronger. The design of a complex tariff structure attempting to satisfy various economic objectives and policies requires the experience, institutions and human resources which only developed countries possess. The developing countries and the LDCs, with more limited administrative resources, concentrate on just a few objectives, particularly tax collect, and adopt policies which are globally more protectionist but simpler. Thus, the tariff structure of the African and Asian LDCs appears homogeneous in comparison with that of other groups of countries (Figure 1). In relation to the world average, the African developing countries - whose protection covering all products reaches 2.5 times the world average - tax industrial products, which constitute the largest part of their imports, more heavily than agricultural produce, in order to increase their tax revenues. In Latin America, the tariff barriers are relatively low in agriculture: the very diversified agricultural production from Brazil, Argentina and Chile, extremely competitive at the global level, does not need strong protection.

Figure 1 – Average applied protection by region (in %)



* *except Mexico* *Source*: MAcMapHS6V2.03.

Recent changes reflect the continual progress of liberalisation of the world economy. Between 2001 and 2004, average protection fell 0.7 points, from 6% to 5.3 %, driven by the developing countries (table 2). Indeed, if the developed countries, from 2001, had to have set up almost all their commitments for the Uruguay Cycle (1995), the developing countries had until the 1st of January 2004 to apply theirs. Moreover, several developing countries have unilaterally taken important liberalisation measures: India in 2004, for industrial products, and China, in all sectors, to complete the WTO accession process. Furthermore, several preferential South-South agreements have resulted in tariff reductions between the partners to the agreement or with third party countries via the adoption of a common external tariff. Thus, the share of global transactions carried out in the framework of preferential agreements is always expanding, rising from 26% in 2001 to 32% in 2004 (16% to 20% outside the European Union), due to the intensification of transactions within existing agreements or the creation of new agreements. Finally, to absorb the shock of the rise in the price of raw materials, the majority of countries have reduced, or even removed, import duties on these products.

Table 2 –Changes in average applied protection, 2001-2004 (in % points)

	World	Rich countries	DC	LDC
Agricultural products	1.2	2.9	-2.0	-0.3
Industrial products	-0.9	-0.3	-2.4	-0.1
Extraction and energy	-0.3	-0.1	-0.8	-0.5
All products	-0.7	0	-2.2	-0.2

Source: MAcMapHS6v2.03.

The rise in agricultural protection by the rich countries contrasts with this general downward movement. But it does not come from a change in trade policy. It results, on the one hand, from the mechanical effect of the fall of the dollar on the ad valorem equivalent in dollars of the specific European duties expressed in euros by physical unit; in addition, tariff quotas which were not fully used before have been saturated, indeed exceeded,[5] bringing about a rise in the protection encountered by marginal exporters.

Even if the average tarrifs are a pertinent synthetic indicator (see box), they may mask tariff peaks which give very strong protection to some categories of products, most often agricultural. If we compare the average duty on the 1% of products which are the most taxed with the general average duty, we see that the countries with tariff profiles which are the most contrasted are Japan,[6] Switzerland, Turkey, Korea, Barbados, Kuwait, the European Union, Israel, the Ukraine and Croatia. We can then understand that during

4. Amongst the rich countries, Norway (ratio of 400) and Japan (22) are the two countries where this gap is the greatest. Australia is the opposite situation: it taxes industrial goods twice as highly as agricultural produces.
5. This is explained both by the increases in competitiveness of the emerging economies (GMOs in South America) and by reductions in production within the EU, following, in particular, the health crises and slaughtering in the beef and poultry sectors.
6. In Japan, for example, 1% of products have a customs duty equal to or higher than 220% whereas the simple mean of Japanese duties is 5.9%.

Box : Computation of average customs duty: methodological choices and policy issues*

A simple unweighted average is an indicator which is a priori neutral. But it depends on the level of breakdown (number of price lines) and its economic significance is doubtful: protection for a local product ("natural fibre broom") counts as much as for a general essential product ("soft wheat"). It is, however, the method which is generally used at the WTO.

The average weighted by the bilateral trade flows is the most widespread in economics analysis. It retains the hierarchy of products but comes up against the problem of the endogenous nature of trade in terms of customs duty (a raised duty lowers, even cancels out, imports). An average weighted by the flows observed tends therefore to undervalue the real protection.

To reduce this problem of the endogenous nature of trade, we could resort to a weighting by the worldwide flows; but this causes the specificities of the trade between the different countries to be lost. The "reference group" method, used in numerous CEPII projects, and particularly here, is designed to retain this information: for a given country, the weightings used are those of the "reference group" to which it belongs (countries with a comparable per capita GDP and comparable per capita exports and imports).

* For a fuller discussion, see M. H. Bchir & A. Bouët (2007), "Which tariff aggregator for trade modelers?" https://www.gtap.agecon.purdue.edu/resources/res_display.asp?RecordID=2346

negotiations, the G10, which includes Japan, Korea, Switzerland and Israel, demanded the greatest possible flexibility; *i.e.* that 20% of agricultural products be considered as "sensitive" and so partially excluded from the tariff reduction formula.

Barriers encountered and strategic positions

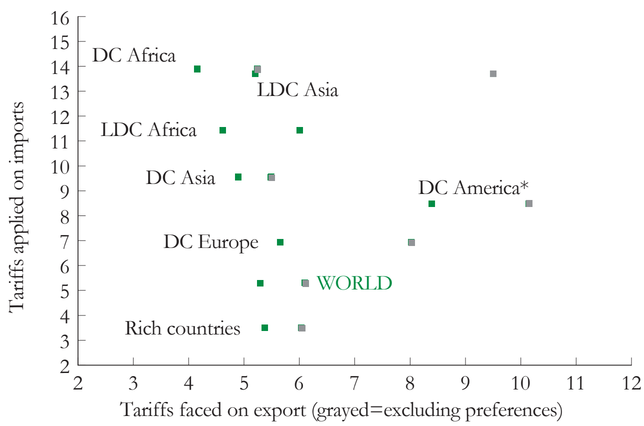
Protectionnist barriers against imported products reflect the defensive interests of each country. But their positions during negotiations depend also on their offensive interests, that is, what they can expect to gain from a lowering of the tariffs of their partners. To understand these positions, we have also to examine the average protection encountered by each group of countries against exports as well as the preferential margins which it benefits from in terms of bilateral or regional agreements, bearing in mind that these preferences will be eroded by the lowering of the average protection in the event of the success of the Doha Cycle. Figure 2 summarises all of this information.

While they can be distinguished clearly by the protection level of their domestic market, the different groups of countries faced average protection relatively similar on the overall. However, the deviations between countries may be important taking account of specialisations according to geography and/or sector.

Globally, the developed countries encounter protection equal to the global average.[7] The United States and Canada are below this average, due to the North-American Free Trade zone (NAFTA) and the fact that their exports are less orientated to the developing countries than those of other developed countries. Inversely, Japan and the European Union have to deal with protection which is slightly greater than the global average. So we can understand the determination of Japan and the European Union to only make concessions in agriculture in exchange for significant reductions in industrial tariffs of the emerging countries. Due to their sector based specialisation, some rich economies are still more heavily penalised: Hong Kong (average faced protection of 7.3%) due to textile and wearing exports, or Australia (9.2%) and New Zealand (17.9%) for their agriculture. These two countries, which are very offensive on the agriculture issue, are also calling for a general strengthening of WTO rules.[8]

The average tariff barriers faced by the Asian developing countries (4.9%) are slightly lower than the global average. They vary widely according to sector based specialisation, from 11% for Pakistan and Sri Lanka, where textiles make up a large part of exports, to 3.1% for Malaysia which has diversified widely into intermediate and processed industrial goods. China, which exports a wide range of manufactured goods, meets protection of 5.2%, comparable to that met by the United States. The Asian developing countries hardly benefit from preferential margins, except for Jordan, which has agreements with the two major trading powers (the EU and the United States), and the countries of South East Asia

Figure 2 – Average applied and faced protection (in %)



* except Mexico

Source: MAcMapHS6V2.03.

7. The fact that they represent a significant contribution to the average partly explains the fact that they are the centre of gravity for global protectionism. However, as we have seen, they are situated between the barriers encountered by Asia and developing Africa and South America.

8. Australia, for example, demands that article 24 of the GATT, which deals with the compliance criteria for a preferential agreement at the WTO, be applied rigorously.

whose regional integration within ASEAN is quite well advanced. On the other hand, some LDCs in Southern Asia, like Nepal and Bangladesh, benefit greatly from preferential margins (more than 6 points). But other Asian LDCs are still confronted by very high barriers due to their specialisation in textile and wearing or agriculture (rice), or the strong protection of their close partners and other developing countries and LDCs.

As a whole, the majority of these Asian countries are scarcely affected by the erosion of preferences and an agreement which would preserve their agriculture (flexibility and wide special and differentiated treatment, demanded by India in particular), all the while smoothing out the tariff peaks in the industry (the effects of the adoption of the Swiss formula on textile sector in particular), would suit them perfectly: it would allow them to protect their subsistence agriculture and open up the industrial markets of the other developing countries more widely.

The African developing countries benefit from preferential margins which are slightly higher than the global average, and also from lower encountered protection rates, even if some of them, exporters of a small range of very protected agricultural products, are confronted by high levels (12% for Kenya, 18% for Swaziland). For the African developing countries, choosing what attitude to adopt is trickier: multilateral liberalisation is a source of preference erosion, but it is also the means to open up new markets. Up to now, they have chosen a conservative approach which consists of obtaining the maximum flexibility to maintain their own protection and demanding little from their partners. However, the agreement currently being negotiated would lead them to suffer a loss of real revenue whereas a more ambitious agreement could allow them to reverse this situation with the opening up of new markets.

The African and Asian LDCs, who are asked to make no liberalisation efforts, will suffer the erosion of preferences. A broadening of asymmetrical preferences, like the EU's "Everything but Arms" initiative, extended to all of the OECE countries, like that which has been proposed, and if possible to the large emerging countries, will be very profitable to them.[9]

Latin America (except Mexico) benefits from a preferential margin which is greater than the global average, either due to advanced regional integration (Mercosur, Andean Pact), or thanks to asymmetrical preferences with the North (*e.g.* "GSP-Drugs" with the EU[10]). For all this, their specialisation in agricultural sectors means that the countries of the region encounter strong protection in the global markets (20.2% for Uruguay as a dairy producer). It is understandable that the negotiators of Mercosur are attempting to obtain an ambitious agricultural agreement while at the same time preserving their industrial sector.

The quantitative analysis of trade policies is important, as much for researchers as for policy-makers. For the former, it can be used to better understand the national and international forces behind the economic policy of protectionism; it provides them with the data necessary to evaluate the effects of liberalisation. It also helps the latter to define their negotiation strategies. But while the developed countries possess adequate expertise in this field, many developing countries have only an approximate picture of the situation. The absence of a clear and accessible tariff map explains the mixture of fear and disillusion which surrounds their trip toward the *terra incognita* of trade liberalisation.

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9. L. Fontagné, D. Laborde & C. Mitaritonna (2007), "Accord à l'OMC : un 'tiens' vaut mieux que deux 'tu lauras'", *La Lettre du CEPII*, No 263, January.
10. "GSP-Drugs" granted accrued preferences to countries combating the production of narcotics in order to assist the diversification of these economies. It was replaced in 2006 by the GSP+..

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