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TARIFFS AND THE EAST ASIAN FINANCIAL CRISIS

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ABSTRACT

This study examines the role of tariffs during the East Asian financial crisis and finds that despite its rather limited reflection in the previous debate, there *is* a role of tariffs when it comes to fighting the negative impact of a financial downturn. Each of the affected countries made an explicit and conscious decision to not raise tariff barriers in response to the crisis. Individual strategies applied by the Affected-5 to offset the crisis varied from country to country: significant tariff reductions in the framework of accelerated trade liberalization programmes can be found as well as tendencies to decelerate or even pause liberalization. Thailand was the exceptional case, where some tariffs were increased. The principal motivation for tariff increases was revenue generation, as opposed to an explicit desire to further protect industries from import competition. The paper highlights the role of trade policy as a complement to other policies such as financial and corporate sector reforms during a crisis.

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ABBREVIATIONS

AFTA	ASEAN Free-Trade Area
APEC	Asia-Pacific Economic Co-operation
ASEAN	Association of South-East Asian Nations
CAP	Collective Action Plan
CEPT	Common Effective Preferential Tariff
CKD	Completely-knocked-down
EO	Executive Order
GATS	General Agreement on Trade in Services
IAP	Individual Action Plan
ITA	Information Technology Agreement
MFN	Most Favoured Nation
MRA	Telecommunications Mutual Recognition Agreement
NTM	Non-tariff measures
TRIPS	Trade-related intellectual property rights
TRP	Tariff Reform Program
UR	Uruguay Round

I. INTRODUCTION

The outbreak of the Asian financial crisis dramatically altered perceptions of the region's policies. The sudden arrest of the "miracle growth"[1] story led to a lively and continuing debate on the causes and consequences of this financial crisis. Previous discussions lauding the economic miracle were replaced by questions on failures of previous trade policies. Was it possible that East Asia's policy of economic openness was *"both (...) the source of the Asian miracle as well as of its present debacle?"* (Asian Development Bank, 1999).

While many factors have already been scrutinized for their possible contribution to the outbreak of the crisis and some on the response, very little examination of tariffs has so far been undertaken. Most of the focus in the context of the policy response has been, not surprisingly, related to macroeconomic policy. This study will analyse the role of tariffs during the Asian crisis. In particular, the specific focus is on whether or not, during a crisis, there is an economic and/or political rationale to raising protection. The paper presents evidence of the degree to which tariff changes was a policy response by governments of the five countries most affected by the crisis.

The first part of the paper reviews the pre-crisis trade environment, examining economic performance and main policy developments. Next to be considered will be the management and adjustment measures taken in the wake of the financial downturn, covering both trade and non-trade policies at the regional level. This will be followed by a detailed analysis of Affected-5's[2] response in terms of their tariff policy. The role of multilateral trade rules shall also be examined through, looking at existing Uruguay Round commitments, the influence of tariff bindings, as well as at the scope for trade policy measures within those regulations. Finally, the study will conclude with an identification of lessons about the role of tariffs.

II. PRE-CRISIS TRADE ENVIRONMENT

The pre-crisis trade and investment policies show the outward-oriented character of the Affected-5's economies. They abandoned import-substitution policies and committed themselves to an outward-oriented trade and investment policy (Bora, et al., 2000). Over the last 20 years, East Asian countries made substantial progress in liberalizing their trade regimes. Trade liberalization advanced on unilateral as well as regional and multilateral levels. Common underlying objectives were the encouragement of exports and the dismantling of import barriers, by lowering the tariffs and removing quantitative restrictions as well as other non-tariff measures.[3]

Pre-crisis economic development was characterized by spectacular growth performances in all Affected-5 countries for nearly three decades. Over the period 1970–1996 per capita incomes grew by more than 400 per cent, with growth rates averaging almost 7 per cent.[4] From 1980 until the outbreak of the crisis, the Affected-5's GDP almost quadrupled, with some countries experiencing an increase of almost 500 per cent. The GDP of the Republic of Korea rose almost seven-fold (table 1). Even in 1997 – the first year of the crisis – GDP grew significantly in all Affected-5 countries[5], averaging 5 per cent (table 2).

The high levels of growth were also correlated significantly with investment and exports. Apart from the Republic of Korea, all Affected-5 countries saw large inflows of foreign direct investment (FDI) during the mid-1990s. FDI accounted for 1–2 per cent of GDP in Indonesia, the Philippines and Thailand. In Malaysia, it amounted to almost 5 per cent

Table 1. GDP growth in the Affected-5 (long-term)

Country	GDP 1980, mill. $	GDP 1996, mill. $	Increase of GDP 80–96, %	GDP av. growth rates 70–96, %
Indonesia	78,013	225,828	289	6.8
Korea, Rep. of	63,661	484,777	661	8.4
Malaysia	24,488	99,213	305	7.4
Philippines	32,500	83,840	158	3.6
Thailand	32,354	185,048	472	7.5
Average	46,203	215,741	367	6.7

Source: World Bank (1972, 1998) and Penn World Tables (2000).

Table 2. Annual GDP growth in the Affected-5 (recent)

Country	1993	1994	1995	1996	1997	1993–1997
Indonesia	7.3	7.5	8.2	7.8	4.9	7.1
Korea, Rep. of	5.8	8.6	8.9	7.1	5.5	7.2
Malaysia	8.3	9.2	9.4	8.6	7.7	8.6
Philippines	2.1	4.4	4.7	5.8	5.2	4.4
Thailand	8.4	8.9	8.8	5.5	-0.4	6.2
Average	6.38	7.7	8	7	4.6	6.7

Source: Asia Development Bank (1999).
* Percent per annum.

(Bergsman and Bora, 1999).

East Asia's steady economic expansion was characterized by remarkable export growth. Asia's exports and imports had increased substantially (tables 3 and 4). Between 1980–1996, merchandise exports expanded by an average of more than 400 per cent.[6] Until 1996 the pre-crisis era was characterised by constant high export growth rates. From 1993–1995, export growth in the Affected-5 countries averaged more than 18 per cent, with Malaysia, the Philippines and Thailand seeing their exports grow by more than 20 per cent (table 5).

In 1996, exports started to decline, interrupting almost 30 years of export-led growth. This sharp fall in exports (from 25 per cent in 1995 to only 7.2 per cent in 1996) (Asian Development Bank, 1999) and the subsequent decline of export competitiveness turned out to be of particular relevance: it was a factor contributing to a sudden loss of confidence in the region's development prospects. By interpreting the export decrease as a result of deep-rooted structural deficits rather than a reflection of a cyclic phenomenon, investors

Table 3. Export growth in the Affected-5

Country	Merchandise exports*, 1980, $ mill.	Merchandise exports*, 1996, $ mill.	Increase of merchandise exports*, 80–96, %
Indonesia	21,909	49,727	126
Korea, Rep. of	17,446	124,404	613
Malaysia	12,939	78,151	503
Philippines	5,751	20,328	250
Thailand	6,369	55,789	775
Average	12,883	65,680	410

Source: World Bank (1998).
* Merchandise imports show the f.o.b. value of goods provided to the rest of the world valued in $.

Table 4. Import growth in the Affected-5

Country	Merchandise imports*, 1980, $ mill.	Merchandise imports*, 1996, $ mill.	Increase in merchandise imports*, 80–96, %
Indonesia	10,834	42,925	296
Korea, Rep. of	22,228	144,724	551
Malaysia	10,735	76,082	609
Philippines	8,295	34,663	318
Thailand	9,450	73,289	675
Average	12,308	74,337	504

Source: World Bank, World Development Indicators 1998.
* Merchandise imports show the c.i.f. value of goods purchased from the rest of the world in $.

Table 5. Annual growth rate of merchandise exports in the Affected-5 (1993–1996)

Country	1993	1994	1995	1996	1993–1995
Indonesia	3.4	15.5	13.3	9.0	10.7
Korea, Rep. of	7.7	15.7	31.2	4.3	18.2
Malaysia	16.1	23.1	26.1	7.3	21.8
Philippines	15.8	18.5	29.4	17.7	21.2
Thailand	13.4	22.1	24.8	-1.9	20.1
Average	11.3	19	25	7.3	18.4

Source: Asian Development Bank (1999).
* Percent per annum.

divested their capital, triggering the outbreak of the Asian crisis.

The average unweighted applied tariff rate in East Asia[7] fell from 19.4 per cent for the period 1984–1988 to 10.4 per cent over the period 1994–1998 (World Bank, 2000). The frequency ratio for non-tariff protection (that is the proportion of product lines affected by at least one core non-tariff measure[8]) nearly halved: it dropped from 26.5 per cent (1989–1994) to only 14.2 per cent for the period 1995–1998 (World Bank, 2000). However, the dispersion of East Asia's tariff rates increased in comparison to South Asian[9] and non-Asian developing countries.[10] According to the Asian Development Bank, the dispersion of East Asian tariff rates actually increased from the mid–late1980s to the mid–late 1990s.[11] An analysis of the figures for individual countries shows sharp declines in some cases, e.g. average unweighted tariffs fell from 21 per cent to 8.5 per cent in the Republic of Korea and from 28.4 per cent to 13.2 per cent in Indonesia (table 6).

The Uruguay Round negotiations provided another spur to liberalization endeavours. The average post-Uruguay Round applied tariff in Indonesia, Malaysia, Philippines and Thailand fell to 15.6 per cent (Asian Development Bank, 1999). Each of these countries continued to reduce their tariffs on a unilateral level, well beyond their WTO obligations. In Indonesia, the average applied MFN tariff rate declined from 20 per cent in 1994 to 9.5 per cent in 1998 (WTO, 1998). The Republic of Korea reduced its MFN tariffs from an average of 23 per cent (1982) to just 8.3 per cent in 1996 (WTO, 1996). Tariff protection has also significantly been reduced in Malaysia with MFN duties averaging 8.1 per cent in 1997 against 15.2 per cent in 1993 (WTO, 1997). The Philippines' MFN tariffs averaged only 10 per cent in 1999, compared with 26 per cent in 1992 (WTO, 1999a). In Thailand, MFN tariffs currently average 18 per cent, some 5 percentage points below their 1995 levels (table 7). The steady liberalization steps also led to the removal of many quantitative restrictions, covering import prohibitions as well as import licensing requirements (PECC, 1995).

This data clearly shows that the Affected-5 countries were on a track of openness when the crisis broke out. The next sections examine whether their commitment to continue the liberalization process remained unshaken.

Table 6. Indicators of protection: development of tariffs and non-tariff measures

Country	Average unweighted tariffs+, %		Core NTM frequency ratio	
	1984–1988	1994–1998	1989–1994	1995–1998
East Asia*	19.4	10.4	26.5	14.2
Indonesia	28.4	13.2	53.6	31.3
Korea, Rep. of	21	8.5	50	25
Malaysia	14.1	10.3	56.3	19.6
Philippines	28	16.8	11.5	-
Thailand	41.2	23.2	36.5	17.5

Source: World Bank (2000).
+ Simple average bound tariffs.
* Hong Kong (China), Indonesia, Republic of Korea, Malaysia, Philippines, Singapore, Taiwan Province of China, Thailand.

Table 7. Simple average MFN tariffs (1990–1999)

Country	1990	1995	1999
Indonesia	18.7	15.3	11.2
Korea, Rep. of	13.4	9.1	9.1
Malaysia	13.4	10.2	-
Philippines	19.8	20.3	9.7
Thailand	39.8	23.1	18.5

Source: UNCTAD TRAINS.

III. CRISIS AND ADJUSTMENT

In 1997, the Affected-5 economies found themselves confronted with a severe economic downturn. Not only did they experience negative growth rates; inflation rose, while export volumes, export prices and tax revenue fell as the economies slowed (tables 8–9). The value of United States dollar export revenue growth in the East Asian region fell from 17 per cent (for the period 1991–1995) to an average of just 3 per cent over 1996–1998 (WTO, 2000) (table 10). The previously virtuous cycle of exports leading to growth and encouraging growth prospects stimulating further investment suddenly turned into a vicious circle of declining exports discouraging investment (and vice versa). Collapsing domestic demand and diminished incomes led to a significant decline in Government revenues due to lowered revenue bases despite domestic pressures for increased spending on social programmes (tables 11–13).

The policy response by governments to the crisis can be at both the national and the international level. It can also include a range of measures to respond and alleviate the economic symptoms of a crisis at a number of levels. For example, one of the more important economic tools is interest rate changes, while social spending to alleviate the increase of social difficulties that are part of a crises is also very important.

Table 8. GDP growth, inflation rate and fiscal balance in the wake of the crisis

Country	GDP growth		Inflation rate*		Fiscal balance/GDP+	
	1997	1998	1997	1998	1997	1998
Indonesia	4.9	-13.7	6.6	58.2	0.0	-4.7
Korea, Rep. of	5.5	-5.5	4.5	7.5	-1.4	-5.0
Malaysia	7.7	-6.2	4.0	5.2	1.8	-3.4
Philippines	5.2	-0.5	6.0	9.7	0.1	-1.9
Thailand	-0.4	-8.0	5.6	8.1	-0.9	-2.5

Source: Asian Development Bank (1999).
* (Consumer price index).
+ On a fiscal basis.

Table 9. Decline in tax revenue, % change

Country	1997–1998
Indonesia	
Korea, Rep. of	
Malaysia	-16.2
Philippines	1*
Thailand	-14.0

Source: IMF (1999) and WTO (1999).
* Measured as per cent of GDP, the Philippine's tax revenues declined by 1.1%.

Table 10. US$ export value in per cent

Country	1991–1995	1996–1998
Indonesia	12.3	2.9
Korea, Rep. of	15.2	2.2
Malaysia	20.7	0.6
Philippines	17.4	3.0
Thailand	19.3	-1.9
Average	17.0	1.3
East Asia	16.6	1.7

Source: World Bank (2000).

Table 11. Revenue from import duties, % of total revenue*

Country	1997	1998
Indonesia	2.6	1.4
Korea, Rep. of	6.3	
Malaysia	11.3	
Philippines	20.2	
Thailand	11.9	8.7

Source: IMF (1999).
* Total revenue comprises tax revenue, non-tax revenue and capital revenue.

Table 12. Central Government revenue, % of GDP

Country	1997	1998
Indonesia	17.3	15.6
Korea, Rep. of	21.9	22.5
Malaysia	23.9	19.7
Philippines	19.4	16.6
Thailand	18.3	15.0

Source: Asian Development Bank (1999).

Table 13. Overall budget surplus/deficit of central Government, % of GDP

Country	1997	1998
Indonesia	0.0	-4.7
Korea, Rep. of	-1.4	-5.0
Malaysia	1.8	-3.4
Philippines	0.1	-1.9
Thailand	-0.9	-2.5

Source: Asian Development Bank (1999).

A. The role of tariffs during a crises

It is well known from the economic theory literature that, in the small country case, a tariff is inferior to free trade in a normative sense.[12] Notwithstanding this general result protection of an industry can also be for the purpose of achieving a number of so-called non-economic objectives such as a specified level of output, a specified import level, or a specified employment level. Even in these cases the general rule of a tariff as a superior instrument

can be rarely substantiated. The usual result is that an instrument should be applied to a specific target in which case either a production subsidy, or consumption tax could be a superior instrument.

Tariffs are also a convenient way to increase government revenues if the changes are within the context of a country's regional and multilateral obligations. For developed countries and many developing countries the overwhelming reason for applying tariffs is protection (the Affected-5 fall in this category). For some developing countries, especially LDCs, border taxes add significantly to and are a major component of Government revenues.

One specific area where tariff changes can play a role in alleviating the effects of crises through revenue collection is the taxation of highly inelastic products, especially luxury products. Consumers of luxury products have both the ability and willingness to pay the higher taxes. Indeed, the proposition that for revenue purposes a tax should be inversely proportional to its own price demand elasticity when the cross-price elasticities are zero has been known for sometime.[13] However, given that the volume and value of the imports of such products is fairly low, the positive impact on government revenue may not be significantly large.

Another important point about tariffs during a crises is the signalling effect that they can play about government policy. The debate about the causes of the crises has centered on the role of openness in increasing the vulnerability of countries to external shocks. Indeed, the debate has also focussed upon the strength of the empirical link between openness and growth. These issues, although academic, have real impacts in the perception of investors, both foreign and domestic. Openness policies create an environment and an incentive for the private sector to undertake investments.

Throughout the Asian financial crises the importance of confidence building for investors was never understated. For example, all of the affected-5 countries evaluated the role of the IMF from both perspectives, that of confidence building, as well as for financing. In Indonesia's case the IMF's presence and intervention was welcomed while in Malaysia it was not.

Tariff changes downward, or held constant can also play a confidence-building role. In the case of the Affected-5 an overt increase in tariffs would have signalled a retreat from the trend towards openness that characterized their industrial policies throughout the late1980' and the early 1990s. Therefore, even with the pressures of revenue raising and protection of industries, tariff changes that would signal a policy shift are also important elements of the tariff response to a crises.

B. Trade policy responses at the regional level

In the wake of the Asian crisis and its disastrous impact on intra-ASEAN trade, there was an acceleration in trade liberalization. ASEAN members intensified trade liberalization within the framework of the AESAN Free-Trade Area (AFTA).[14] Tariffs were lowered under the Common Effective Preferential Tariff (CEPT) programme with a view to reducing all ASEAN tariffs to a 0–5 per cent level over a maximum of 15 years. It was agreed non-tariff measures would also be eliminated. The time frame for the completion of AFTA was shortened twice from 2008 to 2003 and finally to 2002. In addition, the coverage of products falling within the 0–5 per cent range was extended from manufactured and processed agricultural products to unprocessed agricultural products.[15] As of the beginning of 2000, 85 per cent of all tariff lines (or 90 per cent of all intra-ASEAN trade) was covered by the CEPT.

Trade liberalization also progressed within APEC. It forms one main pillar of APEC's commitment to establishing an open trade and investment regime in the Asia-Pacific region by 2010/2020.[16] This goal is pursued through

numerous programmes on various levels. Based on the principle of voluntary participation, APEC members adopted Individual Action Plans (IAPs),[17] containing country specific short-, medium- and long-term liberalization initiatives, as well as Collective Action Plans (CAPs) (APEC, 1997–1999) specifying common measures on trade and investment facilitation. They also agreed to early voluntary sectoral liberalization[18] in 15 sectors,[19] involving the removal of tariffs, the reduction of non-tariff measures as well as trade facilitation and economic co-operation. In 1998, APEC members adopted proposals for fast tracked liberalization of six sectors.[20]

MFN trade policies pursued at national level vary. Despite a common general commitment to maintaining the liberalization process, individual strategies differ.

Indonesia emphasised the elimination of trade restrictions, leading to the removal of all non-tariff barriers and export restrictions not justified by health, safety or environmental reasons. The reforms implemented on these grounds comprised the lifting of restrictive licensing requirements as well as the lowering of export taxes.[21] Import surcharges and local content programmes were phased out. Trade in the main agricultural commodities was deregulated to a large extent – excluding only rice and soybeans for social reasons. Under the first IMF Programme, Indonesia agreed to remove all tariff and NTMs on even highly sensitive agricultural products (such as rice and sugar).[22] However, the tariffs on rice and sugar were raised.

Overall, MFN tariffs were notably lowered despite the financial crisis, including even sensitive areas.[23] Commitments made within the ASEAN framework lowered almost 89 per cent of all CEPT tariff lines to a 0–5 per cent level.

Continued liberalization has also been integral to trade policy in the Philippines. The general thrust of the Philippines' trade and investment policy remained outward-oriented even in the wake of the crisis. Tariffs were reduced along the lines of the "Tariff Reform Program" (TRP) leading to a significant lowering of tariff protection.[24] Within ASEAN, the Philippines reduced 83 per cent of its CEPT tariffs to 0–5 per cent. Non-tariff measures were largely removed. Quantitative import restrictions were abolished according to the "Import Liberalization Program". Tariff quotas were implemented in compliance with commitments arising from the WTO Agreements to tariffy quantitative import restrictions. Most other quantitative restrictions were eliminated as well,[25] allowing only prohibitions justified on the grounds of health and security reasons. The Philippines also phased out import restraints formerly kept for balance-of-payments reasons (Article XVIII:B).[26]

Trade policy remained outward oriented in Thailand, which had already been pursuing a very liberal trade regime for many years. Despite the economic crisis, the Government not only resisted protectionism but even accelerated the pace of reforms. Measures to foster economic recovery included the abolition of restricting licensing requirements. Customs procedures were streamlined and accelerated. The Thai Government further implemented several tariff reduction packages, underlining the general downward trend of Thailand's tariff lines. As of 2000, 85 per cent of the Thai CEPT tariff lines did not exceed 5 per cent. Some internal and border taxes were increased at the peak of the crisis, nevertheless, in response to declining tax revenues (for details see section IV.).

The Republic of Korea is not a member of ASEAN, hence the CEPT does not apply to it. However, it also maintained its outward-oriented trade policy despite the economic turmoil. Tariff protection proceeded to decline markedly. The average applied MNF tariff rate fell from 14 per cent (1996) to 9.1 per cent (1999). Unlike Malaysia, the Philippines or Thailand, the Republic of Korea practically did not raise any tariffs at all. Other trade

liberalization efforts comprised the abolition of numerous quantitative import restrictions.

The trade policy pursued in Malaysia was also liberal. Tariff protection declined significantly over the last years: Import tariffs were cut by almost 50 per cent between 1993 and 1997, lowering protection for the majority of manufactured and agricultural goods.[27] At the onset of the crisis, more than half of all tariff lines were already duty free (compared to only 13 per cent in 1993).[28] Malaysia also continued tariff reductions within the framework of ASEAN. As of January 2000, 89 per cent of the Malaysian CEPT ranged between 0–5 per cent. Only 11 per cent of all tariff lines were above the 5 per cent level (ASEAN Secretariat, 2000). However, at the peak of the crisis in 1998, the Government temporarily raised tariffs on some consumer goods, capital goods and building materials.[29] New trade barriers were further set up with the introduction of additional import licensing requirements (see Section IV).

C. Non-trade crisis management measures

How did the Affected-5 respond to the crisis in general beyond tariffs? Early reactions focussed on monetary and fiscal policy reforms. Interventions in foreign exchange markets were followed by the adoption of floating exchange rates. Most of the crisis affected countries further strengthened capital and exchange controls.[30] Structural reform programmes covered corporate governance, privatization, competition as well as trade and foreign investment policies (for country-specific details see boxes 1–5).

Indonesia implemented far-reaching reform programmes[31] covering the financial sector as well as competition and governance policies. In recognition of the structural dimension of the economic slump, the Government strengthened its ongoing structural reforms, leading to a substantial restructuring of the banking sector (box 1). The modernization of customs and intellectual property rights legislation constituted further elements of Indonesia's efforts to remove remaining restrictions on domestic and international trade. Reforms also covered a substantial review of anti-competitive practices, leading to the elimination of several production and trade monopolies in some intermediate industries.[32] All these reforms were

Box 1. Indonesia's structural reforms in response to the Asian crisis

Financial sector reforms
· (Permanent or temporary) closure of insolvent financial institutions
· Introduction of tighter conditions for official liquidity support
· Restriction of use of public funds for bank restructuring
· Strengthening of supervisory framework
· Strengthening of legal framework for banking operations
· Tightening of capital adequacy requirements
· Strengthening of accounting/auditing requirements
· Tightening of bank disclosure requirements
· Tightening of guidelines on loan exposure
· Relaxing of non-prudential restrictions on bank lending

Competition and governance policies
· Relaxing of foreign investment restrictions
· Strengthening of bankruptcy laws
· Strengthening of competition laws
· Liberalization of intra-provincial/state trade
· Liberalization of restrictive marketing arrangements
· Liberalization of price controls
· Strengthening of competitive procedures for procurement/contracting
· Establishment of tight competitive procedures for privatisation of government assets
· Acceleration of privatization of government assets

Trade policies
· Reduction/elimination of import tariffs
· Reduction/elimination of export tariffs
· Abolition/softening of quantitative import restrictions
· Abolition/softening of quantitative export restrictions

Source: IMF (various).

implemented on a MFN basis, sometimes complementing (or even anticipating) the implementation of already existing WTO obligations (WTO, 1998).

Box 2. Republic of Korea's structural reforms in response to the Asian crisis

Financial sector reforms

· (Permanent or temporary) closure of insolvent financial institutions
· Merger or recapitalization of weak financial institutions
· Introduction of more stringent conditions for official liquidity support
· Restriction of use of public funds for bank restructuring
· Softening of restrictions on foreign investment in/management of domestic banks
· Strengthening of supervisory framework
· Tightening of capital adequacy requirements

Competition and governance policies

· Softening of foreign investment restrictions
· Strengthening of bankruptcy laws

Trade policies

· Abolition/softening of quantitative import restrictions

Source: IMF (various).

The Philippines' structural reforms in response to the crisis focused on the financial sector. Reforms included the closure or merger of insolvent/ weak financial institutions, the strengthening of the legal framework for banking operations and of prudential regulations on foreign exchange exposure. Accounting/auditing requirements and capital adequacy requirements were further tightened (IMF, 1999). Economic reform also covered the elimination of monopolies[33] and the privatization of key services (such as water supply and financial services). Further elements were the opening of formerly restricted sectors to foreign investment and a substantial reform of the tax system.

Financial sector reforms were also a priority in Thailand. In addition to the permanent or temporary closure of insolvent financial institutions (or their merger), Thailand strengthened the supervisory framework and tightened capital adequacy requirements. The Thai Government further introduced more stringent conditions for official liquidity support (IMF, 1999). The privatization of state enterprises formed another priority. To prevent those newly privatized companies from turning into private monopolies, the Government further introduced a substantially revised competition law of significantly extended coverage. In further response to the crisis Thailand accelerated the liberalization of the energy market and continued the opening of the financial services sector to foreign investment. Economic reform also covered the transportation and telecommunications sector, where the implementation of new legislation aimed at trade facilitation.

Box 3. Malaysia's structural reforms in response to the Asian crisis

Financial sector reforms

· Merger or recapitalization of weak financial institutions
· Strengthening of supervisory framework
· Strengthening of accounting/auditing requirements
· Tightening of bank disclosure requirements
· Tightening of guidelines on loan exposure

Competition and governance policies

· Softening of foreign investment restrictions

Source: IMF (various).

Structural reform programmes in

the Republic of Korea included the closure of insolvent financial institutions.[34] Other weak financial institutions were merged or recapitalized (IMF, 1999). The Government also tightened its bankruptcy laws and introduced internationally accepted accounting, auditing and disclosure standards (IMF, 1998). In a remarkable change in its investment policy, the Republic of Korea turned from a FDI restrictive environment into the country undertaking the most far-reaching investment liberalization steps among the Affected-5. Previously existing FDI restrictions were largely eased or eliminated.[35] Investment facilitation measures included the streamlining of investment procedures as well as improved administrative services and the lessening of sectoral restrictions. There was also a further liberalization of cross-border mergers and acquisitions.

Box 4. The Philippines structural reforms in response to the Asian crisis

Financial sector reforms

(Permanent or temporary) closure of insolvent financial institutions
· Merger or recapitalization of weak financial institutions
· Strengthening of supervisory framework
· Strengthening of legal framework for banking operations
· Tightening of capital adequacy requirements
· Strengthening of accounting/auditing requirements
· Tightening of bank disclosure requirements
· Tightening of guidelines on loan exposure
· Strengthening of prudential regulations on foreign exchange exposure

Competition and governance policies

· Softening of foreign investment restrictions

Trade policies

· Reduction/elimination of import tariffs
· Abolition/softening of quantitative import restrictions

Source: IMF (various).

Malaysia's non-trade crisis management measures included the merger of weak financial institutions as well as the strengthening of accounting/auditing requirements. Malaysia further tightened bank disclosure requirements and strengthened the supervisory framework of the financial sector. Reforms were also adopted in the areas of services and intellectual property rights. Malaysia made notable commitments under the GATS Agreement and introduced the new legislation demanded by the TRIPS Agreement ahead the deadlines.

Box 5. Thailand's structural reforms in response to the Asian crisis

Financial sector reforms

(Permanent or temporary) closure of insolvent financial institutions
· Merger or recapitalization of weak financial institutions
· Introduction of more stringent conditions for official liquidity support
· Softening of restrictions on foreign investment in management of domestic banks
· Strengthening of supervisory framework
· Strengthening of legal framework for banking operations
· Tightening of capital adequacy requirements

Competition and governance policies

· Strengthening of bankruptcy laws
· Liberalization of procedures for mergers and acquisitions
· Softening of foreign investment restrictions
· Establishment of strengthened competitive procedures for privatization of government assets
· Acceleration of privatization of government assets

Source: IMF (various).

IV. TARIFFS RESPONSE AT THE NATIONAL LEVEL

A. Indonesia

Faced with severe economic downturn, Indonesia not only resisted protectionist pressures but even spurred its liberalization process. With some minor exceptions, tariff policy in Indonesia was characterized by substantial reductions. Indonesia had already adopted five reform packages[36] introducing far-reaching tariff decreases when hit by the economic turmoil. Since the onset of the crisis, these reforms have been complemented by measures agreed upon with the IMF. Under the IMF packages, tariff reduction was further accelerated.

As of January 1998, tariffs on steel/metal products as well as on fishery products were lowered to 5–10 per cent. Chemical products saw a reduction of their tariffs by 5 per cent. By February 1998, tariffs on all food items were cut to a maximum of 5 per cent. Tariffs on non-food agricultural products were lowered by 5 per cent with the intention to further reduce them to a maximum of 10 per cent by 2003. Further more, tariff on all items subject to 15–25 per cent were reduced by 5 per cent (effective March 1998).

Indonesia phased out almost all quantitative restrictions and abolished the local content programme for motor vehicles as from January 2000. The IMF closely observed the implementation of the WTO panel ruling on the National Car project (IMF, 2000).

Reclassifications and amendments of the tariff scheme[37] led to an increase in tariff lines due to splitting and the creation of new subcategories[38] without actually increasing the tariff rates. New tariff (sub)lines were further created in July 1999, affecting HS chapter 87 (vehicles). While this lead to the introduction of tariffs on certain newly defined sub-items, the reform mainly lowered tariffs on existent (unchanged) items.

Temporary export bans on rice, crude palm oil products, wheat, wheat flower and some other basic commodities were introduced to prevent domestic shortages of these products due to low export prices. In September 1998, these bans were converted into export taxes.

Revenue loss from tariff reduction on cars was partly compensated by raising the sales tax on luxury goods (from 20–35 to 30–50 per cent on normal cars, from 0–35 per cent to 10–30 per cent on minivans and 10 per cent on busses which had previously been excepted from the tax).

A certain slowdown in tariff liberalization was caused by the delayed implementation of previously announced reduction programmes. The objective to lower tariffs above 20 per cent to 0-5 per cent by 1998 and to reduce tariffs in the 0–20 per cent range to a maximum of 5 per cent by 2000 could not be met.[39]

Overall, Indonesia's tariff response during the Asian crisis was characterized by substantive reductions and even accelerated liberalization. Deviations from this policy were temporary.

B. Republic of Korea

The Republic of Korea's crisis tariff policy stands out, since practically no tariffs were raised. Its general policy of revising tariff rates only once a year[40] was maintained in the face of the financial crisis. No tariff lines were

changed during 1997 and the revision made for 1998 increased only two items. (The 8 per cent rate that had been uniformly applied to all primary cells and primary batteries was split into an 8 per cent and a 13 per cent rate, thereby raising the tariff for sub-items 8506101000[41] and 8506102000[42]). Several tariffs were lowered, affecting inorganic and organic chemicals, miscellaneous chemical products, rubber, paper, iron and steel, nickel, electrical machinery and optical, photographic and other technical instruments (table 14). In most cases, a previous 8 per cent rate was lowered to 5 per cent.[43]

Table 14. Republic of Korea tariff reductions for 1998

HS Code	Product Description	1997 rate, %	1998 rate, %
0307101010	(1) Oyster spat	20	5
2812101010	Iodine trichloiride	8	5
2812101020	Phosphorous trichloiride	8	5
2812101030	Phosphorous pentachloride	8	5
2812101040	Arsenic trichloride	8	5
2812101050	Sulphur monochloride	8	5
2812101060	Sulphur dichloride	8	5
2812101090	Other chlorides and chloride oxides	8	5
2825301000	Vanadic pentoxide	8	5
2825309000	Other vanadium oxides and hydroxides	8	5
2841800000	Tungstates (wolframates)	8	5
2922421000	Glutamic acid	8	5
3811210000	Additives for lubricating oils containing petroleum oils	8	5
3811290000	Other additives for lubricating oils	8	5
3823701000	Cetyl alcohol	8	5
3823702000	Stearyl alcohol	8	5
3823703000	Oleyl alcohol	8	5
3823704000	Lauryl alcohol	8	5
3823709000	Other industrial fatty alcohols	8	5
4002311000	Latex (halo-isobutene-isoprene)	8	5
4002319000	Other isobutene-isoprene rubber	8	5
4002391000	Latex	8	5
4002399010	Other rubber of chlorinated-isobutene-isoprene	8	5
4002399020	Other rubber of brominated-isobutene-isoprene rubber	8	5
4805210000	Uncoated paper, each layer bleached	8	5
4811319000	Other paper, bleached, weighting more than 150g/m2	8	5
7225110000	Flat-rolled products of silicon-electrical steel, > 600mm (grain-oriented)	8	5
7225190000	Other flat-rolled products of grain-oriented steel	8	5
7227200000	Flat-rolled products of other alloy steel, > 600mm, (high speed steel)	8	5
7226110000	Flat-rolled products of silicon-electrical steel < 600mm, (grain-oriented)	8	5
7226190000	Other flat-rolled products of silicon-electrical steel (grain oriented)	8	5
7226200000	Flat-rolled products of high speed steel < 600mm	8	5
7501201090	Nickel oxide sinters other than containing 88 % or more of nickel	2	1
7501209090	Other nickel oxide sinters	2	1
9032101020	Automatic regulating or controlling instruments: thermostats for aircraft	8	5
9032811010	Autom. Reg. Instr.: Level automatic regulators or controllers for aircraft	8	5
9032812010	Autom. Reg. Instr.: Flow automatic regulators or controllers for aircraft	8	5
9032819010	Autom. Reg. Instr.: Other hydraulic or pneumatic instruments for aircraft	8	5
9032891010	Autom. Reg. Instr.: Humidity automatic regulators for aircraft	8	5
9032899010	Autom. Reg. Instr.: Voltage automatic regulators for aircraft	8	5
9032893010	Autom. Reg. Instr.: Automatic regulators of electric. quantities f. aircraft	8	5
9032899010	Autom. Reg. Instr.: Other instruments for aircraft	8	5
9032901000	Autom. Reg. Instr.: Parts and accessories for aircraft	8	5

Source: Korean Customs Co-operation Division of the Korean Ministry of Finance and Economy.

No tariff changes of any kind were made in 1998 (for 1999). The 1999 revision (effective as from January 2000) comprised not increases but some reductions. Among the items lowered in the course of these modifications were cashew nuts, durum wheat, rape oil, several paper items, staple fibres, refractory ceramic goods, glass articles, some machinery and mechanical appliances, electrical equipment and certain optical instruments (table 15).[44] As for the 1998 changes, the authorities from the Republic of Korea claimed that modifications had nothing to do with the financial crisis.[45]

Overall, the Republic of Korea can be regarded as a prime example of complete resistance towards tariff increases. Even in the face of declining revenues and growing domestic pressure, the Government refrained from resorting to tariff increases when looking for strategies to overcome the crisis. The process of tariff reduction which had been pursued by the Republic of Korea for many years, continued even during the crisis.

C. Malaysia

Malaysia pursued a slighty different tariff policy response to the crisis. On the one hand, the Government maintained its liberalization strategy, implementing even further tariff reductions in both 1997 and 1998. Those decreases concentrated on clothing, footwear and certain leather items[46] covering a total of 48 tariff lines (table 16). According to the Malaysian authorities, these measures were intended *to promote the tourism industry and to enhance Malaysia as a shopping paradise.*[47]

Table 15. Republic of Korea tariff reductions for 2000

HS Code	Product Description	1999 rate, %	2000 rate, %
0801310000	Cashew nuts in shell	30	8
0801320000	Cashew nuts shelled	30	8
1001909010	Wheat and meslin cluding durum wheat, seed	5	3
1001909020	Wheat and meslin cluding drum wheat for feeding	5	3
1001909030	Wheat and meslin cluding drum wheat for milling	5	3
1001909090	Other wheat and meslin cluding drum wheat	5	3
1514101000	Crude rape or colza oil	30	10
4804391000	Electric insulating paper and paperboard	8	3
4805602000	Condenser paper and paperboard	8	3
4911911000	Printed plans and drawing	8	0
5504101000	Artificial staple fibres of viscose, special section face	8	4
5504102000	Artificial staple fibres, viscose, polynosic section face	8	4
5504109000	Other artificial stable fibres of viscose	8	4
5504902000	Artificial stable fibres of lyocell	8	4
6903102010	Refractory ceramic goods for furnaces for semiconductor wafers	8	3
7020001012	Quartz crucibles for production of semi-conductor wafers	8	3
8408909021	Internal combustion engines f. generating power not less 400kw	8	4
8414109010	Air or vacuum pumps for making semiconductor devices	8	3
8419391000	Spin dryers for making semiconductor devices	8	3
8421219020	Filtering or purifying machinery for making semiconductor dev.	8	3
8471812010	Metal plating machines for semiconductor manufacturing	8	3
8479892050	Machines to attach solder ball on semiconductor circuit board	8	3
8534002000	Printed circuits of tape type	8	0
8539491010	Ultra-red lamps of machines for making semiconductors	8	3
9002909010	Lenses, prisms of machines for making semiconductor devices	8	3
9032812090	Automatic regulating /controlling instruments (semiconductors)	8	3

Source: Korean Customs Cooperation Division.

Table 16. Malaysia: reductions of tariffs on selected items, 1998

Tariff code	Description	No. of tariff lines*	Old rate	New rate
4202	Cases and boxes	4	25	15
4203	Leather apparel and clothing accessories	1	20	15
6115	Panty hose and footwear without applied soles	8	20	15
6117	Other made up clothing accessories	4	20	15
6203	Men's or boy's suits, etc.	7	20	15
6204	Women's or girl's suits, etc.	8	20	15
6214	Shawls, scarves and the like	5	25	15
6215	Ties, bow ties and cravats	3	25	15
6403	Footwear with outer soles and leather uppers	5	30	15
6404	Footwear with outer soles and textile uppers	1	30	15
6405	Other footwear	1	30	15
8510	Shavers and hair removing appliances	1	5	0

Source: Malaysian Budget (1998).
* Indicates number of six digit tariff lines.

On the other hand, the Malaysian authorities also raised several tariffs and even introduced new duties on newly created tariff lines. The introduction of new duties concerned capital goods such as pulley tackle and hoists, ships' derriks, cranes, fork-lift trucks and other lifting, handling, loading or unloading machinery (table 17). The increase of already existent tariffs affected transport motor vehicles, construction materials and consumer durables (such as refrigerators, vacuum cleaners etc.) (table 17). Malaysia further reviewed import duties on cars *"as a measure to discourage importation of motor vehicles... "*[48] thereby raising most of the rates. In some cases, the tariffs went up by 800 per cent (table 18). Increases of 400 per cent and 600 per cent can also be found. Completely knocked down cars were particularly affected.

With luxury items including certain cars, marble, crystal glass and microwave ovens, increases particularly focused on income elastic goods, setting another example for their special role within some of the increases (see also the case of Thailand). The Governments' intention to reduce luxury imports was expressed in the case of the review of duties on motorcycles, designed *"to curb the imports of luxury goods"*.[49] As a consequence of those measures, some rates increased by more than 600 per cent (table 19). The Malaysian Government further increased excise duties on those commodities and introduced a sales tax (table 20). Here, the Government's policy can be interpreted as a direct response to the Asian crisis and its resulting financial problems.

Overall, the general downward trend for tariffs continued, albeit with decreasing vigour. Tariff liberalization did not stop, but partly paused or lost speed. Products affected by 1998 increases were in many cases income elastic. In this respect, Malaysia's tariff response to the crisis reflected the intention to increase Government revenues.

D. Philippines

The Philippines continued its liberalization policy, proceeding with its revised Tariff Reform Program, aiming to reduce practically all Philippine tariffs to a uniform 5 per cent rate by 2004.[50] In the framework of this programme, the Government reduced several hundred tariff lines including fish products and foodstuffs,

Table 17. Malaysia: increases of tariffs on selected items, 1998

Tariff code	Description	No. of tariff lines*	Old rate	New rate
Capital goods				
8425	Pulley tackle and hoists	9	0	5
8426	Ships' derriks and cranes	7	0	5
8427	Fork-lift trucks	3	0	5
8428	Other lifting machinery	10	0	5
8431	Parts used for machine heads	10	0	5
Construction material				
3208	Paints and varnish (non-aqueous)	3	15	25
3209	Paints and varnish (aqueous)	6	15	25
6802	Worked stone except slate	11	25	30
6808	Panels of straw, shavings, sawdust or other waste	2	25	30
6808	Panels of straw, shavings, sawdust or other waste	1	2	10
6809	Articles of plaster	1	25	30
6810	Articles of cement	3	10	20
6810	Articles of cement	1	25	30
6811	Articles of asbestos	4	10	20
6811	Articles of asbestos	3	5	10
6907	Unglazed ceramics	1	5	10
6908	Glazed ceramics	1	5	10
7216	U, I, H, L and T sections less than 80 mm.	45 **	5	20
7216	U, I, H, L and T sections less than 80 mm.	7	5	30
Consumer durables				
7013	Glassware	9	25	30
8418	Refrigerators and freezers	20	25	30
8509	Domestic appliances with electric motor	5	25	30
8509	Domestic appliances with electric motor	1	20	30
8509	Domestic appliances with electric motor	1	5	30
8516	Other ovens and cookers	4	25	30

Source: Malaysian Budget (1998).

* Indicates nine digit tariff lines.

** Twenty-one lines also had specific tariffs.

chemicals, leather and footwear, glass, jewellery, steel products, tools and engines, electrical and devices in January 1998.[51] These tariff changes were mainly implemented due to Uruguay Round commitments. The reform also included several tariff increases, between 1–11 per cent.[52] In some cases, tariffs were more gradually reduced than originally foreseen.[53] Most of the increases concerned textiles and garments, raising tariffs by 5 per cent[54] throughout HS lines 520811–521225, 551211–631090[55] (altogether covering about 600 six-digit lines). The duty rate on completely-knocked-down (CKD) automotive vehicles was raised from 3–7 per cent (later increased to 10 per cent). Several items were further increased as a consequence of various tariff splits, which created new subcategories. The products affected by the various tariff splits included certain steel products, some chemicals, herring-bone tyres and integrated receivers/decoders.

Table 18. Increase of Malaysian import duties on motor vehicles

	CBU (new diesel cars)		CKD (completely knocked down cars)	
	1997 rate, %	**1998 rate, %**	**1997 rate, %**	**1998 rate, %**
Cars: Engine capacity				
2000cc ≤ X < 2500cc	170	200	42	60
2500cc ≤ < 3000cc	200	250	42	70
3000cc and above	200	300	42	80
4 WD and MPV: Engine capacity				
Less than 1800cc	50	60	5	10
1800cc ≤ X < 2000cc	50	80	5	20
2000cc ≤ X < 2500cc	50	150	5	30
2500cc ≤ X < 3000cc	50	180	5	40
3000cc and above	50	200	5	40
Vans: Engine Capacity				
Less than 1800cc	35	42	5	5
1800 ≤ X < 2000	35	55	5	10
2000 ≤ X < 2500	35	100	5	30
2500 ≤ X < 3000	35	125	5	40
3000cc and above	35	140	5	40

Source: Malaysian budget 1998.

In the wake of the crisis, the Philippines readjusted its pace of tariff reductions. Previously announced intentions to continue tariff liberalization as part of a structural reform programme agreed upon with the IMF were postponed.[56] In January 1999, the Government reacted to the worsening economic situation by temporarily increasing the tariff rate on certain items to protect local manufacturers particularly suffering from the crisis.[57] This increase covered garments, textiles, yarns, paper, polyamide,[58] polystyrene[59] and steel wire rods[60] – most of which are considered sensitive goods by the Philippine authorities. With very few exceptions, the rate was increased by 5 per cent. In the case of textiles, (which accounted for the vast majority of items affected by these measures) the increase targeted items, which had already been affected by the 1998 increases.

Tariff rates on several chemical products, battery components, steel slabs and steel scraps were reduced at the same time. The Government referred to the need to counter the negative impact of the Asian crisis (particularly the sudden surge of low-prices imports) as the

Table 19. Increase of Malaysian duties on motorcycles

	CBU		CKD	
	1997 rate, %	**1998 rate, %**	**1997 rate, %**	**1998 rate, %**
Engine Capacity				
200cc < X ≤ 250cc	60	80	5	10
250cc < X ≤ 500cc	60	80	5	10
500cc < X ≤ 800cc	60	100	5	20
Above 800cc	60	120	5	30

Source: Appendix XXVI of the Malaysian Budget 1998.

Table 20. Increase of Malaysian excise duty and sales tax on motorcycles

	Excise Duty		Sales Tax	
Engine capacity	1997 rate, %	1998 rate, %	1997 rate, %	1998 rate, %
200cc $< X \leq$ 250cc	20	30	Nil	10
250cc $< X \leq$ 500cc	20	30	Nil	10
500cc $< X \leq$ 800cc	20	40	Nil	10
Above 800cc	20	50	Nil	10

Source: Appendix XXVI of the Malaysian Budget 1998.

underlying motivation for these measures stressing their temporary nature. Nevertheless, this strategy was criticized as harmful to the liberalization process. According to the WTO, the increases *"...appear to run counter to Philippines' drive toward greater neutrality of sectoral protection (*WTO, 1999a). The phasing out of the increase were closely monitored by the IMF (IMF, 2000).[61]

Other commitments involving tariff reductions were fulfilled on time: As of January 2000, the Philippines eliminated tariffs on a large number of products covered by the Information Technology Agreement.

In sum, the Philippine's crisis tariff policy is an example for decelerated liberalization while sticking to the overall commitment to an outward-oriented trade regime.

E. Thailand

Thailand found itself in the midst of a far-reaching tariff reform programme, introducing substantive tariff reductions,[62] when hit by the crisis, which faced a change in its strategy. Several tariffs were increased in October 1997 as part of efforts to stop the outflow of foreign capital and increase the declining Government revenues. The products affected by those increases comprised completely built-up passenger cars (from 42–69 per cent to 80 per cent), cosmetics, perfumes, clothing, leather products, glassware and crystal products, shoes, jewellery (from 20–30 per cent), lenses, eyeglasses, cameras, watches, pens and lighters (from 5–30 per cent). In some cases, increases resulted in applied rates exceeding bound rates (table 21). In parallel, the Thai authorities introduced a temporary surcharge of 10 per cent targeting all commodities subject to tariffs to a minimum of 5 per cent, excepting the goods affected by the above-mentioned increases. This surcharge was introduced to aggrandize tax revenue to gain a 1 per cent of GDP budgetary surplus agreed upon with the IMF.[63]

In February 1998, Thailand raised import duties on wool textiles (from 10–40 per cent), perfume (30–40 per cent), cosmetics (from 30–60 per cent), leather handbags and belts (from 30–40 per cent), leather and canvas shoes (from 30–40 per cent) crystal tableware (from 30–35 per cent), crystal decorative items (from 30–60 per cent), suits, shirts, pants, skirts, neckties and underwear (from 30–60 per cent).[64] Also, increases sometimes resulted in applied rates exceeding bound rates (table 21). A glance at the products affected by those increases shows that the 1997 increases had already targeted some of them.[65] Another similarity is the concentration on income elastic goods.

In July 1998, the Thai Government increased tariffs on 121 steel items as part of a restructuring of import duties for steel products.[66] Finished and intermediate steel products were the main targets. These increases were later subsequently reversed in consultation with the IMF.[67]

In August 1999, Thailand initiated a far-reaching investment stimulation programme. In the course of this programme, the Thai

authorities implemented a large number of tariff reductions, covering more than 600 tariff lines. Special emphasis was put on inputs used by Thailand's primary industries (WTO, 1999a). Another significant reduction involved products covered by the Information Technology Agreement (ITA). Here, Thailand eliminated duties on MFN basis on almost 75 per cent of all products affected by this Agreement.[68] Remaining tariffs were reduced in several rates, the final commitment being the entire elimination by 2005.

Overall, Thailand made notable use of the tariff instrument when fighting the negative effects of the Asian crisis. Among the Affected-5, Thailand has been the country most intensely resorting to this option. Although the general thrust of Thailand's tariff policy remained open.

F. Summary observations

Looking at these developments one finds that each country reacted with an individual (and often) differing response to the crisis. What were the reasons for these differences?

An analysis of the specific strategies applied in each of the crisis-affected countries indicates a strong interrelation with their respective economic situation. Countries most reserved in raising tariffs (such as Republic of Korea) found themselves in a comparatively better economic situation. The Republic of Korea was better off as the reform of the financial sector had already reached an advanced stage when the crisis broke-out. This allowed them to react quicker, compared to other crisis affected countries. Also, their structural problems were of a less fundamental nature than the ones encountered by others (like Thailand for instance).

Being relatively less affected by the financial turmoil also allowed for a continued open tariff policy during the initial crisis period. Like the Republic of Korea, the Philippines had already undergone significant economic reforms, leading (amongst others) to the restructuring of the financial sector. Moreover, they had a more diversified economic structure than did, for example, Thailand. All this enabled the Philippines to continue tariff liberalization. However, at a later stage, the

Table 21. Thailand: selected tariff lines with applied rates exceeding bound rates

HS Number	Product Description	Applied Rate			Bound Rate
		01.01.97	15.10.97	24.02.98	
330300	Perfume	20	30	40	30
330499	Body lotion and cream	20	30	40	30
420221	Handbag (leather)	20	30	40	30
420291	Leather goods	20	30	40	30
420229	Golf bag (leather)	20	30	40	30
420330	Belts (belts)	20	30	40	30
640359	Shoes	20	30	40	30
620311	Blazer	30	30	60	30
620311	Suits	30	30	60	30
620461	Trousers	30	30	60	30
620199	Blouson	30	30	60	30
620520	Polo Shirts	30	30	60	30
711790	Tie bars	20	30	60	30

Source: Thai Ministry of Finance.

Philippines (together with Malaysia) also exhibited some protectionist reflexes. When suddenly becoming more affected by the crisis in 1999, the Philippine Government resorted to tariff increases to provide temporary relief from a surge of low-priced imports.

The country with the most substantial tariff increases – Thailand – also faced the most severe economic ramifications. Among the Affected-5 economies, Thailand was suffering from the gravest current account deficit. Thailand also had huge balance-of-payments and deep-rooted structural problems. Much more money had left Thailand than it did in the case of any other East Asian country (ADB, 1999). Thailand found itself in a much greater need to raise tariffs in order to get additional revenues.

External pressure (particularly by the IMF and the World Bank) did play a role and was reflected in the Affected-5's tariff policies. Close observation and steady consultations limited the extent of tariff increases and led to a timely phasing out of those increases which had been declared temporary.[69]

Despite differing strategies and some tariff increases, there is no doubt that the general response of the Affected-5 economies was one of an overall resistance to raising tariff barriers.

V. THE ROLE OF MULTILATERAL TRADE RULES

A. Uruguay Round commitments

The legal network established by multilateral trade rules is of significant scope. Countries find themselves bound in a complex and far-reaching judicial framework covering large areas of international trade. Being committed to those multilateral trade rules limited the level playing field for unilateral trade policy. By setting a legal framework, those rules confined each country's room for manoeuvre in the area of national trade policies. Apart from this general constraining effect, multilateral trade rules also have very specific obligations. In the area of tariffs, all Affected-5 countries committed themselves to tariff reductions in the course of the Uruguay Round, responding to the general thrust (and pressure) to lower tariff barriers. Further tariff reduction commitments were also made at a later stage, most of them under the auspices of the WTO. (See for example the reductions/eliminations implemented due to the Information Technology Agreement). Overall, those multilateral commitments were responsible for significant parts of the Affected-5's tariff decreases.

Obligations arising from multilateral trade rules were also a motivation for tariff increases in some cases. Thailand's gradual increase of import duties on passenger and pickup car components from 20 per cent to 33 per cent as of January 2000 was an example for such a development since those increases were clearly related to Thailand's WTO obligation to abolish the local content requirement of 40 per cent for domestically manufactured cars.[70]

The most direct role of multilateral trade rules on tariffs can be found in the area of tariff bindings.

B. The role of tariff bindings

The Uruguay Round Agreements had significantly broadened the scope of products being subject to such bindings. All Affected-5 States bound more than two thirds of their tariffs. Indonesia[71] and the Republic of Korea even expanded the bindings to more than 90 per cent of their tariff lines (table 22). This represented a significant increase over previous bound levels all ranging below 10 per cent.

In some sectors the share of tariff bindings has risen up to 100 per cent. Examples are the agricultural sectors in Thailand and Indonesia. Nearly 100 per cent of all agricultural items

Table 22. Pre-and post-Uruguay Round tariff bindings (% of tariff lines)

Country	Pre-UR	Post-UR*
Indonesia	9	95
Korea, Rep. of		91.2
Malaysia	1	66
Philippines	7	64
Thailand	5	73.5

Source: WTO (1996–1999).

* Binding commitments made in the Uruguay Round.

were also bound Korea[72] in the Philippines.[73] Significant shares of bound lines can also be found in the case of Korean industrial products (90 per cent) as well as in the manufactures sector of Indonesia (95 per cent) and of the Philippines (86 per cent).

In some cases, tariffs were bound at zero-level. Here, tariff bindings fixed the complete elimination of previous tariffs. An example for this development can be found when looking at the products covered by the Information Technology Agreement.[74] Here, several products were bound at a 0 per cent rate.

While tariff bindings certainly limited the scope for tariff increases, the high level of the average bound rate still left room for manoeuvre. An analysis of the average range between applied and bound rate shows significant distance. Bound rates are often well in excess of the current average applied tariff. The average (simple) bound rate was four times the average applied rate in Indonesia.[75] In the agricultural sector, average bound rates exceeded applied rates by more than 500 per cent.[76] Large gaps between applied and bound rates can also be found in Thailand, where the simple average bound rate amounted to 220 per cent of its applied correspondent. In many of these cases, tariff reductions have further increased the gaps between applied and bound rates.[77]

Significant differences can often be found in the case of "sensitive" products, as Governments tend to maintain a large level-playing field. There are many instances of this. For example in the Republic of Korea certain cars[78] have an applied rate of 8 per cent seen against a bound rate of 80 per cent.[79] Considerable gaps can also be found in numerous textile items of the Philippines tariff code. The 34 per cent bound rate on woven and many other textile fabrics is well in excess of the applied rate amounting 10 per cent.[80] "Sensitive" products are further often exempted from tariff bindings in the first place (see for example the large number of unbound manufactured goods in Indonesia).

Despite constraints, tariff bindings *did* play a role in limiting tariff increases as in the case of Thailand. Substantial tariff increases led to some of the applied rates exceeding WTO bound rates. While this was legally possible in relation to non-WTO members, Thailand's bound rate commitments prohibited the application of those rates toward WTO member countries. The Thai authorities therefore had to clarify that with regard to WTO members any *"…import duty on the goods subject to rates higher than the bound rates will be exempt or reduced equal to the bound rates"*.[81]

VI. CONCLUSIONS

The Asian experience has shown that the Governments' role is important when it comes to fighting negative impacts of a financial crisis. All Affected-5 governments have been very active in developing and implementing crisis management strategies (and have continued in doing so since the peak of the crisis 18 months later).

There was a wide range of policy responses, related to (and reflecting) each country's specific economic situation. In economies like the Republic of Korea and the Philippines, where reforms had already progressed to an advanced level, the Governments were able to continue liberalization. Those countries in the middle of reform programmes, with important steps still unimplemented were hit more severely and their liberalization decelerated or even paused.

Among the variety of possible tools, tariffs have proven to be of minor importance. Governments preferred to use other instruments (such as interest rate or exchange rate interventions) to counter the damaging effects of the economic downturn. Tariff measures were mainly applied to complement monetary and exchange rate policies.

The importance of tariffs manifested itself through reductions rather than increases. Despite some increases, the Affected-5's overall focus on trade and tariff liberalization remained unchanged. All Affected-5 countries maintained a general commitment to openness. The overall resistance to raise protectionist barriers partly resulted from constraints imposed by multilateral trade rules (in particular Uruguay Round commitments). It was also a consequence of external pressure from institutions including the IMF and the World Bank, closely linked with the crisis affected Governments through permanent consultations, attentively monitoring their policy responses. Beyond these institutional constraints, the decision to resist the tariff temptation was also motivated by the firm conviction that liberalization had to continue even in the face of a financial crisis. Tariff liberalization was recognized as an instrument in confidence building – low tariffs were used to signal trust.

However, the general resistance to raise protective barriers did not keep the Affected-5 from raising tariffs in some cases. To what extent this took place heavily depended on the respective country's situation. Countries which had already implemented far-reaching economic reforms and/or which were relatively less affected by the crisis only introduced minor increases. Others with economic and structural problems of a more fundamental nature raised tariffs substantially.

Despite considerable differences in the individual design of the respective tariff policies, some tendencies of particular importance can be pointed out. An analysis of the products frequently affected by increases indicates a special role of income elastic and price inelastic goods in some cases. Commodities affected by increases were often characterized by high income-elasticity. Luxury items such as cars, marble, microwaves and leather goods were the target of increases in Thailand and in Malaysia. In the latter case, the intention to reduce luxury imports was explicitly mentioned by the authorities. These examples indicate that tariff increases were intended to ease budgetary constraints due to declining governmental revenues rather than simply raise protectionist barriers. In the presence of resource constraints, the perception of the role of tariffs changes from an instrument of industry protection to one of revenue generation.

ENDNOTES

[1] The World Bank considered Indonesia, Malaysia, the Philippines, the Republic of Korea and Thailand as *"miracle growth economies"* (World Bank, 1993).

[2] The term *"Affected-5"* refers to Indonesia, Malaysia, the Philippines, the Republic of Korea and Thailand.

[3] Such as licensing restrictions, restrictive foreign exchange practices, state trading monopolies, restrictive technical standards or confining customs procedures.

[4] Data is sourced from the PENN World Tables 5.6 available at www.datacentre.chass.utoronto.ca:5680/pwt. See also Radelet and Sachs (1998).

[5] Thailand is the only exception with a GDP decrease of 0.4 per cent.

[6] Data refers to the Affected-5 economies.

[7] In this context the term "East Asia" comprises Hong Kong, China, Indonesia, the Republic of Korea, Malaysia, the Philippines, Singapore, Taiwan Province of China and Thailand.

[8] The term "core non-tariff measure" comprises prohibitions, quotas, non-automatic licensing of any kind, tariff quotas, variable import levies and administrative/minimum pricing (World Bank, 2000).

[9] In this context, the term "South Asia" refers to Bangladesh, India, Nepal, Pakistan and Sri Lanka.

[10] "Non-Asian developing countries" comprise Argentina, Brazil, Chile, Colombia, Egypt, Mexico, Morocco, Turkey and Venezuela.

[11] The relevance of this circumstance comes from the fact that the efficiency loss of a given average tariff is usually higher for a more dispersed tariff structure compared with a more uniform one (World Bank, 2000).

[12] There are exceptions to this general rule, which can be found in Corden (1971, 1984) and Vousden (1990).

[13] This is known as Ramsey pricing (Vousden, 1990).

[14] Established in 1992, the (original) tariff programme intended to reduce all tariffs on manufactured and processed agricultural products to a 0–5 per cent level within a period of 15 years. In 1994, the time frame was shortened to ten years. Furthermore, the ASEAN partners agreed to also include unprocessed agricultural products.

[15] These measures were part of a broader programme adopted at the Sixth ASEAN Summit in December 1998 to intensify economic integration through trade and investment liberalization. Apart from accelerating the AFTA, ASEAN member States also agreed on the creation of a preferential investment area, the launch of a new round of negotiations on the liberalization of services and adopted an action plan to promote economic recovery and enhance greater economic integration (Hanoi Plan of Action, 1998).

[16] As laid down in the "*Bogor Declaration"* adopted at the second meeting of APEC leaders in 1994, *APEC* aims at the establishment of an open trade and investment regime *"with the industrialized economies achieving the goal of free and open trade and investment no later than the year 2010 and developing economies no later than the year 2020."*

[17] For details see APEC (1996–1999).

[18] This means liberalization before the agreed goal of 2010 for industrialized economies and 2020 for developing economies.

[19] Areas include: environmental goods and services; fish and fish products; forestry products; medical equipment and instruments; telecommunications mutual recognition arrangement (MRA); energy sector; toys; gems and jewellery; chemicals; oilseeds and oilseed products; food sector; natural and synthetic rubber; fertilizers; automotive; and civil aircraft (APEC, 1998a).

[20] These sectors are: telecommunications mutual recognition arrangement (MRA); energy sector; toys; gems and jewellery; chemicals; oilseeds and oilseed products; food sector; natural and synthetic rubber; fertilizers; automotive; and civil aircraft (APEC, 1998b).

[21] Including taxes on key commodities such as wood (WTO, 1998).

[22] Indonesian Ministry of Industry and Trade.

[23] Tariffs on all food items were reduced to a maximum of 5 per cent for example. Tariffs were also lowered on base metals and chemical products (WTO, 1998).

[24] Applied tariffs were more than halved over the period 1992–1999 (WTO, 1999a). This general trend did not prevent tariff increases in certain areas, as the following sections show.

[25] The only exception is rice, which was excluded for social reasons (WTO, 1999a).

[26] Import restrictions on the grounds of balance-of-payments reasons have been very common.

[27] Malaysia further significantly reduced the number of tariff lines, making its tariff scheme more transparent (WTO, 1997).

[28] A negative effect of this sharp decrease was the significant widening of tariff dispersion due to the faster decline of duties on raw materials and intermediate products compared to the fall of duties on fully processed commodities (WTO, 1997).

[29] Those increases will be dealt with in more detail in section 5.

[30] The IMF's immediate response focussed on a temporary tightening of the affected countries monetary policy to stem the exchange rate depreciation as well as on a comprehensive reform of the financial systems (IMF, 1999a).

[31] These reforms were realized along the lines of a temporal framework agreed upon with the IMF.

[32] The sectors involved comprised mainly cement, plywood, paper and cloves (WTO, 1998).

[33] This concerned monopolies in the electricity and the telecommunications sector (WTO, 1999a).

[34] 14 merchant banks were closed over the period December 1997–April 1998 (Berg, 1999).

[35] For details see Bergsman and Bora (1999).

[36] Implemented in May 1995, December 1995, January 1996, June 1996 and July 1997.

[37] Implemented in September 1997.

[38] These changes affected the tariff headings 3209.10.190, 321290.900, 56.03.11.000, 5603.12.000, 5603.13.000 and 5603.14.000.

[39] This objective was set in the framework of the May 1995 tariff reduction package, aiming at the reduction of most tariffs to a maximum of 10 per cent by 2003. Information provided by the Indonesian Ministry of Industry and Trade.

[40] According to the Director of the Korea Customs Cooperation Division, this happens usually at the end of the year.

[41] Manganese batteries.

[42] Alkali manganese batteries.

[43] Exceptions to this rule concerned spat oysters (reduction from 20–5 per cent), vanadium oxides (8–3 per cent) and certain nickel oxides (2–1 per cent).

[44] See table 15 for specific HS codes.

[45] Private correspondance.

[46] Malaysian budget, 1998.

[47] Appendix XXIII to the Malaysian Budget 1998.

[48] Appendix XXV of the Malaysian Budget 1998.

[49] Appendix XXVI of the Malaysian Budget 1998.

[50] Only sensitive agricultural products such as rice were excluded.

[51] Unless indicated otherwise, the study refers to tariff data provided by the Philippine Tariff Commission.

[52] The smallest increase of 1 per cent affected item 600230 (*knitted swimwear fabric*) while the biggest increase of 11 per cent targeted item 401191 *(New pneumatic tyres, of rubber, having a "herring-bone" or similar tread).* The latter increase must be seen in the context of a restructuring of several tariff lines, thereby creating new subcategories.

[53] Executive Order 465 (effective 22 January 1998).

[54] There are only very few exceptions of items being raised by 1.0 per cent, 1.66 per cent, 2.5 per cent and 3.33 per cent.

[55] There is a very small number of about 15 tariff lines being exempted from those increases.

[56] See European Union Market Access Sectoral and Trade Barriers Database (http://mkaccdb.eu.int/mkdb/chksel.pl).

[57] Executive Order 63 (effective 21 January 1999).

[58] Tariff heading 390810.

[59] Tariff headings 390311–19.

[60] Tariff headings 721710–90, 722910–90.

[61] An analysis of the 2000 tariff schedule shows that the 1999 increases had actually been eliminated.

[62] Declared goal was a reduction of the 1994 average applied rate from 30 per cent to 17 per cent by 1997 (WTO, 1999a).

[63] According with its temporary nature, the surcharge was abolished in August 1999 together with several other tariff reductions covering more than 600 tariff lines (WTO, 1999a).

[64] Thai Ministry of Finance. Excise taxes on gasoline, beer and wine were raised at the same time.

[65] Such as cosmetics, perfumes crystal products and some leather products.

[66] European Union Market Access Database (http://mkaccdb.eu.int/mkdb/chksel.pl).

[67] Information provided by the IMF.

[68] The removal took place in two annual steps with the last one becoming effective as of January 2000.

[69] This was particularly so in the case of the Philippine and the Thai increases (IMF, 2000).

[70] For details see NfA (1999).

[71] 100 per cent of the tariff lines concerning agricultural products were bound. The general binding level reached about 40 per cent.

[72] European Union Sectoral and Trade Barriers Database.

[73] Data provided by the Philippine authorities.

[74] The ITA covers six product categories: Computers, telecommunications products, semiconductors, semiconductor manufacturing equipment, software and scientific instruments.

[75] Figures refer to 1998.

[76] The simple average bound tariff rate of the Indonesian agricultural sector amounted 47.3 per cent as compared to the simple average applied tariff rate in this sector of only 8.6 per cent (WTO, 1998).

[77] This results from the fact that bound rates usually remain at their (higher) levels when applied tariffs are lowered.

[78] Buses, commercial and special vehicles.

[79] European Union Sectoral and Trade Barriers Database. The Republic of Korea case is of particular relevance since its authorities have been very active in using the latitude opened by those gaps through the temporary imposition of so-called *adjustment duties.* These duties are usually announced only 4 to 5 days before their entry into force and are applied for a period of six months.

[80] The data refers to the year 2000 and was provided by the Philippines authorities.

[81] Announcement No. 4/2542 (1999) of the Thai Ministry of Finance.

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