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SMOKE AND MIRRORS: MAKING SENSE OF THE WTO INDUSTRIAL TARIFF NEGOTIATIONS

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9. Implications and conclusions

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Europe and sub-Saharan Africa, the welfare results are reversed. The change in global welfare is almost doubled, and most of the gains from increased employment are captured locally. Welfare gains are diminished in the major developed countries, which are assumed not to be able to expand their labour use.

These results illustrate that the use of endowments such as labour and capital has a far greater impact on welfare than the allocative efficiency gains or terms-of-trade effects. While the economy-wide effects of liberalization may be to increase demand for labour, these effects are not uniform across sectors. Changes in unskilled labour use in the most sensitive sectors are shown for each region in table 15. The largest negative changes are in Japan (minus 7 per cent). In general, the labour use changes are moderate, but this reflects the level of aggregation of both countries and sectors. A finer disaggregation would reveal greater changes, both positive and negative.

9. IMPLICATIONS AND CONCLUSIONS

Given these estimated potential impacts on exports, imports, government revenues, output, real wages and labour use, what can be said about the best course of action for developing countries? Any generalized policy strategy may be rather difficult to establish since developing countries are not entirely homogeneous: they are all at different stages of development and have different resource endowments. Moreover, individual Governments will have different ideas about the social value of trade and sectoral policy interventions. Finally, policy strategies are difficult to prescribe because liberalization has positive and negative effects, in both the long and short run, and it is not clear what weight policy makers attach to these various effects. The literature suggests that there may be negative effects in the short run associated with transitional adjustment costs and benefits in the long run following improved allocation of resources. While these adjustment costs may be moderate in the aggregate, our analysis shows that there are large variations in output across regions and sectors.

The potentially important initial costs of adjustment, especially in sectors with political sensitivity, may well be perceived as great enough to deter many policy makers from rushing to follow the liberalization path. Experience of national reforms also suggests that economic and social costs may be unpredictable and some caution seems to be indicated.

Most of the discussion about costs of adjustment is concerned with unemployed labour rather than land or capital, and so policies enhancing the mobility of labour will lower the costs of adjustment. Moving labour out of some sectors has proved difficult because of the absence of alternative industries in the proximity or non-transferability of skills. Fisheries are one example, where coastal towns are dependent on one industry and seafaring skills are not easily transferred to land. However, in developing countries large sectors of the population are employed in agriculture, and a transfer of labour into the unskilled textiles sector in the same district may be more manageable, at least in some cases. For this reason, liberalization of the textiles and apparel sectors is especially important for many developing countries. For those developing countries with an educated workforce, services provide an important growth sector, as India has shown in the provision of software and various back-office services. The regional differences in the costs of services tend to be greater than the differential in the cost of goods, and so there are potentially greater gains from liberalizing this sector. To reduce adjustment costs and other risks, an obvious approach is to phase in adjustment so that capital is replaced at the rate of depreciation and labour is relocated or retrained over a manageable time frame. Developed countries or the international finance institutions may wish to consider providing some financial assistance to help put in place programmes (social safety nets, training, etc.) and institutions to facilitate the adjustment process. Longer-term programmes aimed at improving infrastructure and supply capacity are important but may not be sufficient to respond to adjustment needs where the focus is more likely to be on retraining and reinsertion, as well as some form of income replacement for those displaced by change.

As noted, for the present study, the GTAP database has been augmented to include impediments to services where the data are available, but more needs to be done to improve the data to correctly identify the available opportunities for developing countries.

Regarding fiscal balance, our analysis shows that tariff revenues fall in most countries, and there is a need to broaden the tax base away from imports. This should be manageable for the majority of countries, particularly following moderate liberalization, such as under the Simple scenario, but a number of countries that are highly dependent on tariff revenues are likely to need to modify their tax regimes and administration, and this cannot be done overnight. If administrative requirements constrain broadening the base, then, in the absence of externalities associated with specific sectors, a superior tariff structure is likely to be one with relatively flat rates, such as a fixed across-the-board tariff. This removes distortions between traded goods while preserving revenues and removes some of the incentives to offer unofficial administrative fees. In practice, other than "free trade" economies such as Singapore and Hong Kong (China), there are no flat rate economies because almost all countries are now members of one or more regional trade agreements.

As noted in the paper, our data include the main preferences applicable under unilateral schemes such as GSP, as well as under most regional trade agreements. On the basis of our results, there are no overall negative trade effects and only a small welfare loss in sub-Saharan Africa. However, as in the sectoral analysis, it is likely that there would be more dramatic effects in specific countries for specific products, and this is something that needs greater attention.[19]

Of the four scenarios presented here, the Hard scenario is about twice as ambitious in terms of tariff-cutting as the more conservative Soft and Simple scenarios. The Hard scenario opens up the important EU, Japanese and US markets by twice as much. However, there are fewer gains for developing countries, at least following adjustment. If means could be found to help developing countries meet the financial and administrative costs of adjustment, through the building of social safety nets, retraining programmes and so on, the more ambitious scenarios would have some advantages. However, if developing countries remain concerned about the potentially important disruptive, short-term effects of liberalization, they may prefer to move more cautiously. Indeed, pushing too hard, too fast could even endanger reform programmes. Between the two more conservative scenarios (Soft and Simple), the impacts are similar, but, as the name suggests, the Simple scenario has the virtue of simplicity and transparency. A linear cut with a cap – perhaps applied after

[19] Unpublished estimates by the authors using UNCTAD's Agricultural Trade Policy Simulation Model (ATPSM) show some important losses for Mauritius and Zimbabwe in the EU market, with Mauritius suffering some important trade losses in the sugar sector. Our estimates show that the welfare gains in the EU would be more than sufficient to compensate the losers for such losses.

the application of a general formula in order to reduce the incidence of tariff peaks - is much easier to understand and implement than any measure based on individual national averages. The kind of linear reduction examined in this paper (a cut of some 50 per cent in developed country bound rates and a 36 per cent reduction in developing country rates) would already be more ambitious than what has been achieved in previous GATT rounds, and, while it would entail genuine liberalization in developing countries (even in average applied rates), it would not necessitate onerous adjustments or fiscal reinstrumentation.