Market Access: The Major Roadblocks

Introduction

The fourth WTO Ministerial Conference is over. The biggest success in terms of outcome is that the Members agreed on three separate texts – the General Ministerial Declaration, the Implementation Decision and the Declaration on the TRIPs Agreement. The so-called "Development Round" or "the Millennium Round", which would be ninth in the series, has also been launched. These developments ensure that multilateral trade negotiations are moving forward, though the results are anybody's guess.

Since the launch of the Uruguay Round (UR) of trade negotiations in 1986, developing countries have been trying hard to integrate themselves into the world economy. They made substantial progress in reforming their trade and exchange rate policies. Tariffs were cut, their dispersion declined in many countries, and fewer products were covered by quantitative restrictions. But their long cherished dream of better market access in developed countries' markets has still not been realised.

The UR Agreements resulted in a major step forward by bringing the agriculture sector under the disciplines of GATT (General Agreement on Tariffs and Trade). Nonetheless, very substantial protection continues to exist through a variety of controls and interventions that hamper international trade in agriculture. In the case of non-agricultural products, many developing countries continue to face tariff peaks and escalation in developed country markets for some categories of manufacturing products, such as textiles & clothing, footwear etc.

According to a recent report published by the World Bank, "Global Economic Prospects 2002", abolishing all trade barriers could boost global income by $2800bn and lift 320mn people out of poverty by 2015.

It is not only developing and poor countries would gain out of free and fair global trade, the developed countries are expected to gain equally. As per the findings of one study done by the University of Michigan, USA, the Uruguay Round negotiations increased global economic welfare by $75.1bn annually, with gains of $12.9bn for the United States and $15.6bn for Japan. Further, an assumed reduction of all post-Uruguay Round tariffs on agricultural and industrial products and of all services barriers by 33 percent in a new trade round is estimated to increase world welfare by $613bn, with gains of $177.3bn for the USA and $123.7bn for Japan (Brown et al 2001).

This paper tries to highlight the poor success rate of developing countries in penetrating the markets of developed countries and the increasing marginalisation of least developed countries (LDCs) on the global trading map. The share of LDCs in total world exports went down to all time low at 0.38 percent in 1998 (UNCTAD 2000). It also delineates major stumbling blocks in market access for poor countries.

BRIEFING PAPER

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A Changing Landscape in World Trade

The 1990s witnessed a boom in world trade, with an average annual increase of 6.3 percent in the volume of global merchandise trade. It has outpaced global gross domestic product (GDP) growth by an average 4.2 percent per year over the same time period. Exports grew faster than output in every major region.

Table 1: Share in World Merchandise Exports by Region, 2000 (Percentage)

	Share	
	1990	2000
North America	15.4	17.1
Latin America	4.3	5.8
Western Europe	48.3	39.5
C./E. Europe/Baltic States/CIS	3.1	4.1
Africa	3.1	2.3
Middle East	4.0	4.2
Asia	21.8	26.7

Source: International Trade Statistics 2001, WTO

The developing countries made a significant contribution to the expansion of world trade in the last decade. The share of developing countries in global export markets rose by almost 7 percentage points, to about 25 percent of world non-energy merchandise trade, primarily on the strength of superior performance in manufacturing. They accounted for 27 percent of world exports of manufactures in 2000, a remarkable increase from 17 percent share in 1990. However, the details behind these headlines reveal divergent trends. There are some sectors and some countries enjoying exceptional growth, while others remained almost stagnant (Table 1).

Developing countries as a whole improved their penetration to world markets, but the share of exports of the 49 LDCs shrank from 3 percent in the 1950s to around 0.5 percent in the early 1980s, and has hovered around this very low rate over the last two decades (UNCTAD 2001). In the year 2000, aggregate merchandise exports from the LDCs were at a record level ($34bn), while at the same time more than one-third of the LDCs saw their exports decline.

The LDCs continue to depend on agriculture and labour-intensive manufactures, which together account for about 70 percent of their exports. The share of manufactures in total exports of Africa, where 33 of the 49 LDCs are located, is only 24.6 percent (Table 2). This is significantly lower than the world's share of 74.9 percent. The expansion of trade volumes did not keep pace with the world trade growth, which has undermined the growth prospects of the LDCs and hindered their battle against poverty.

Further more, progress in lowering trade barriers has lagged in agriculture and labour-intensive manufactures (such as textiles & clothing) – the two sectors which impact poverty most. Both these sectors are highly protected. Agriculture and other labour-intensive products matter to the world's poor because they represent more than half of the low-income countries' exports, and about 70 percent of the least-developed countries' export revenues (Fig. 1a & 1b).

Major Roadblocks to Market Access

In the preamble to the Marrakesh Agreement establishing the WTO, the WTO Members have clearly expressed their desire to contribute to objectives such as raising living standards, full employment, growth and sustainable development by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade.

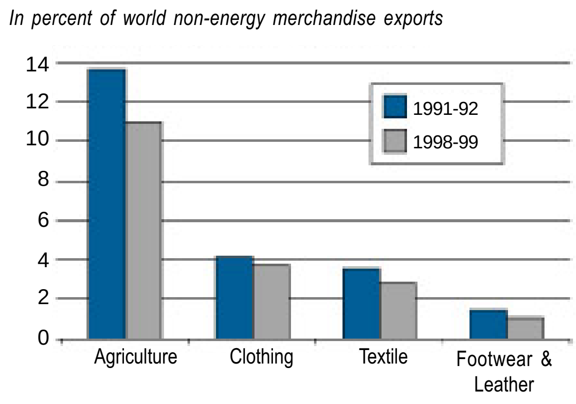
The UR of trade negotiations made a significant contribution toward lowering global barriers to merchandise trade on two fronts: improving market access, thanks to the reduction of tariffs and quantitative restrictions on a number of products; and extending multilateral disciplines to previously excluded sectors, particularly agriculture, and textiles & clothing.

Most developing country members of the WTO have liberalised their trade regimes significantly during the last decade. The liberalisation has had several dimensions: (a) applied tariffs have been lowered; (b) many countries have bound a significant number of tariff lines in the context of the UR Agreements; (c) the overall use of non-tariff barriers to trade has

Table 2: Share of Manufactures in Total Merchandise Trade by Region, 2000 (Percentage)

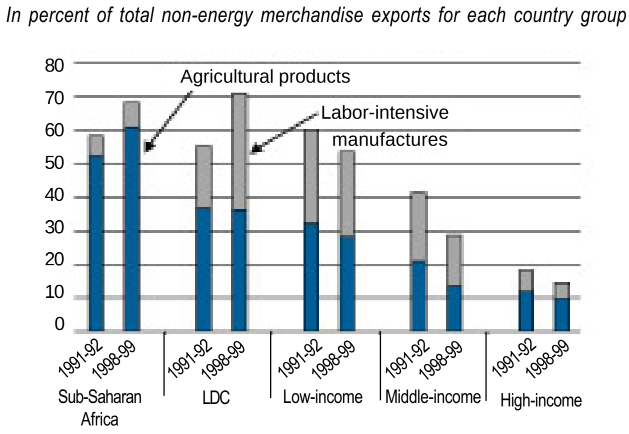
	Exports	Imports
World	74.9	74.9
North America	78.0	80.0
Latin America	60.5	76.9
Western Europe	80.3	75.4
C./E. Europe/Baltic States/CIS	54.2	72.0
Africa	24.6	68.4
Middle East	21.7	74.6
Asia	84.2	70.5

Source: International Trade Statistics 2001, WTO



Source: World Bank staff calculations, based on U.N. Comtrade

Fig. 1a



Source: World Bank staff calculations, based on U.N. Comtrade

Fig. 1b

decreased practically in all countries; and (d) in general, the incidence of government intervention in trade has declined.

However, the poor countries have still not been able to penetrate the markets of developed countries. A lot of the tariff bindings are at levels much higher than the applied tariffs, creating a certain degree of uncertainty for exporters wishing to access these markets. While the overall use of non-tariff measures has declined, the use of certain trade remedy measures such as anti-dumping is on the rise. Moreover, there is rising evidence of the difficulties faced by developing countries, especially LDCs, in implementing the WTO commitments in new areas such as Trade Related Intellectual Property Rights (TRIPs), Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade (TBT).

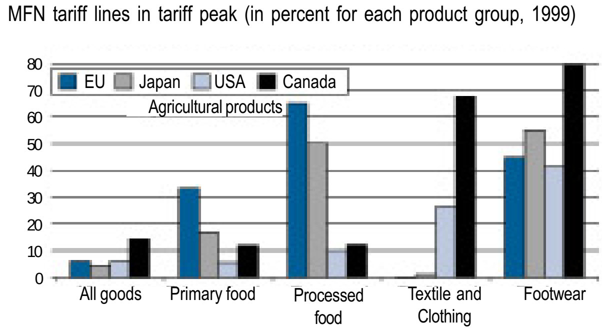
For poor countries, the major concerns are tariff peaks, tariff escalation, distortion in agriculture trade, restrictions on textile & clothing, growing incidence of anti-dumping measures, etc. These are the main hurdles in the way of free and fair market access in developed countries.

Tariff Peaks

Low average duties conceal high tariffs and tariff escalation left in place for major agricultural and industrial export products of developing countries. Extremely high and often prohibitive peak tariffs of 100 to 900 percent continue to be applied by many developed countries for such major agricultural products as sugar, rice, cereals, dairy products and meat as well as for food industry products and footwear (Supper, 2001). Peak tariffs also affect a range of fruits, vegetables, other canned and prepared food and fruit, textile, clothing, leather and leather products, as well as certain technology-intensive products, such as trucks, buses, consumer electronics and watches.

Imports at tariff peaks represent about five percent of total Quad (Canada, European Union, Japan, and United States) import from developing countries, and more than 11 percent of total Quad imports from LDCs. Such "tariff peaks" are often concentrated in products developing countries want to export: agricultural and food products and labour-intensive sectors as apparel and footwear (Hoekman, Ng, and Olarreaga 2001).

Within the Quad, tariff peaks are widespread but their pattern differs (Fig. 2). In North America, tariff peaks are commonly found in industrial goods, particularly on imports of textile and clothing. In contrast, tariff peaks in the European Union (EU) and Japan are common in agriculture, especially on imports of processed food, and tariff peaks on imports of footwear are widespread across all Quad markets and surpass those found in textile and clothing (World Bank 2001).

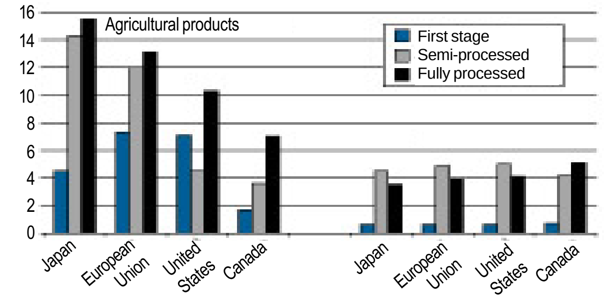


Note: Tariff peaks are defined as tariffs greater than 15 percent.

Source: World Bank, based on WTO data

Fig. 2

Average unweighted tariffs in percent (1998-99)



Source: World Bank, based on WTO data

Fig. 3

Tariff Escalation

Tariff escalation has been a matter of concern for developing countries in the context of market access because it tends to increase the rate of effective protection at higher stages of processing, thereby making market access more difficult for finished manufactured products. Tariff escalation in high-income countries has the potential of reducing demand for processed imports from developing countries, hampering diversification into higher value added exports.

In high-income countries, tariffs escalate steeply, especially on agricultural products (Fig. 3). Among the Quad, tariffs on more processed agricultural products are comparatively higher in the EU and Japan, while in the United States there is evidence of reverse escalation between unprocessed and semi-processed commodities (World Bank 2001).

Distortions in Agriculture Trade

The WTO Agreement on Agriculture (AoA) marked an important step in improving access to sheltered agricultural markets in high-income countries. A wide range of non-tariff barriers were abolished and converted to ordinary tariffs (tarrification). Existing and new tariffs were bound, and these bindings were subject to reduction. Developing countries were allowed more compliance flexibility through longer implementation periods and lower reduction commitments by making provisions of Special & Differential Treatment (S&DT).

Now, almost seven years have passed since the implementation of the UR Agreement on Agriculture (URAA), but the agriculture market is still highly protected. At present, developed countries are applying several means to protect their farm sector. Some of them are discussed in brief:

- Since the international agricultural prices in the base period for the URAA (1986-88) were way below high domestic prices supported by quotas, the conversion of quotas into tariff equivalents resulted in high rates of tariff protection (OECD 2001a).
- Tariff peaks in agriculture occur frequently on processed products and temperate commodities. They are less common on unprocessed fruits and vegetables and tropical commodities, which are not produced in high-income countries but are major export crops of LDCs.
- The average fill rates of Tariff Rate Quotas (TRQs) have been low and declining, from 67 percent in 1995 to 63 percent in 1998, while about a quarter of tariff quotas were filled to less than 20 percent. The TRQ was introduced by the URAA with the aim of securing a minimum level of market access (OECD 1999).
- At an estimated $245bn in 2000, which is about five times the level of international development assistance, support to agricultural producers in high-income countries remains sizeable (OECD 2001b). Total support to agriculture (as defined by the OECD) is even higher, at about $327bn in 2000, which is 1.3 percent of OECD countries' GDP.
- Export subsidies in agriculture allow countries to export production surpluses to the world market at prices below the high prices prevailing in their domestic markets. Export subsidies were about $7bn, on an average, in 1995-98, of which 95 percent was granted by the EU.

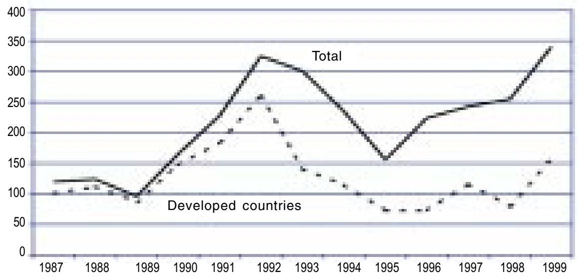
Restrictions on Textiles & Clothing

For more than 30 years, an important part of world trade in textiles & clothing was governed by special regimes called multifibre arrangement (MFA), which provided for waivers from GATT rules. The UR Agreement on Textiles and Clothing (ATC) provides for the gradual phase out of the country-specific quotas over a 10-year period, ending in 2004. The ATC was an important step to improve developing countries' access to high-income countries' markets, because it became very difficult for the importers to introduce new quotas.

However, the effectiveness of ATC in freeing up markets has been limited by two main drawbacks. First, scheduled quota integration is "back-loaded" with quota-free market access for nearly half of all imports due only at the end of the transition.

Second, the ATC rules for the removal of quotas are framed in terms of overall import shares in textiles and clothing, rather than in terms of the number of quotas. This allows importing countries the leeway to select the products to be freed of quota restrictions in each step, which slows the pace of liberalisation. Up to 2000, more than 33 percent of trade was integrated, fulfilling the minimum ATC requirements. But products that have been freed of quotas by the EU and the US represent only small shares of their total textile and clothing imports – about 6 percent of 1995-97 imports for the US and less than five percent for the EU (ITCB 1999).

Initiations of Anti-dumping Investigations, 1987-99



Source: WTO Secretariat

Fig. 4

Rising Game of Anti-dumping

Import-competing firms are often tempted to resort to anti-dumping laws, which are permitted by WTO rules, to allege unfair trade practices by foreign competitors. Anti-dumping laws enable nations to impose offsetting duties on imports found to be both - dumping products in domestic market and causing "material injury" to a domestic industry. The main users of these laws were developed countries, but increasingly developing countries have taken recourse to these laws. As can be seen from Fig.4, initiations of anti-dumping investigations have steadily and significantly increased since 1995, reaching an all time high of 340 in 1999.

Table 3 shows a breakdown of investigations initiated between 1995 and 1999 by both reporting and affected countries, classified by level of development. It shows that one-half of all investigations initiated by developed countries between 1995 and 1999 were targeted at developing countries, while 25 percent were targeted at other developed countries and 25 percent at transition economies. Among the investigations initiated by developing countries during the same period, roughly an equal proportion was targeted on each of the three groups of countries.

Standards and Technical Barriers

While traditional trade barriers in agriculture such as tariffs continue to decline, technical and regulatory barriers are increasingly subject to debate. In the recent years Sanitary and Phyto-Sanitary (SPS) measures and Technical Barriers to Trade (TBT) have emerged as greatest threat for poor countries' exports.

Both these agreements, by their very nature, may result in restrictions on trade. All governments accept the fact that some trade restrictions may be necessary and appropriate in order to ensure food safety and animal and plant health protection. But, there has been an increasing arbitrary use of these measures by developed countries.

In developed countries, the consumer groups, the environmental protection agencies and the food safety enforcement agencies are increasingly prescribing stricter and stricter standards for macro cleanliness, microbial loads, aflatoxin, and pesticide residues (Jha, 2001). For instance, Japan insists on DDT residues level of 0.4 PPM on unmanufactured tobacco, while the international standard is as high as 6 PPM.

Developing countries are vulnerable to regulatory changes in developed countries due to a relative scarcity of public resources to finance compliance with new and more restrictive SPS and TBT standards. While middle-income developing countries have shifted their export to processed food to avoid complying with high SPS standards, countries in the lowest income region, such as Africa, still largely depend on raw food exports. The cost of compliance with WTO Agreements on SPS and TBT in the LDCs can exceed total government budgets for all expenditures.

Table 3: Initiations of Anti-Dumping Investigations by Level of Development of Reporting and Affected Economies, 1995-99

	Affected Economies			
Initiating Economies	Developed Countries	Developing Countries	Transition Economies	Total
A. Number of Investigations				
Developed Countries	126	244	129	499
Developing Countries	252	258	201	711
Transition Economies	4	0	4	8
All Members	**382**	**502**	**334**	**1218**
B. Distribution				
Developed Countries	25	49	26	100
Developing Countries	35	36	28	100
Transition Economies	50	0	50	100
All Members	**31**	**41**	**27**	**100**

Source: WTO Secretariat, Rules Division Anti-dumping Measures Database

Fast technological changes have enhanced inspection capacities in developed countries and allowed them to adopt progressively more restrictive SPS and TBT standards. Securing sales in these major markets is expected to become more challenging and costly overtime (Wilson et al 2000).

Conclusions and Policy Implications

Openness to trade has long been seen as an important element of good economic policy, and trade liberalisation as a necessary step for achieving it. Trade liberalisation is considered as an ally in the fight against poverty. Empirical evidence also indicate that trade liberalisation is a positive contributor to poverty alleviation.

The URA did advance the integration of the developing countries into the multilateral trading system. It has contributed to the liberalisation of developing countries' own trade regimes and improvements in the conditions affecting access to the major markets for their export products. However, unilateral liberalisation is not enough to integrate any economy into the world unless it is reciprocated. So far, the integration process has been especially impressive for a group of only 15-20 middle and higher income countries in Latin America and Asia. For many others, especially LDCs, progress has been slower.

If the international community is really serious in sharing the fruits of global trade expansion with the poor countries, the factors enhancing their trading opportunities must be addressed on a priority basis. For the world's 2.8 billion poor, reducing barriers to agricultural products, textiles & clothing, apparel and several other labour-intensive manufactures are crucial. Both the high-income countries, and even the middle-income countries, will have to reduce their levels of protection in agriculture.

In manufacturing, political commitment is necessary to phase out the quotas agreed under the ATC and its full integration into the WTO rules by 31st December 2004. In the case of textiles & clothing it must also be ensured that the high levels of tariff protection do not take the place of quotas.

All these efforts must be accelerated. In other words, firm commitments are required on the part of rich countries to reduce tariff escalation and tariff peaks, which have so far proved major impediments in the industrialisation process of the poor countries.

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