Trade Policy Reform in Developing Countries since 1985

A Review of the Evidence

Judith M. Dean
Seema Desai
James Riedel
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FOREWORD

The World Bank has long emphasized the importance of trade liberalization as a part of overall reform to promote development. It has supported the trade reform efforts of many countries, and devoted much research to the design and sequencing of trade reform programs. Two notable studies, Best Practices in Trade Policy Reform (Vinod Thomas, John Nash, and Associates, 1991) and Liberalizing Foreign Trade (M. Michaely, D. Papageorgiou, and A. Choski, eds., 1991) discuss issues of optimal design and sequencing, and document reform efforts up through the mid-1980s for a large number of countries.

However, it appears that increasing numbers of developing countries have unilaterally liberalized trade since the mid-1980s. This study documents the character and extent of that liberalization in thirty-two countries in South Asia, Africa, Latin America, and East Asia, from 1985 to 1992/93. Progress of reforms is examined in individual countries over time, and comparisons are made across countries within a region.

Three major difficulties arise in assessing the degree of progress towards liberalization in a country. First, a variety of concepts of trade liberalization exists, as well as views on its design. Second, existing aggregate measures of trade restrictiveness fail to capture some critical aspects of trade reforms, or require data which are unavailable. This study examines these problems, and develops a systematic approach to evaluating the degree of trade liberalization based on individual indicators.

The third, and perhaps the most difficult problem, is the lack of a comprehensive data set on official trade barriers. This study begins to fill this gap by providing data on average tariffs, dispersion of tariffs, maximum and minimum tariff rates, and coverage of quantitative restrictions for most of the 32 countries in the sample. Data are presented for the mid-1980s and for the early 1990s, allowing for some evaluation of progress both across countries and over time.

This study provides an informative assessment of the recent significant moves toward trade liberalization across the developing world. It should serve as a starting point for developing a comprehensive data set on changes in trade barriers over time. It should also stimulate research on the consequences of this reform for economic development.

Mark Baird
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ABSTRACT

The recent and apparently broad move towards unilateral trade liberalization in the developing world has not been systematically documented, nor has comparative data been compiled. This study investigates the extent and character of trade reform in 32 countries in South Asia, East Asia, Africa, and Latin America. Changes in tariffs, non-tariff barriers, foreign exchange controls, and export impediments between the mid-1980s and 1992/93 are discussed. Data are presented on changes in the level, range, and dispersion of tariffs, and coverage of quantitative restraints. Similarities and differences both within and between regions are evaluated.
I. INTRODUCTION

Increasing numbers of developing countries are unilaterally liberalizing trade. During the 1980s liberalization seemed to be contagious in the developing world. In Asia it spread from Taiwan and Korea to Southeast Asia and on to China. In Latin America, it spread from Chile to Mexico and beyond. Recent studies have highlighted this rapid shift toward outward orientation, and have debated both its desirability and sustainability.

Trade liberalization in developing countries has been, and is being, extensively studied both outside and within the World Bank. Two large scale World Bank projects on trade policy reform have recently been published, evaluating reform episodes up through the mid-1980s. In addition, several smaller research projects on trade policy are currently underway, and the Bank's country operations maintain ongoing studies and reports on trade reform. Part II first discusses the various concepts of trade liberalization that are found in the literature, and makes a case for including both neutrality and libelity in the definition. This is followed by a review of some of the key issues in the optimal design of trade liberalization.

Any attempt at measuring the degree of trade liberalization is difficult. The measure(s) used should be theoretically sound, should correspond to the chosen definition, and should reflect the net impact of policy changes on the degree of trade restrictiveness in an economy. These difficulties have engendered much debate on the usefulness of certain measurement methods. Part III presents a brief review of various aggregate measures, highlighting both their positive attributes and their drawbacks. This is followed by a discussion of the individual indicators used in this study, and the caveats in relying on such measures to make an overall assessment of reform.

Parts V, VI, VII, and VIII review the character and extent of trade liberalization in S. Asia, Africa, Latin America, and E. Asia, respectively. Each part discusses individual countries first, and then assesses changes in the region as a whole. In forming an overall assessment of each region we consider two sets of questions. The first set relates to the character of reform. Have countries tended to move toward neutrality in trade policy, or simply dismantled import impediments? Have they made simultaneous reforms in the trade regime and the foreign exchange market? Have quantitative