Consumers in emerging economies still getting a raw deal as burden of import duties puts up prices

- **Protectionist policies also undermine domestic competitiveness**
- **Emerging economies levy average customs duties of 0.81% of GDP, while EU countries charge 0.13% - less than 1/6th as much**

Consumers in emerging economies are still paying comparatively high prices for goods relative to their counterparts in developed countries thanks to a far higher tax take from import duties in proportion to the size of their economy, according to a new study by UHY, the international accounting and consultancy network.

UHY studied customs duties levied by 18 economies around the world as a percentage of each economy's size* as a simple indicator of the impact of a country's trade barriers.

It found that emerging economies charge import taxes equating to an average of 0.81% of their GDP, compared to a global average of 0.47%.

By contrast, the major EU economies surveyed raised proportionally the least in customs duties, at just 0.13% of their GDP on average – less than one sixth as much as emerging economies.

Countries which are part of the North American Free Trade Agreement (NAFTA): the US, Canada and Mexico, levy, on average, a sum equivalent to 0.2% of their GDP in customs revenues.

UHY says that protectionist policies implemented by emerging economies to safeguard the interests of their domestic producers risk continuing to adversely impact consumers in those countries by creating artificially high prices for imported goods.

It adds that this may also suppress the competitiveness of domestic manufacturers and producers by insulating them from global markets.

Comments Ladislav Hornan, Chairman of UHY: "Consumers in emerging economies may still be getting a raw deal, as their national governments continue to strike a highly protectionist stance in an attempt to boost their domestic agricultural and manufacturing sectors."

"By creating distortions in the market, the unintended consequence is often that consumers are left facing higher prices, while the duties fail to stimulate uncompetitive domestic industries. They often simply amount to another tax on businesses and consumers that leaves less money available for spending and investment locally."

"Ambitious emerging economies which are keen to be able to compete on the global stage need to think carefully about whether protectionist policies are really the best way to develop their potential," says Ladislav Hornan. "Excessive trade barriers prevent them from focussing on industry sectors where they do have a comparative advantage, and risks stifling innovation and efficiency."

UHY notes that while the amount levied in duties is a useful measure of the impact of a country's trade barriers, other factors can also have a bearing. For example, some countries' geographies may mean they simply have no choice but to import most of the goods they use, so that the total amount of import duties paid reflects the volume of imports rather than an unusually high rate of duty.

Other countries may also impose additional taxes which disproportionately affect imports. For instance, in addition to higher import duty rates on foreign luxury goods, China also charges a consumption tax on goods such as alcohol, tobacco, cars and cosmetics; categories in which the most popular brands are often foreign.

In Brazil, as well as numerous import duties, some of the taxes affecting imports are calculated based on the value of the goods themselves, plus the other taxes levied. This makes for a very complex system and high costs of import, if not planned well.

Diverse range of Free Trade Agreements increasingly important to competitiveness

Says Ladislav Hornan, “Creating more Free Trade Agreements (FTAs) or customs unions with a more diverse range of countries is becoming increasingly important to increase competitiveness. Many are benefitting from spreading their net far wider than purely their immediate geographical neighbours.”

For example, Mexico has a network of ten FTAs with 45 countries, as well as 30 investment agreements and nine other limited scope agreements. The US has 14 FTAs with countries including Korea, Singapore and Morocco. Australia has just signed an FTA with China, one of its key trading partners, which should help it to reduce the import duty costs borne by consumers in line with other developed economies.

He adds, “Consumers in the EU have clearly benefitted from the European free trade zone.”

“While the UK currently has one of the lowest customs duties burdens in the world, there’s a risk that this could shoot up if it leaves the EU following its forthcoming referendum, and relationships deteriorate. A so-called Brexit could jeopardise Britain’s continued participation both in the EU free trade zone and in trade agreements agreed by the EU with third party countries.”

“So much would depend on what the UK could achieve in establishing a whole new raft of bi-lateral trade agreements, should it vote to leave the EU.”

He adds, “On a global level, these figures indicate a clear difference in approach between emerging and developed economies. As globalisation gathers pace, the question of whether protectionist policies are a benefit or a hindrance to individual economies is an increasingly important debate.”
*Information on the total amount of customs duties received on imports only

COUNTRY	CUSTOMS DUTIES COLLECTED US$ (millions)	CUSTOMS DUTIES COLLECTED AS % OF GDP
India	30,000	1.78%
Jamaica	231	1.61%
Nigeria	4,988	0.96%
Russia	181,495	0.92%
Emerging economies average		0.81%
Uruguay	421**	0.74%
Global average		0.47%
Australia***	7,236	0.46%
China	46,138	0.44%
Netherlands	2,400	0.38%
Canada	3,831	0.21%
Japan	9,755	0.21%
NAFTA average		0.20%
US	33,926	0.19%
Mexico	2,150	0.17%
Germany	6,327	0.16%
France	3,581	0.15%
Ireland	298	0.15%
Spain	1,780	0.15%
Major EU economies average		0.13%
Croatia	76	0.13%
Italy	2,691	0.13%
Denmark	452	0.12%
UK	2,900	0.11%
Brazil	figures not available	
UAE	figures not available	

**2012 tax year – the most recent data available
***tax year to 30 June 2013 – the most recent data available

ENDS

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