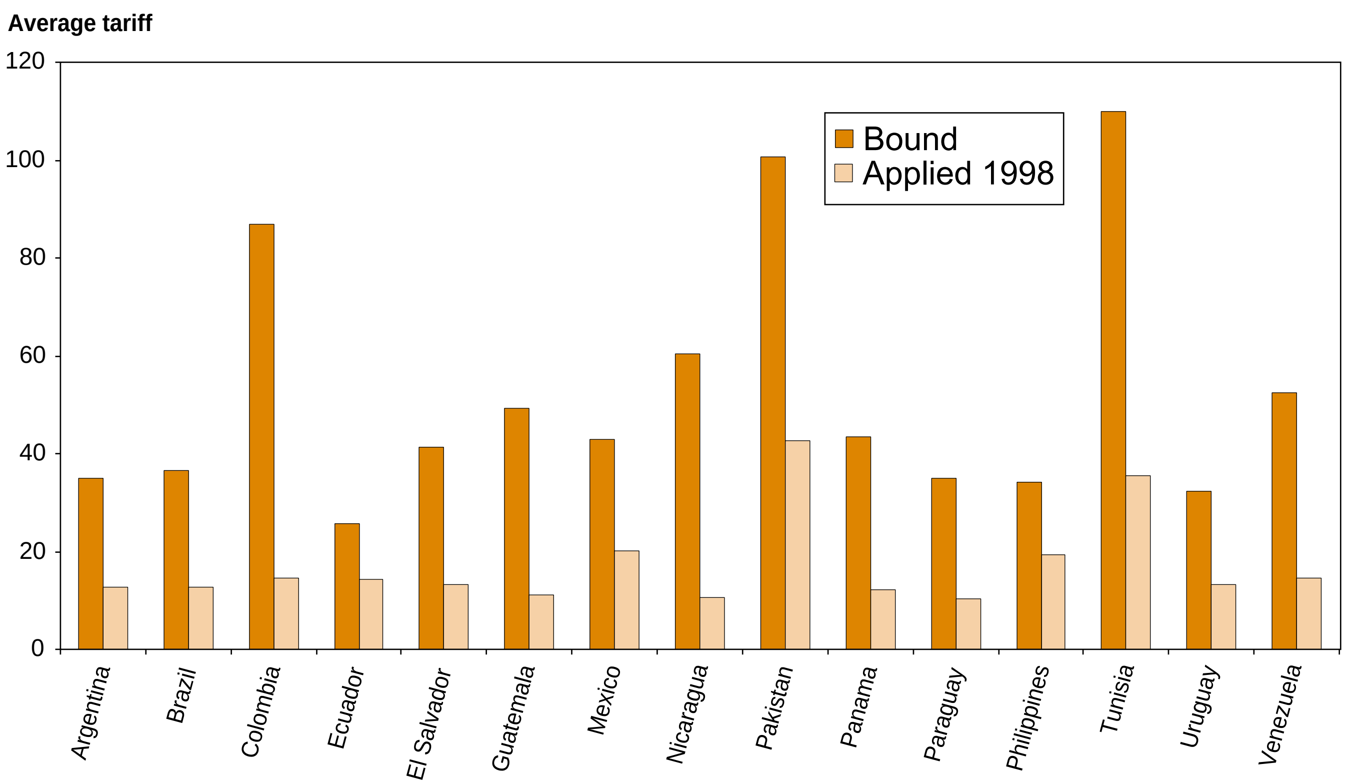
Comparison of Bound and Applied Tariffs

As shown in the preceding sections, many WTO members maintain high bound tariffs in their WTO market access schedules. In practice, however, not all countries apply tariffs at the bound rate (see box page 8, *Bound Tariffs, TRQ Tariffs, and Applied Tariffs: What's the Difference?*). Latin American countries present a good example of this, partly because of data availability. Figure 7 compares final WTO bound tariffs with 1998 applied tariffs for 15 countries, 12 of which are in Latin America. The final bound tariff for these countries is the tariff binding to be effective no later than 2004. In all cases, the average 1998 applied tariff is considerably lower than the final 2004 WTO bound rate. The average bound tariff for the 12 countries is 45 percent, while the average applied tariff in 1998 was 13 percent, or less than one-third the level of the average bound tariff. Not only do they tend to be lower, there is also less dispersion across applied tariffs than corresponding bound rates. While the average bound tariffs of these countries range rather widely, from 26 to 110 percent, the average applied tariff in 1998 fell within a much lower and narrower range of 10 to 43 percent.

For developing countries in other regions, a more limited set of applied tariff data for one or more of the years 1995-99 was available. Table 5 presents these tariff averages. For 7 of the countries listed, applied tariffs for the various years reported were at levels that averaged from about one-quarter to about three-quarters of the bound rates. India, Pakistan, and Tunisia all scheduled final bound tariffs which average over 100 percent, while the applied tariffs for the years shown were considerably lower, at between 30 and 43 percent. Korea and Morocco, however, set applied tariffs for the years listed at about 75 percent of bound rates.

Although the countries listed above apply tariffs below bound rates, many developing countries and most developed countries tend to apply tariffs at the bound rate. Some countries, such as Thailand and Turkey, appear to be violating their Uruguay Round commitments by applying tariffs at rates higher than their bound rates, but this is explained by the fact that many

Figure 7
The difference between bound and applied tariffs in selected developing countries[1]



[1]Bound tariffs are MFN rates based on final URAA implementation, and applied tariffs represent annual average.
Source: Economic Research Service, USDA

Table 5—Averages for applied tariffs for selected countries and years[1]

Country	Bound	Applied 1995	Applied 1996	Applied 1997	Applied 1998	Applied 1999
Argentina	35	na	na	10	13	na
Brazil	37	10	10	10	13	13
Colombia	87	15	14	14	15	22
Costa Rica	42	14	na	na	na	17
Ecuador	26	15	na	14	14	16
El Salvador	41	14	na	13	13	na
Guatemala	49	14	na	na	11	na
India	114	na	na	30	na	na
Indonesia	48	16	16	na	na	na
Korea, Republic of	66	17	50	na	na	na
Mexico	43	14	na	20	20	na
Morocco	65	na	na	49	na	na
Nicaragua	61	14	na	na	11	na
Pakistan	101	na	na	na	43	na
Panama	43	na	na	na	12	na
Paraguay	35	na	na	11	10	na
Philippines	34	26	na	na	19	na
Thailand	35	37	na	na	na	na
Trinidad & Tobago	100	na	na	na	na	na
Tunisia	110	34	na	na	35	na
Turkey	39	na	na	45	na	na
Uruguay	32	na	na	10	13	na
Venezuela	52	15	na	15	15	15

na = Not available.
[1]Bound tariffs are MFN rates based on final URAA implementation, and applied tariffs represent annual average.
Source: Economic Research Service, USDA.

of their bound tariffs are not scheduled to become effective until 2004. The applied rates, on the other hand, reflect the tariff schedule published for Thailand in 1995 and Turkey in 1997, well before full implementation of all tariff reductions.

The differences between bound and applied rates reflect a conflicting set of interests of importers and governments. The lower tariffs provided by applied rates in the examples shown in figure 7 may be preferable for importers seeking to import and sell foreign goods. However, given the ability of governments to raise applied rates without penalty, the tariff applied on a shipment when it clears customs may not be the tariff published in the country's applied tariff schedule. This uncertainty can have a dampening effect on the level of additional trade one might expect to occur at the lower applied rate. On the other hand, from the government's perspective, the lower applied rates give the country the ability to raise tariffs quickly in order to insulate its domestic market from fluctuations in world prices and thus minimize harm to the national economy. Unfortunately, when countries utilize high bound tariffs as an umbrella under which they vary their applied tariffs, they can eliminate much of the advantage that stable, bound tariffs have over nontariff barriers and can contribute toward greater instability in world prices.