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**TARIFFS AND THE EAST ASIAN FINANCIAL CRISIS**

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## **ABSTRACT**

This study examines the role of tariffs during the East Asian financial crisis and finds that despite its rather limited reflection in the previous debate, there *is* a role of tariffs when it comes to fighting the negative impact of a financial downturn. Each of the affected countries made an explicit and conscious decision to not raise tariff barriers in response to the crisis. Individual strategies applied by the Affected-5 to offset the crisis varied from country to country: significant tariff reductions in the framework of accelerated trade liberalization programmes can be found as well as tendencies to decelerate or even pause liberalization. Thailand was the exceptional case, where some tariffs were increased. The principal motivation for tariff increases was revenue generation, as opposed to an explicit desire to further protect industries from import competition. The paper highlights the role of trade policy as a complement to other policies such as financial and corporate sector reforms during a crisis.

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## ABBREVIATIONS

AFTA	ASEAN Free-Trade Area
APEC	Asia-Pacific Economic Co-operation
ASEAN	Association of South-East Asian Nations
CAP	Collective Action Plan
CEPT	Common Effective Preferential Tariff
CKD	Completely-knocked-down
EO	Executive Order
GATS	General Agreement on Trade in Services
IAP	Individual Action Plan
ITA	Information Technology Agreement
MFN	Most Favoured Nation
MRA	Telecommunications Mutual Recognition Agreement
NTM	Non-tariff measures
TRIPS	Trade-related intellectual property rights
TRP	Tariff Reform Program
UR	Uruguay Round

## I. INTRODUCTION

The outbreak of the Asian financial crisis dramatically altered perceptions of the region's policies. The sudden arrest of the "miracle growth"<sup>1</sup> story led to a lively and continuing debate on the causes and consequences of this financial crisis. Previous discussions lauding the economic miracle were replaced by questions on failures of previous trade policies. Was it possible that East Asia's policy of economic openness was "*both (...) the source of the Asian miracle as well as of its present debacle?*" (Asian Development Bank, 1999).

While many factors have already been scrutinized for their possible contribution to the outbreak of the crisis and some on the response, very little examination of tariffs has so far been undertaken. Most of the focus in the context of the policy response has been, not surprisingly, related to macroeconomic policy. This study will analyse the role of tariffs during the Asian crisis. In particular, the specific focus is on whether or not, during a crisis, there is an

economic and/or political rationale to raising protection. The paper presents evidence of the degree to which tariff changes was a policy response by governments of the five countries most affected by the crisis.

The first part of the paper reviews the pre-crisis trade environment, examining economic performance and main policy developments. Next to be considered will be the management and adjustment measures taken in the wake of the financial downturn, covering both trade and non-trade policies at the regional level. This will be followed by a detailed analysis of Affected-5's<sup>2</sup> response in terms of their tariff policy. The role of multilateral trade rules shall also be examined through, looking at existing Uruguay Round commitments, the influence of tariff bindings, as well as at the scope for trade policy measures within those regulations. Finally, the study will conclude with an identification of lessons about the role of tariffs.

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