

Eighteenth Annual Short Course in Global Trade Analysis  
"Introduction to Applied General Equilibrium Analysis in a Multi-Region Framework"  
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# ZERO-FOR-ZERO SECTORAL PROPOSAL ON TEXTILES



Adelina MENDOZA  
Ismail Gencay OGUZ



# Introduction

- DDA Tariff reduction modalities for Ag and NAMA are relatively stable.
- One of the sticky points in the NAMA negotiations is the proposal of some Members for “zero-for-zero” tariffs on selected sectors.

**Analyze additional effects of fully liberalizing tariffs on the textile sector.**

# Base Data:

- Peter's paper analyzed the impact of applying Doha tariff reduction modalities on all regions with special focus on Egypt!
- Our analysis uses the results of the previous analysis.

# Description

## **Version:**

Base 26x12 Database based on two prior database modifications as outlined below:

- 1) The base data (egy Bav2) has the SO scenario imposed on the database using the alertax procedure (creates version egyalt)
- 2) ATC implementation is simulated by shocking the database (egyalt) to create a new database (egyaltmf -- this database) to which Doha Scenario shocks are applied.

## **Closure:**

Same as the CGE Closures applied for the study on “Projected Impacts of the Doha Development Round on Egypt’s Trade and Production”

(exogenous ‘trade balance’ and fixed real wage for unskilled labor)

## **Shock:**

Zero for zero tariff on Textiles.

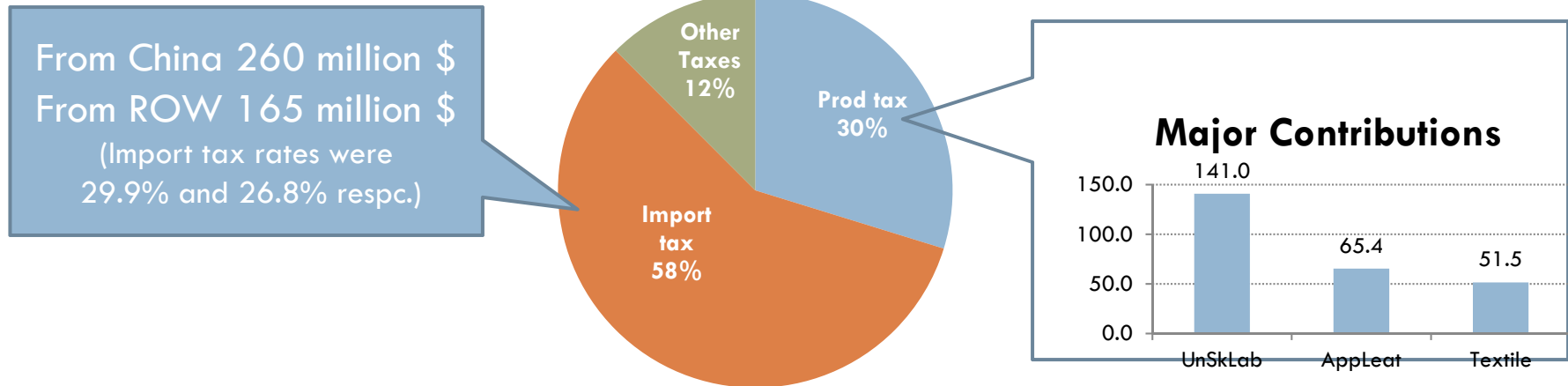
Shock tms("Textile",REG,REG) = target% 0 from file tms.shk;

# WELFARE

Country/Region	Allocative Efficiency	Endowment	Terms of Trade	Investment Savings	Total Welfare
Central America	71.1	188.57	-84.86	31.06	205.89
China	455.86	1,175.65	-427.1	-56.62	1,147.8
Egypt	9.44	-2.99	-49.3	-25.55	-68.37
European Union	196.73	0	847.16	43.62	1,087.51
India	99.54	89.99	-176.09	5.11	18.56
Japan	107.89	0	457.77	-27.08	538.58
<b>LDCs</b>	<b>890.66</b>	<b>892.82</b>	<b>-656.38</b>	<b>28.87</b>	<b>1,154.15</b>
MERCOSUR	118.05	190.03	-98.66	6.73	216.15
Mexico	177.78	-104.09	-20.45	34.38	87.85
ROW	1,368.03	2,058.13	-152.42	-64.29	3,209.45
United States	-336.56	0	227.57	25.07	-83.92
Rest of Mid-East	76.13	0	131.15	-1.29	205.98
<b>Total</b>	<b>3,234.65</b>	<b>4,488.12</b>	<b>-1.59</b>	<b>0.01</b>	<b>7,719.63</b>

Millions US Dollars

# LDCs: Allocative Efficiency (890 million \$)

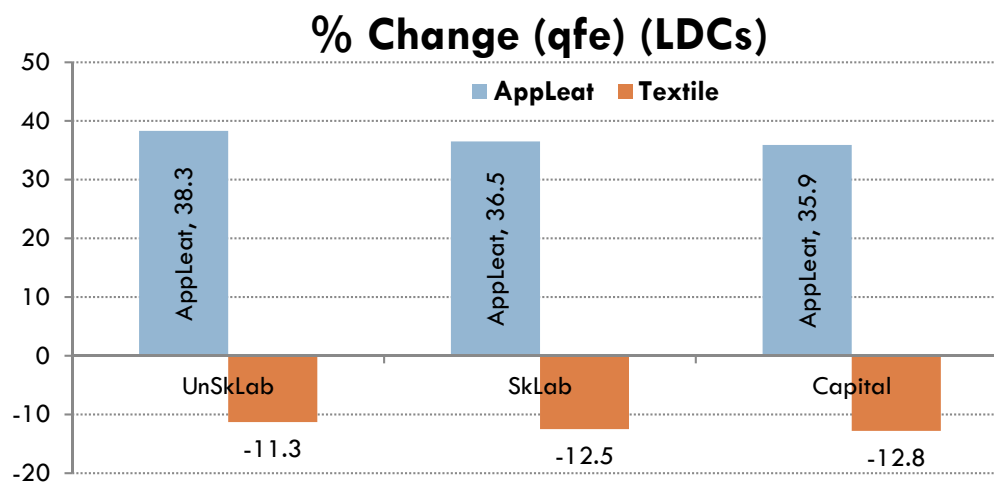


- The biggest part of the welfare gain coming from allocative efficiency is import taxes (514 mil.\$)
- The second biggest contribution is production taxes (265 mil. \$).
  - Decrease textile production 12%, output subsidy (3.2%) ---51.5 million \$
  - Increase apparel production 37%, output tax (1.4%)---65.4 million \$
  - The biggest contribution came from unskilled labor which has a tax of 13.6%. Since the closure allow to increase employment, unskilled labor increased by 1.3% and contribution of output tax on unskilled labor went up by 141 million \$

# LDCs: Endowment (893 million \$)

- Because of the closure, new unskilled labor came from the pool.
- The whole contribution came from unskilled labor.

Endowments	Contribution
1 Land	0
2 UnSkLab	892.8
3 SkLab	0
4 Capital	0
5 NatRes	0
Total	892.8



- Overall price of unskilled labor decreased by 12.9%
- Demand for unskilled labor decreased by 11.3% in textile while increased by 38.3% in apparel sector.
- Labor (unskilled and skilled) and capital shifted from textile to apparel sector.

$$qfe(i,j,r) = -afe(i,j,r) + qva(i,r) - ESUBVA(i) * [pfe(i,j,r) - afe(i,j,r) - pva(i,r)]$$

# LDCs: Exports & Imports (*after the shock*)

<i>Top Ten Affected Sectors</i>	Exports Value	Exports Change (%)	Imports Value	Imports Change (%)
AppLeat	12,117.5	49.6	1,889.3	-6.3
Textile	4,250.0	37.4	11,711.4	65.3
Fibers	1,111.0	2.3	446.1	-9.9
Wheat	8.7	1.0	1,226.9	0.0
Mnfcs	2,439.8	0.8	1,710.7	1.2
Cereal	73.7	0.7	217.6	-0.2
OthAg	5,639.0	0.6	1,169.9	0.5
VegOilFat	406.3	0.5	1,324.9	0.0
Vegftnt	2,467.1	0.4	612.4	0.0
Rice_Pad	367.3	0.0	1,143.3	0.1
<b>TOTAL</b>	<b>75,565.5</b>		<b>110,297.9</b>	

*Millions US Dollars*



# LDCs: Terms Of Trade (-657 mil.\$)

- In LDCs export prices for apparel and textile decreased by 6.1 and 3.7% respectively.
- While import price for textile went down by 21.8%
- The contribution of Terms of Trade to welfare for LDCs is -657.3 million \$.
  - ▣ Biggest part comes from apparel (591 mil. \$) and textile (101.8 mil.\$)

# Conclusions

- Full liberalization in textile sector for all countries lead to additional welfare gain after DOHA (8 billion \$)
- The substantial effect is seen in Least Developed Countries (49 countries)
- The closure affects the results dramatically:
  - ▣ *Without full employment closure, half of the total welfare gain resulted from endowment*

Country/Region	Allocative Efficiency	Endowment	Terms of Trade	Investment Savings	Total Welfare
LDCs (with full employment)	619.0	0.0	-595.1	39.1	61.7
LDCs	890.7	892.8	-656.4	28.9	1,154.2



**Thank You!**



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