



**Leverhulme Centre**  
for Research on Globalisation and Economic Policy

**Research paper  
media briefing**

## **Reducing import tariffs: Revenue-enhancing Trade Liberalisation in Developing Countries**

by Arijit Mukherjee and M. Emranul Haque

**New Research from the University of Nottingham's Globalisation and Economic Policy Centre (GEP) shows that developing countries may be hit much less by tariff reductions than previously thought.**

For many developing countries, tariffs can account for between a quarter and a half of tax revenue. For instance, in 2000, import duties accounted for 63.71% of tax revenue in the Maldives, 47.41% in the Bahamas, 31.55% in Mauritius and 26.67% in India. So many governments are reluctant to bow to pressure from developed countries to reduce tariffs.

But GEP's Dr Arijit Mukherjee said: "Although the traditional view has been that reducing import tariffs will hit developing countries hard, our research suggests that reducing tariffs on imported materials used in manufacturing causes production costs to fall, encouraging more firms to enter the market and output and the demand for inputs to increase. The increase in the demand for inputs, which helps to raise the tariff revenue, and the higher profit revenue will eventually compensate for the loss of tariff revenue.

"There is a short-term revenue hit, and this still needs to be addressed, but if developing countries are engaged in trade liberalisation negotiations this may make a trade in mutual tariff reductions more viable – or give them increased leverage to argue for short-term assistance to ride the revenue loss."

### **Key Findings:**

- Many developing countries rely heavily on import tariffs
- Traditional economic theory argues that attempts to cut tariffs will hit tax revenue seriously
- New research shows that reducing tariffs on some items not as harmful in long term as previously thought
- Information could be useful in trade talks

### **GEP Academics:**

#### **Dr Arijit Mukherjee**

Associate Professor in Economics

Arijit Mukherjee is interested in international trade issues and industrial organisation. He has also written about imitation, patent protection, welfare, technology licensing and foreign direct investment.



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