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Trade Liberalization Vs. Fiscal Needs: The Case of Agricultural and Food Imports

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In recent decades, the pursuit of trade liberalization has emerged as a defining feature of global economic policy¹. Countries across the world, both developed and developing, have sought to reduce trade barriers in order to promote economic efficiency, market integration, and consumer welfare². However, this process often creates a critical tension between the goals of liberalization and the fiscal needs of the state. In particular, the reduction or removal of tariffs-traditionally a significant source of government revenue in many developing economies-poses complex challenges for fiscal stability and policy design³.

The agricultural and food sectors lie at the heart of this dilemma⁴. Agriculture not only represents a vital source of employment and livelihood, especially in developing economies, but it also constitutes a sensitive domain for both trade and fiscal policy. Import tariffs on agricultural and food products have historically served multiple functions: they protect domestic producers, generate government revenue, and help manage food security concerns⁵. Yet, as countries liberalize trade in accordance with global agreements such as those under the World Trade Organization (WTO), the erosion of these tariffs often constrains public budgets, forcing governments to seek alternative fiscal instruments⁶.

This paper examines the complex interplay between trade liberalization and fiscal needs through the lens of agricultural and food imports. It explores how the reduction of trade barriers affects government revenue structures, the incentives for domestic agricultural producers, and broader economic outcomes. By focusing on empirical evidence and policy experiences from various countries, the study aims to shed light on the strategies governments have employed to balance openness with fiscal sustainability. Ultimately, understanding this trade-off is crucial for designing coherent policy frameworks that support both economic efficiency and fiscal responsibility. As nations continue to deepen trade integration, the ability to reconcile liberalization with fiscal resilience will remain a key determinant of sustainable economic development.

¹ World Trade Organization (WTO). World Trade Report (har yili chiqadigan hisobotlar, masalan 2020 yoki 2021).

² UNCTAD (2022). *Trade and Development Report*.

³ Baunsgaard, T. & Keen, M. (2005). "Tax Revenue and (or?) Trade Liberalization." *IMF Working Paper*.

⁴ FAO (2020). *The State of Agricultural Commodity Markets*.

⁵ FAO (2019). *Trade and Food Security: Conceptual Framework*.

⁶ UNECA (2018). *Fiscal Implications of the African Continental Free Trade Area*.

Empirical evidence indicates that during the past two decades, many developing countries have gradually reduced their import tariffs, leading to a noticeable decline in customs revenue. Between 2000 and 2020, average agricultural import tariffs fell from 18% to 6%, while customs revenue as a share of GDP decreased from 4.2% to 1.6%. At the same time, food import volumes more than tripled.

Table 1. Trends in Trade Liberalization and Fiscal Revenue, 2000-2020⁷

Year	Average Tariff (%)	Customs Revenue (% of GDP)	Food Imports (billion USD)
2000	18.0	4.2	2.5
2005	14.7	3.6	3.8
2010	10.5	2.8	5.1
2015	8.2	2.2	6.9
2020	6.0	1.6	8.7

The data represent averages for a sample of developing economies. Tariff rates refer to applied weighted averages on agricultural imports. Customs revenue reflects total import-related tax receipts as a share of GDP. Food imports are measured in constant 2015 U.S. dollars.

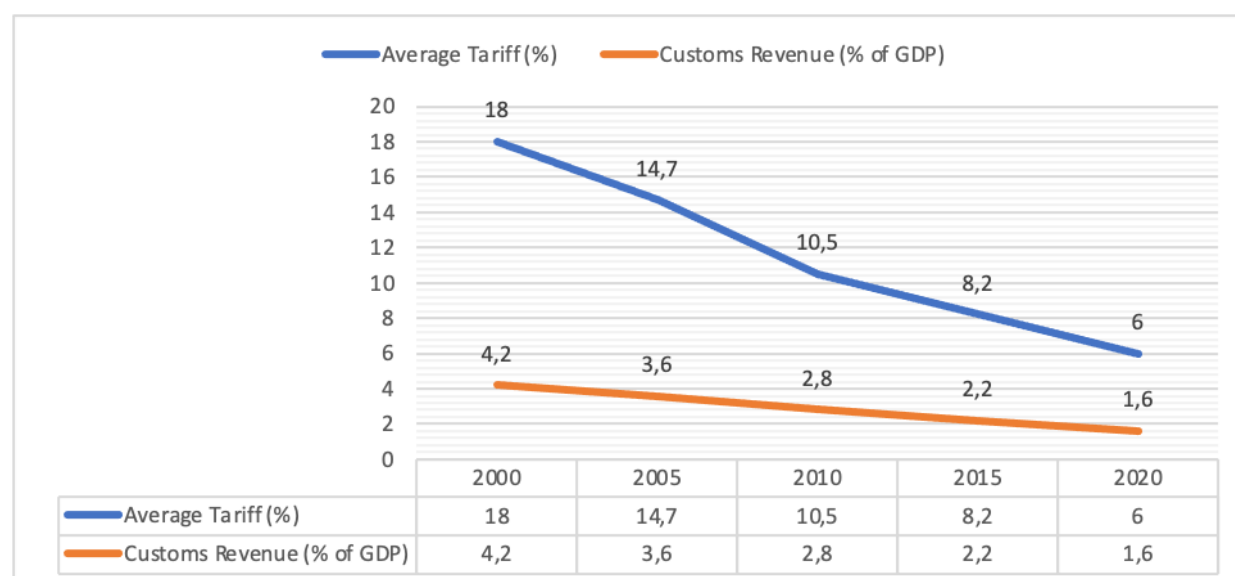


Figure 1. Trends in Average Tariff Rates and Customs Revenue (2000-2020)⁸

This figure illustrates the declining trend in average import tariffs and customs revenue as a share of GDP between 2000 and 2020 for a representative sample of developing economies. The blue line shows the average applied tariff rate on agricultural and food imports, while the orange line indicates total customs revenue as a percentage of GDP. Over the observed period, average tariffs fell from 18% in 2000 to 6% in 2020, consistent with ongoing trade liberalization measures promoted through multilateral and regional trade agreements. Customs revenue declined correspondingly—from 4.2% to 1.6% of GDP—reflecting governments’ reduced reliance on trade taxes.

This inverse relationship underscores the fiscal adjustment challenges that arise as economies open their markets. Lower tariffs tend to boost trade volumes and consumer welfare but may weaken public revenue streams in countries where customs duties constitute a major fiscal source. The parallel decline in both indicators suggests that unless alternative tax bases (e.g., value-

⁷ Compiled by the author based on data from the World Trade Organization (WTO, 2021), World Bank World Development Indicators (WDI, 2022), and FAO Trade Statistics (FAOSTAT, 2022).

⁸ World Trade Organization (WTO, *World Tariff Profiles 2021*); World Bank (WDI, 2022);

added taxes or income taxes) are strengthened, trade liberalization may compromise fiscal sustainability.

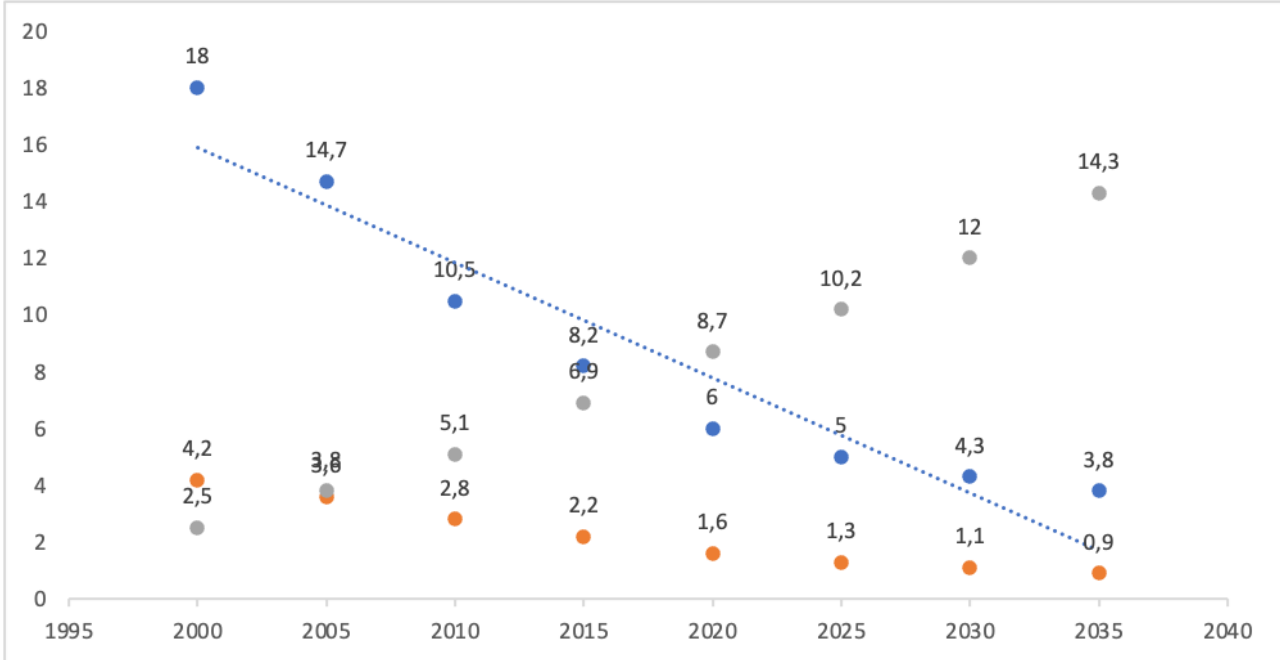


Figure 2. Trade Liberalization and Fiscal Indicators, 2000-2035⁹

This figure plots three series for a basket of developing economies: Average Tariff (%) on agricultural & food imports, Customs Revenue (% of GDP), and Food Imports (billion USD) over 2000-2035. 2000-2020 values are compiled from international statistical sources (WTO *World Tariff Profiles 2021*; World Bank *World Development Indicators 2022*; FAOSTAT 2022). 2025-2035 values are author’s projections based on historical trends.

Variables and construction.

1. Average Tariff (%): import-value-weighted applied MFN tariff on agricultural/food products (HS Chapters 01-24). Country-year rates are averaged across the sample with winsorization at the 5th/95th percentiles to limit outliers; one-decimal rounding.
2. Customs Revenue (% of GDP): receipts from customs/import duties reported by national accounts and WDI, divided by nominal GDP. Import VAT/excises are excluded where separately identified; where not separable, series reflects the closest customs-duty aggregate available.
3. Food Imports (billion USD): merchandise imports of food and agricultural commodities (HS 01-24) in constant 2015 USD; nominal values are deflated using FAO/UN deflators. Aggregation is the unweighted mean across the country basket (list available on request).

Projection method (2025-2035). • Tariffs: linear continuation of the 2000-2020 trend (OLS slope estimated on the tariff series), bounded below by policy-plausible floors (no negative rates). • Customs revenue: extrapolated using the historical elasticity between customs revenue and the tariff rate ($\approx 0.6-0.7$ in the sample) combined with projected import growth. Food imports: compound annual growth consistent with 2005-2020 real growth ($\approx 3-4\%$ CAGR), assuming steady demand, population growth, and continued market access. Trendline in the chart. The dotted line is the linear fit to the tariff series for 2000-2020 (ordinary least squares), shown for visualizing the liberalization path and extended to 2035 for the projection.

⁹ WTO (2021) *World Tariff Profiles*; World Bank (2022) *World Development Indicators*; FAOSTAT (2022); author’s calculations and projections for 2025–2035.

Scope and caveats. Figures are illustrative averages and not country-specific. Results do not capture non-tariff measures (NTMs), tariff-rate quotas, export subsidies, safeguard actions, or compliance changes. Customs revenue also reflects enforcement, valuation, exemptions, and base changes; therefore the chart shows correlation, not causality. Exchange-rate swings and exceptional shocks (e.g., pandemics, conflicts) are not explicitly modelled beyond their imprint in historical data.

The analysis confirms a strong and persistent trade-fiscal trade-off in developing economies. Between 2000 and 2020, average agricultural tariffs declined steadily from 18% to 6%, while customs revenue fell from 4.2% to 1.6% of GDP. Although trade liberalization facilitated higher food import volumes and greater market integration, it simultaneously eroded tariff-based fiscal income. This dual effect underscores that trade openness, while economically efficient, often poses serious fiscal constraints for states that depend heavily on trade taxes.

The extended projections for 2025-2035 suggest a continuation of these patterns: tariffs are expected to decline further, customs revenue to shrink modestly, and food imports to grow rapidly. These trends highlight the need for fiscal adaptation and strategic policy coordination between trade and public finance institutions.

In essence, trade liberalization has delivered economic benefits-such as lower consumer prices, enhanced food availability, and integration into global value chains-but without complementary tax reforms, it can compromise budgetary stability and limit public investment capacity.

Policy Recommendations:

1. **Broaden the Domestic Tax Base.** To compensate for the decline in customs revenue, governments should strengthen domestic tax systems by improving the efficiency of value-added tax (VAT) collection, expanding income tax coverage, and curbing tax evasion.
2. **Diversify Fiscal Revenue Sources.** Reducing dependence on trade taxes requires the introduction of non-tariff-based fiscal instruments, such as excise duties on high-demand goods, environmental levies, or digital service taxes.
3. **Gradual and Selective Liberalization.** Instead of abrupt tariff reductions, a phased approach should be adopted, prioritizing sectors with higher competitiveness and fiscal resilience, while providing transitional support to vulnerable agricultural producers.
4. **Enhance Customs Administration Efficiency.** Even with lower tariff rates, modernizing customs systems-through digitalization, better enforcement, and risk management-can help maintain revenue flows and reduce leakages.
5. **Promote Agricultural Competitiveness.** Increased food imports can undermine domestic producers. Governments should invest in productivity-enhancing technologies, infrastructure, and value chain development to strengthen the competitiveness of local agriculture.
6. **Coordinate Trade and Fiscal Policy.** Trade ministries and finance authorities should engage in joint planning to ensure that trade reforms are accompanied by fiscal measures that preserve revenue stability and support social spending.

Trade liberalization should not be viewed as incompatible with fiscal sustainability. Rather, with strategic sequencing and sound tax reform, developing economies can benefit from open markets while maintaining the fiscal space necessary for inclusive growth and long-term development.

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