

## FROM OVERHANG TO POLICY SPACE ENHANCEMENT WITHIN WTO NEGOTIATIONS

© 2014 BERENDA S. V., PANOVA A. V.

УДК 339.54

## Berenda S. V., Panova A. V. From Overhang to Policy Space Enhancement Within WTO Negotiations

The article discusses issues related to the assessment of the impact on the level of bound tariff «Policy Space» within the trade negotiations in the WTO. The concept of «Policy Space» focuses on tariff component. In the article the quantitative analysis of bound tariffs was implemented in the context of countries – the founders and not the founders of the WTO; attempt to classify countries according to the level of bound tariffs; The comparative analysis of the «Policy Space» of individual countries. Stakeholder participation in the formation of «Policy Space» for Ukraine would increase their competitiveness on the foreign and domestic markets. Strong position in the context of the WTO negotiations will help Ukrainian companies to turn competitive potential into a competitive advantage. In conclusion, our hypothesis is that the founders of the WTO as a whole have a greater «Policy Space» than non-founders, was not confirmed.

**Key words:** policy space, bound tariffs, overhang, Doha Commitments

**Рис.:** 6. **Бібл.:** 14.

**Berenda Sergiy V.** – Candidate of Sciences (Economics), Associate Professor, Department of International Economics, V. N. Karazin Kharkiv National University (pl. Svobody, 4, Kharkiv, 61022, Ukraine)

**Email:** emc2@ukr.net

**Panova Anna V.** – Student, V. N. Karazin Kharkiv National University (pl. Svobody, 4, Kharkiv, 61022, Ukraine)

**Email:** a.panova@yahoo.com

УДК 339.54

UDC 339.54

**Беренда С. В., Панова А. В. От «оверхенг» к расширению «полиси спейс» в рамках переговоров ВТО**

В статье рассматриваются вопросы, связанные с оценкой влияния на уровень связанного тарифа «полиси спейс» в рамках торговых переговоров в ВТО. Понятие «полиси спейс» фокусируется на тарифной составляющей. В статье был реализован количественный анализ связанных тарифов в контексте стран – основателей и не-основателей ВТО; сделана попытка классифицировать страны в соответствии с уровнем связанных тарифов; выполнен сравнительный анализ «полиси спейс» отдельных стран. Участие заинтересованных сторон при формировании «полиси спейс» для Украины будет способствовать повышению их конкурентоспособности как на внешнем, так и на внутреннем рынках. Сильная позиция в контексте переговоров в рамках ВТО поможет украинским компаниям превратить конкурентный потенциал в конкурентное преимущество. В заключение: наша гипотеза, что в целом основатели ВТО имеют больший «полиси спейс», чем не-основатели, не подтвердилась.

**Ключевые слова:** «полиси спейс», связанные тарифы, overhang, Доха обязательства

**Рис.:** 6. **Библ.:** 14.

**Беренда Сергей Васильевич** – кандидат экономических наук, доцент, кафедра международной экономики, Харьковский национальный университет им. В. Н. Каразина (пл. Свободы, 4, Харьков, 61022, Украина)

**Email:** emc2@ukr.net

**Панова Анна Владимировна** – студент, Харьковский национальный университет им. В. Н. Каразина (пл. Свободы, 4, Харьков, 61022, Украина)

**Email:** a.panova@yahoo.com

**Беренда С. В., Панова А. В. Від «оверхенг» до розширення «полісі спейс» у рамках перемовин у СОТ**

У статті розглядаються питання, пов'язані з оцінкою впливу на рівень зв'язаного тарифу «полісі спейс» у рамках торгових переговорів у СОТ. Поняття «полісі спейс» фокусується на тарифній складовій. У статті було реалізовано кількісний аналіз пов'язаних тарифів у контексті країн – засновників і не-засновників СОТ; зроблено спробу класифікувати країни відповідно до рівня пов'язаних тарифів; виконано порівняльний аналіз «полісі спейс» окремих країн. Участь зацікавлених сторін при формуванні «полісі спейс» для України сприятиме підвищенню їхньої конкурентоспроможності як на зовнішньому, так і на внутрішньому ринках. Сильна позиція в контексті переговорів у рамках СОТ допоможе українським компаніям перетворити конкурентний потенціал на конкурентну перевагу. На закінчення: наша гіпотеза, що в цілому засновники СОТ мають більший «полісі спейс», ніж не-засновники, не підтвердилась.

**Ключові слова:** «полісі спейс», пов'язані тарифи, overhang, Доха зобов'язання

**Рис.:** 6. **Бібл.:** 14.

**Беренда Сергій Васильович** – кандидат економічних наук, доцент, кафедра міжнародної економіки, Харківський національний університет ім. В. Н. Каразіна (пл. Свободи, 4, Харків, 61022, Україна)

**Email:** emc2@ukr.net

**Панова Анна Володимирівна** – студент, Харківський національний університет ім. В. Н. Каразіна (пл. Свободи, 4, Харків, 61022, Україна)

**Email:** a.panova@yahoo.com

**Relevance.** Ukraine's WTO membership during last 5 years has been leaving more unresolved issues than answers regarding domestic market development. On the one hand it can be elucidated by Ukraine's youth and callowness concerning turning competitive potential into competitive opportunities. On the other hand there is an internal tension between

the necessity for adjusting to changes caused by implementation of WTO rules and standards to Ukrainian legal system and actual regulation system in Ukraine. This dichotomy defined impossibility of domestic producers' competitive opportunities development on the basis of market doctrines only; domestic market protection and articulation of efficient ways of govern-

ment control. All the above resulted into tricky economic situation in Ukraine that initially came through import rocketing at a time of WTO membership.

Inaptitude to obey WTO rules to protect domestic market induces to analyze modern policy space practices in the world and Ukraine. All this stipulate the relevance of our research.

**Analysis of publications.** In foreign publications policy space takes an enormous importance among the criticism of the World Trade Organization that has received considerable attention in the recent years. Among them there are Brief Paper of Overseas Development Institute «Policy space: are WTO rules preventing developing?» [7]; Dani Rodrik's research «How to make the trade regime work for development» [8]; similar criticisms can be found also in the United Nations Conference on Trade and Development's (UNCTAD's) Trade and Development Report (2006) [9] etc. In the meantime some publications contradict the fact that restriction of developing countries' policy space leads to adverse effects only. Chris Milner's research «Constraining and Enhancing Policy Space: The WTO and Adjusting to Globalization» is a proper example. [10].

Term «policy space» is also mentioned in Bernard Hoekman's research «Operationalizing the Concept of Policy Space in the WTO: Beyond Special and Differential Treatment» [11] and in Jayanthi Natrajan's research «Allow Policy Space to Define Sustainable Development Strategies as Per National Priorities» [12].

In Ukraine term «policy space» now can be found in periodicals only. For instance, this term is mentioned in the speech of USA-WTO ambassador Michael Punke published in «Zerkalo nedeli» [14] and in the report of The Government Commissioner for European Integration Valeriy Piatnytskyi where he argues about WTO founders' advantages over WTO non-founders [13].

On the ground of publications' analysis let us try to enunciate scientific hypothesis that WTO founders have bigger policy space than non-founders within the framework of opportunities and standards enshrined in WTO system. Despite the possibility of wide interpretation of term «policy space» our hypothesis will be based on its quantitative evaluation by the example of one of six Doha Commitment area – tariffs area – with the help of overhang exponent.

The goal of this research is a quantitative evaluation of policy space and analysis of its treatment within WTO negotiations.

**Results.** Present-day understanding of term «policy space» by world community has arisen only a short time ago and can be interpreted both in general and in the strict sense. As for mention of term «policy space» in Russian and Ukrainian scientific literature, here it hasn't gained currency at all.

In current meaning term «policy space» appeared in about 2002 in UNCTAD documents, and acquired its first official status in the São Paulo Consensus of 2004. This defined it as «the scope for domestic policies, especially in the areas of trade, investment and industrial development which might be framed by international disciplines, commitments and global market considerations» [7, p. 1].

As a word combination «policy space» was most often used in the Doha context around 2003 – 2004, when UNCTAD first discussed it. In the WTO 2003 Ministerial Conference

there were references in speeches by, among others, Zambia, Solomon Islands, Guyana, Dominica, Jamaica, Lao, and Mauritius. In contrast there were many few mentions at the Hon Kong Ministerial Conference in 2005. This was partly because of the WTO negotiations had by then moved on to specific rules and constrains, so that general positions and objects were less relevant [7, p. 2].

Policy space in relation to specific Doha Commitments could be an issue in six areas:

1. Tariffs;
2. Agricultural policy;
3. Services;
4. Trade Related Intellectual Properties (TRIPs);
5. Investment;
6. Aid for Trade [7, p. 2].

Within WTO these areas are a narrow interpretation of policy space.

As an issue of tariff area policy space is a gap between bound and applied Most favoured nation (MFN) rates [7, p.3]. Tariff policy space can be also known as a binding overhang.

In 2004 term «policy space» appeared in mimeo of Dani Rodrick «How to make trade regime work for development» where he argues that most successful cases of development in the recent past (citing China, India, South Korea, Taiwan and Vietnam) have been based on the adoption of distinctive and sometimes heterodox policy stances. Given this, he argues that developing countries in general need to resist the constraining of their policy space (through for example allowing encroachment of WTO disciplines) so as to be able to adopt similar (or dissimilar, but equally distinctive and heterodox) policies [8].

In 2006 the United Nations Conference on Trade and Development's (UNCTAD's) Trade and Development Report argued that: «...the rules and commitments of the international trading regime restrict the de jure ability of developing countries to adopt national development policy» [9, p. 167].

In 2009 term «policy space» was mentioned in Chris Milner's research «Constraining and enhancing policy space: the WTO and adjusting to globalisation» where he argues that less attention has been given to the potential role of the WTO in enhancing developing countries' trade and trade-related policy space, both in terms of the extent and quality of that policy space. By lowering tariff and non-tariff import barriers or constraining the use of contingent protection instruments in export markets, WTO membership seeks to increase the scope and effectiveness of developing countries' own reforms aimed at promoting exports. The extension of WTO disciplines to the opening of markets to services as well as goods is another potential source of policy space enhancement. In turn the quality of the developing countries' trade policy space may be enhanced through 'aid for trade' initiatives which increase the capacity to undertake and implement trade reform and increase the effectiveness of trade reforms by improving their trade-related infrastructure and institutions [10, p. 128].

Having analyzed all above, we can see that term «policy space» has very wide interpretation beginning with quantitatively incalculable «room for manoeuvre» and finishing with binding coverage that can be counted and measured.

It is significant that in foreign publications term «policy space» is oftener used in a general sense.

Given term is also mentioned in Ukrainian literature but in very rare cases and in the strict sense – within the meaning of tariff regulation. For instance, as it has been noted above, we can find this term in the report of The Government Commissioner for European Integration V. Piatnytskyi:

«So-called policy space (ab verbum space for move) is a question of great importance for every country. In other words, for example, MFN (Most favoured nation - author's note) applied tariff is 2% and bound tariff is 10% then our «policy space» is 8% (each tariff line can have its own)» [13].

In our research we will consider policy space in relation to specific Doha Commitments as an issue of tariff area (also known as binding overhang) that is defined as a gap between bound and applied MFN rates.

Let us examine mentioned above terms closely.

The bound tariff is the maximum MFN applied tariff level for a given commodity line. Once a rate of duty is bound, it may not be raised without compensating the affected parties. When countries join WTO or when WTO members negotiate tariff lev-

els with each other during trade rounds, they make agreements about bound tariff rates, rather than actually applied rates.

MFN applied tariffs are duties that are actually charged on imports. These can be below the bound rates [6, p. 27].

In general interrelation of two mentioned above terms appears as follows (Figure 1):

Though there are 159 WTO members, according to WTO Trade Profiles statistical information is available only about 149 WTO members. During taking steps of empirical research we have analyzed these 149 WTO members only, in particular their bound and MFN applied tariffs over the 2008 to 2013 period. With the aid of it we have estimated WTO members' policy space and its dynamics.

It is important to note that not all 149 WTO members were included into analyse group. The selection criteria was binding coverage – share of HS (Harmonized System) six-digit subheadings containing at least one bound-tariff line [6, p.27].

Therefore all 149 WTO members were divided into 3 categories (Figure 3):

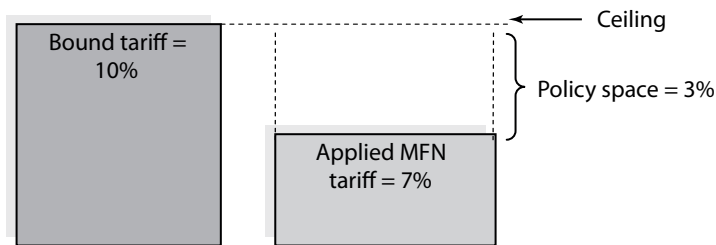


Figure 1. Policy space classification drawing

\* Created by authors

Remark. Ceiling – overall tariff level that country can impose on the basis of internal laws

A	100 % binding coverage	42 %
B	95 – 99,9 % binding coverage	16 %
C	0 – 95 % binding coverage	42 %

Figure 2. Binding coverage ranking of WTO members (2013)

\* Created by authors on the base of [6].

Initially only countries with 100% binding coverage were included into analyse group (id est category A countries). Category B and C countries (id est countries with not 100% binding coverage) have «fuzzy boundary» of policy space that complicates its quantitative evaluation. But our intention was to include countries with binding coverage more than 95%.

Thereafter category A and B countries were divided into 2 groups: founders and non-founders.

On the basis of the given groups' policy space we calculated average policy space for each year from 2008 to 2013 period (Figure 3, Figure 4):

Thus we can see that during the whole period category A and B WTO founders were having less policy space than category A and B WTO non-founders.

Also we can note that category A countries have policy space decrease (Figure 3). So, average policy space of category A founders decreased by 3,92% and average policy space of category B non-founders – by 2,17% (Figure 5).

In the meantime when average policy space of category A countries deteriorated over last 5 years, average policy space of category B countries increased. So, average policy space of category B founders increased by 10,13% and average policy space of category B non-founders – by 0,07% (Figure 4).

It is also important to mention that the reasons for policy space decrease can be both bound tariffs decrease and MFN applied tariffs escalation. Brazil (category A) and Croatia (category B) can be used as examples. Policy space of both countries decreased over last 5 years but there were different reasons for

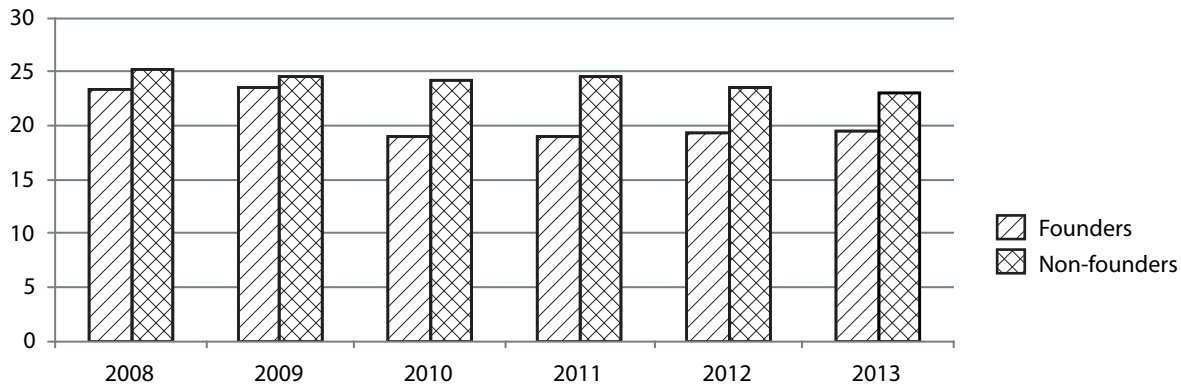


Figure 3. Dynamics of category A countries in postcrisis.

\* Created by authors on the base of [1], [2], [3], [4], [5], [6].

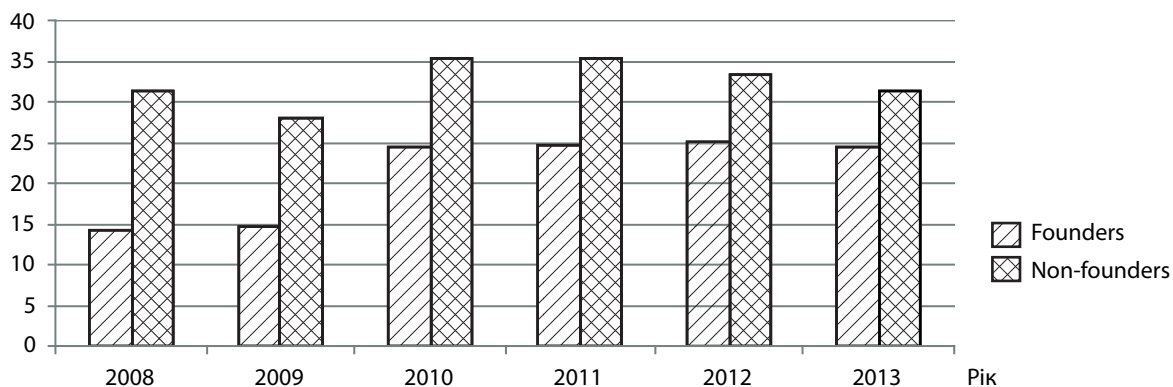


Figure 4. Dynamics of category B countries in postcrisis period.

\* Created by authors on the base of [1], [2], [3], [4], [5], [6].

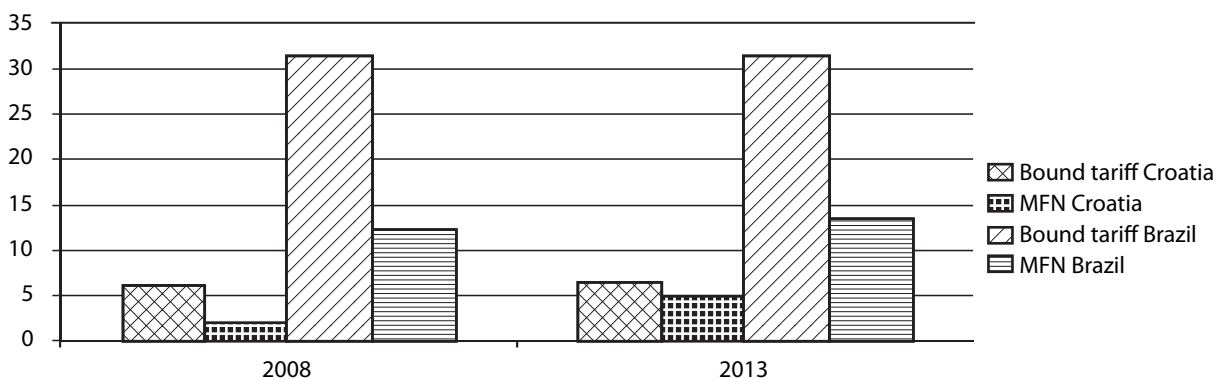


Figure 5. Comparative analysis of Brasil's Policy Space and Croatia's Policy Space.

\*Created by authors on the base of [1], [6].

it. Brazil policy space deteriorated because of MFN applied tariffs increase and Croatia policy space - because of bound tariffs increase.

Figure 5 shows that Brazil's policy space decreased by 1,3% and Croatia's policy space - by 0,1%. Still in case of Brazil it happened because of MFN applied tariff increase by 1,15% and in case of Croatia - because of bound tariff decrease by 0,1%.

In the meantime in spite of the fact that world tendency shows average policy space decrease some countries have an-

other situation. For instance, Ukraine's (category A) and Australia's (category B) policy space increased over last 6 years. But again, there are different reasons for it:

Figure 6 shows us that the reason of Australia's policy space increase was MFN applied tariffs decrease by 0,8% and bound tariffs increase by 0,1%. The reason of Ukraine's policy space increase is MFN applied tariff decrease by 0,7%.

Thus, the reasons for policy space change can be different and not always can lead to amenities for a country. For ex-

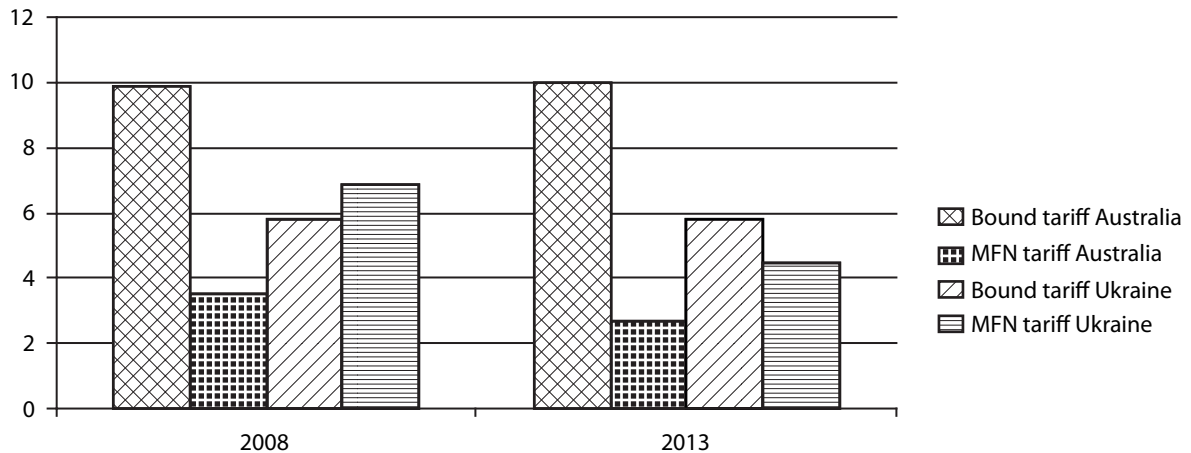


Figure 6. Comparative analysis of Australia's and Ukraine's policy space

\* Created by authors on the base of [1], [6].

ample, Ukraine's policy space increased (and it sounds good) but the reason for it was MFN applied tariffs decrease (that can lead to the negative results). There is an opposite situation in Brazil. Brazil's policy space decreased (and at first it seems to be bad) but the reason for it is MFN applied tariffs increase (that increases tariff shelter level, protect domestic manufacturers and altogether has positive effect).

### Conclusions

#### Theoretical

1. Term «policy space» can be found very rare in Ukrainian and Russian literature. In our opinion, term policy space must be clarified as the term can be used in many ways. We suggest to use given term of terner in scientific and practical sphere by means of its implementation into laws and regulations.
2. Taking into account different reasons of policy space change we are trying to put into practice terms Overhang + (OVRH+) and Overhang (OVRH). OVRH+ means policy space change because of MFN applied tariffs decrease and OVRH means policy space change because of bound tariffs increase. This difference can influence the special aspects of negotiations within WTO.

#### Empirical

1. To assess policy space consistently we have divided all countries into categories according to their binding coverage. By virtue the fact that there are considerable policy space differences among WTO members we have counted overhang for category A and B countries only.
2. Policy space comparative study by years can be conducted only under one specific country because quantitative evaluation of average policy space does not show real situation. Besides, policy space comparative study is possible only in the case when countries have the same binding coverage.

When joining WTO Ukraine imposed bound tariffs on all tariff lines, so Ukraine's binding coverage is 100%. Thus, Ukraine's policy space for every tariff line can be easily counted.

There is another situation in Australia. Today 97% of its tariff lines are bound. Those one that are unbound num-

ber 300 tariff lines (considering that in general Australia has 10,000 tariff lines). Thus Australia's policy space has no upper limit – this country can impose tariff at every level – 10%, 100% or even 1000% – it does not matter.

For this reason it is not very reasonable to conduct comparative policy space analysis between Ukraine and Australia because the last one does not have upper limit.

On the basis of all the mentioned above we can make final conclusions about quantitative policy space evaluation and stated hypothesis:

1. Policy space of category A non-founders is bigger than policy space of category A founders. We can see that our hypothesis that WTO founders have bigger policy space than non-founders has not been proved.
2. However we do not reject the possibility that policy space in general sense (six areas in relation to specific Doha Commitments) can have positive sign for founders.

In general we can note the fact that clear understanding of policy space matter, its change reasons both in general and in strict sense will help to form Ukrainian producers' attitude within the context of WTO trade negotiations with contractors.

Extensive stakeholders participation at Ukraine's policy space formation will help to enhance their position in competitive struggle both at foreign and domestic market. Strong stance within the context of WTO negotiations will help Ukrainian companies to convert competitive potential into competitive edge.

### REFERENCES

1. World Trade Profiles 2008 [Electronic resource] // WTO. – Access mode : [http://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/trade\\_profiles08\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/anrep_e/trade_profiles08_e.pdf)
2. World Trade Profiles 2009 [Electronic resource] // WTO. – Access mode : [http://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/trade\\_profiles09\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/anrep_e/trade_profiles09_e.pdf)
3. World Trade Profiles 2010 [Electronic resource] // WTO. – Access mode : [http://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/trade\\_profiles10\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/anrep_e/trade_profiles10_e.pdf)

4. World Trade Profiles 2011 [Electronic resource] // WTO. – Access mode : [http://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/trade\\_profiles11\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/anrep_e/trade_profiles11_e.pdf)
5. World Trade Profiles 2012 [Electronic resource] // WTO. – Access mode : [http://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/trade\\_profiles12\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/anrep_e/trade_profiles12_e.pdf)
6. World Trade Profiles 2013 [Electronic resource] // WTO. – Access mode : [http://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/trade\\_profiles13\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/anrep_e/trade_profiles13_e.pdf)
7. «Policy space: are WTO rules preventing developing?» // Brief Paper of Overseas Development Institute. – 2007. – P. 1 – 4.
8. Rodrik D. «How to Make the Trade Regime Work for Development». – Harvard University. Manuscript, February 2004.
9. Trade and Development Report (2006) // United Nations Conference on Trade and Development's (UNCTAD's) [Electronic resource]. – Access mode : [http://unctad.org/en/docs/tdr2006\\_en.pdf](http://unctad.org/en/docs/tdr2006_en.pdf)
10. Milner Ch. «Constraining and Enhancing Policy Space: The WTO and Adjusting to Globalization» // The Journal of International Trade and Diplomacy 3 (1), Spring 2009: 127 – 154.
11. Hoekman B. «Operationalizing the Concept of Policy Space in the WTO: Beyond Special and Differential Treatment» // Journal of International Economic Law 2005. – Volume 8, Issue 2. – P. 405 – 424.
12. Natrajan J. «Allow Policy Space to Define Sustainable Development Strategies as Per National Priorities» // UN [Electronic resource]. – Access mode : <http://www.unctad2012.org/index.php?page=view&nr=440&type=230&menu=38>
13. Сколотяний Ю. Валерий Пятницкий: «Мы – часть международного торгового пространства и отсекаем себя от него не собираемся» // Зеркало недели. – 2012. – № 34.
14. Сколотяний Ю. Майкл Пунке: «Україна діє, як справжній порушник спокою у СОТ» // Дзеркало тижня. – 2013. – № 8.

## REFERENCES

- Milner, Ch. "Constraining and Enhancing Policy Space: The WTO and Adjusting to Globalization" *The Journal of International Trade and Diplomacy*, no. 3 (1) (2009): 127-154.
- Natrajan, J. "Allow Policy Space to Define Sustainable Development Strategies as Per National Priorities" <http://www.unctad2012.org/index.php?page=view&nr=440&type=230&menu=38>
- "Operationalizing the Concept of Policy Space in the WTO: Beyond Special and Differential Treatment" *Hoekman B. vol. 8, no. 2* (2005): 405-424.
- "Policy space: are WTO rules preventing developing?" *Brief Paper of Overseas Development Institute* (2007): 1-4.
- Rodrik, D. *How to Make the Trade Regime Work for Development*: Harvard University, 2004.
- Skolotianyy, Yu. "Valeriy Piatnitskiy: «My – chast mezhdunarodnogo trgovogo prostranstva i otsekat sebia ot nego ne sobiraemsiya»" [Valery Piatnitski: "We - part of the international trade area and to cut yourself from it are not going to"]. *Zerkalo nedeli*, no. 34 (2012).
- Skolotianyy, Yu. "Maikl Punte: «Ukraina diie, iak spravzhnii porushnyk spokoiiu u SOT»" [Michael Punte: "Ukraine acts as a true disturber of the WTO"]. *Dzerkalo tyzhnia*, no. 8 (2013).
- "Trade and Development Report" [http://unctad.org/en/docs/tdr2006\\_en.pdf](http://unctad.org/en/docs/tdr2006_en.pdf)
- "World Trade Profiles 2012" WTO. [http://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/trade\\_profiles12\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/anrep_e/trade_profiles12_e.pdf)
- "World Trade Profiles 2008" WTO. [http://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/trade\\_profiles08\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/anrep_e/trade_profiles08_e.pdf)
- "World Trade Profiles 2010" WTO. [http://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/trade\\_profiles10\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/anrep_e/trade_profiles10_e.pdf)
- "World Trade Profiles 2009" WTO. [http://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/trade\\_profiles09\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/anrep_e/trade_profiles09_e.pdf)
- "World Trade Profiles 2013" WTO. [http://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/trade\\_profiles13\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/anrep_e/trade_profiles13_e.pdf)
- "World Trade Profiles 2011" WTO. [http://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/trade\\_profiles11\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/anrep_e/trade_profiles11_e.pdf)