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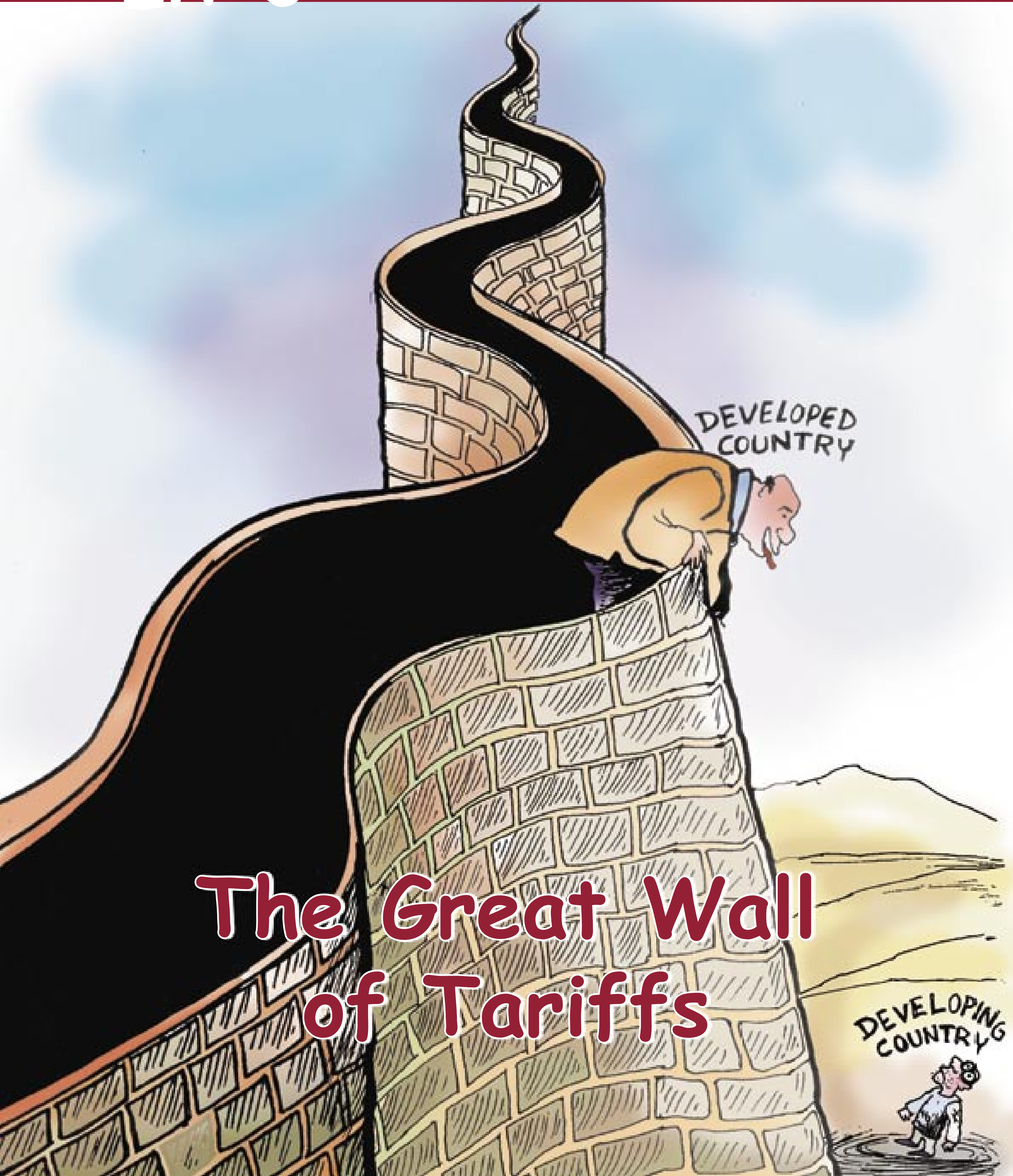

The Great Wall of Tariffs

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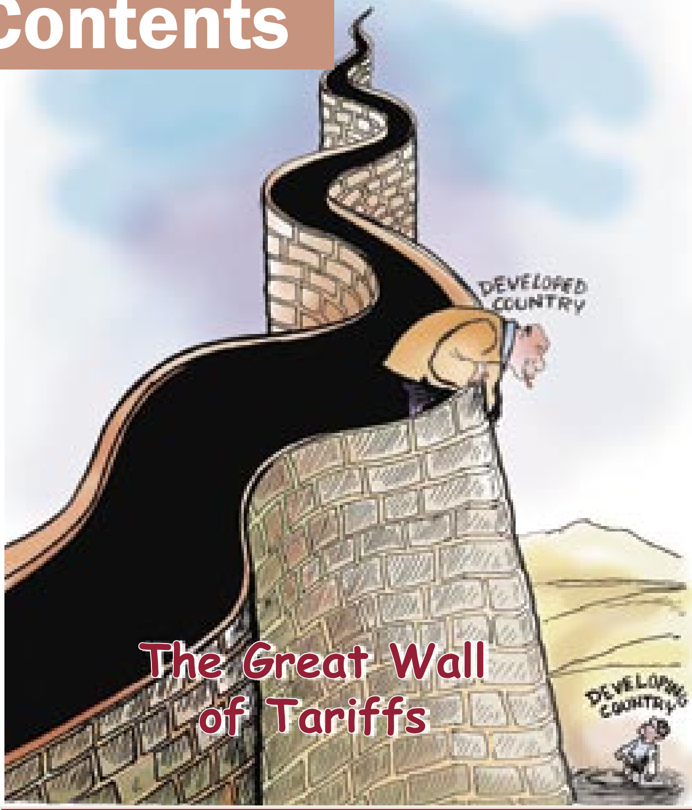

Editorial

Towards a Pro-Development NAMA Agenda

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Towards a Pro-Development NAMA Agenda

The Hong Kong Ministerial is closing in. Negotiations are progressing on different fronts. On some issues there are deadlocks, on some a degree of coherence, while for a few there is simply no idea on how to move forward.

The negotiations on Non-Agriculture Market Access (NAMA) are based on the Doha mandate of 2001 that calls for reduction or elimination in tariff peaks, tariff escalation, high tariffs and non-tariff barriers especially on products of export interest to developing countries. It also calls for comprehensive product coverage including reduction commitments through less than full reciprocity for developing countries. Of late, there has been a stalemate in these negotiations. However, attempts have been made to expedite the NAMA negotiations in the light of upcoming Ministerial.

Industrial tariffs are clearly a contentious issue in NAMA negotiations, and the concerns of developing countries on steeper reduction in tariffs are quite justified, given the high adjustment costs. On the issue of tariff bindings, developing countries should reinforce the importance of special and differential treatment by securing lower tariff bindings, a must for securing domestic policy place.

Another lesser-explored territory is that of non-tariff barriers. With reducing tariffs the importance of ensuring that new barriers are not constructed to restrict exports of developing countries, is a formidable task. There is scope for certain Non-Trade Barriers (NTBs) to be tackled under NAMA, however negotiations on NTBs are lacking creativity and initiative. Till September 2005, there wasn't any consensus on which NTBs should be dealt with within the NAMA negotiations.

Given the increasing need for forging alliances for win-win outcomes in future trade negotiations in the WTO, it is time that the South Asian countries come together more operationally than ever before. This will also ensure that South-South alliance building, like the G20, will be further strengthened. The interest of South Asian countries on one hand lies in ensuring that the developing countries, India, Pakistan and Sri Lanka do not have to undergo steeper tariff cuts, on the other hand LDCs, Nepal and Bangladesh are compensated for erosion of preferences.

Through our work, we want to ensure that the Doha Round results in benefiting developing countries. Our annual publication 'The South Asian Yearbook of Trade and Development' will attempt to unravel South Asia's interest in the current trade negotiations. Based on rigorous research by experts, the papers will advocate for change by making recommendations that can assist negotiators and policy makers. Our Hong Kong Series of Papers will provide focused inputs on India's negotiating position on select issues. This initiative attempts to ensure that there are well-researched policy inputs available in the public domain for exchanging ideas and catalysing debate. Further, we have and will continue to organise consultations to provide inputs to developing countries on what are the parameters of pro-poor outcomes for the Doha round.

This issue of 'Trading Up' looks at the various issues that revolve round market access for industrial goods. Several sections seek to demystify the issues pertaining to NAMA. In addition, the interviews deepen our understanding of the geopolitics surrounding NAMA negotiations. We have continued to make this magazine as accessible to a lay but interested reader, and hope to continue our process of capacity building of an increasing set of stakeholders on pertinent issues of trade and development.

We welcome your inputs on improving 'Trading Up'. We will incorporate as many relevant suggestions as possible and we hope that your growing support will continue unabated.

■ Dr. Samar Verma
Regional Policy Advisor
Oxfam GB

....And NAMA Came Tumbling After

Prabhash Ranjan

If events at Geneva are anything to go by, then, it seems, ministers of the member countries of the World Trade Organisation (WTO) in Hong Kong will be on a paid holiday. Trade negotiators in Geneva, who have to give a draft to their ministers for political endorsement at Hong Kong, are still scratching their heads and wondering how to come to an agreement. They move a step forward only to retrace three steps. What one gets to hear is only political rhetoric without any concrete action on ground. The blame game is on and will continue forever. However, what has been conveniently forgotten is the fate of the millions of poor who are suffering due to the rigged rules of the WTO and vicious trade diplomacy. This is true for all negotiating issues and, industrial tariffs are no exception.

Reduction in industrial tariffs has always been the prime concern of the international trading community, as tariffs are perceived to be obstacles to international trade. Reduction in tariffs is said to be necessary for countries to get more market access. Right from the days when the General Agreement on Tariffs and Trade (GATT) 1947 was signed upto now, countries have made every possible effort to reduce tariffs so as to have easier flow of goods across borders. In fact, GATT has a statutory provision mandating countries to undertake negotiations for substantial reduction in the tariff rates. However, these negotiations should be conducted on a mutually advantageous basis and should take into account the different developmental needs of individual countries.

The present round of negotiations launched in Doha in 2001 is yet another attempt to reduce the tariff rates on non-agricultural products. The Doha Declaration clearly enunciates and reiterates the principle given in GATT on reduction of industrial tariffs. It states that the negotiations on Non-Agriculture Market Access (NAMA) will target to reduce or eliminate various tariff and non-tariff barriers, particularly on products of export interest to developing countries. It also states that such negotiations shall take into account the needs of developing and least developed countries (LDCs). Further, it recognises the special and differential treatment meted out to developing countries and LDCs by asking them to make non-reciprocal commitments to developed countries (See Box 1). Hence, developing countries and LDCs should not be asked to undertake the same commitments that developed countries would undertake.

After the adoption of the Doha Declaration, negotiations on NAMA were launched in January 2002 by creating a negotiating group on market access (NGMA). The ongoing negotiations on non-agricultural products were to be completed by 1 January 2005. However, this deadline has been missed and the negotiations are still far from being completed.

The participants in the negotiation process were first expected to agree on 'modalities' regarding how to take the process of negotiation forward. In this regard, Pierre Louis

Box 1

Doha Development Agenda, MINISTERIAL DECLARATION
Market Access for Non-agricultural Products

16. We agree to negotiations which shall aim, by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries. Product coverage shall be comprehensive and without *a priori* exclusions. The negotiations shall take fully into account the special needs and interests of developing and least-developed country participants, including through less than full reciprocity in reduction commitments, in accordance with the relevant provisions of Article XXVIII *bis* of GATT 1994 and the provisions cited in paragraph 50 below. To this end, the modalities to be agreed will include appropriate studies and capacity-building measures to assist least-developed countries to participate effectively in the negotiations.

Source: World Trade Organisation Ministerial Declaration, WT/MIN(01)/DEC/1, adopted 14 November 2001

Girard, the chairman of the NGMA made the first proposal for modalities in 2003, before the Cancun ministerial. However, this proposal faced stiff opposition from developed countries, as it proposed a milder tariff cutting approach unlike what the developed countries had been advocating. During the Cancun ministerial in 2003, a second text on NAMA was proposed. This text had moved away from the first NAMA draft and provided for many stringent conditions for developing countries and LDCs. This text had the stamp of developed countries, as it made an attempt to inflict the tariff reduction approach that rich countries had been advocating. However, it was vigorously opposed by the developing world especially by the G90 and African Caribbean and Pacific (ACP) countries.

After the debacle at Cancun, negotiations on NAMA witnessed a virtual deadlock till July 2004. In July 2004, all the countries agreed to a framework for establishing modalities in NAMA. However, it is interesting to note that there is not much difference in the framework text on NAMA that was adopted by the countries in July 2004 and the text that was rejected in Cancun. The only difference is an additional paragraph at the beginning of the text that was adopted in July 2004. The first paragraph merely states that the text on NAMA is initial and further negotiations are needed to reach the specifics. Hence, what the developing countries and LDCs have agreed to, was more or less the same text that they had rejected less than a year back. This was a major concession made by developing countries and LDCs as far as the NAMA negotiations are concerned.

Nevertheless, the July agreement was an important development as it was the first agreement amongst the countries after the collapse of the Cancun ministerial. It is also important, as it lays down the framework for establishing future modalities. It is imperative to understand the specific issues related to NAMA negotiations.

Tariff Reduction – Could we have some Common Sense Please...

The issue of tariff reduction is at the core of NAMA negotiations. It mainly entails the methodology that needs to be adopted to reduce the tariff rates. Developed and developing countries are divided on this issue. Developed countries want to follow an approach that will lead to drastic reduction in the tariff rates, whereas most developing countries want a tariff reduction process that is not harsh and does not come in the way of using tariff rates as a policy tool to pursue developmental needs such as protecting nascent and infant industries, generating revenue, etc. In other words, a major challenge is to reconcile the process of tariff reduction and the need to use tariffs as a policy tool.

Different countries have propounded different tariff-cutting approaches. However, in the July package, countries have agreed to a non-linear approach for tariff reduction. There are two non-linear approaches on the negotiating table. The first one is called the Swiss formula and the other is called the modified Swiss formula.

The Swiss formula cuts tariffs very steeply without taking into account the existing tariff profile of a country. In fact, it cuts higher tariff rates more steeply as compared to the lower rates. This approach is injurious to developing countries as most of these countries have high tariff rates. Such massive reductions will deprive these countries of the use of tariffs as a tool to pursue developmental needs.

On the other hand, the modified Swiss formula does not lead to an abruptly massive decline in the tariff rates. The modified Swiss formula also takes into account the present tariff profile of the countries while cutting the tariffs. Hence, it serves the concerns of developing countries better.

Developed countries such as the United States (US), European Commission (EC), Norway and Japan have been propounding a Swiss formula. These countries argue that the use of the Swiss formula is appropriate because it will lead to harmonisation of the tariff rates (bringing the tariffs of all the countries to the same level). However, harmonisation is not an objective of the Doha round of negotiations. Harmonisation is neither possible nor desirable. Different countries are at different levels of industrial growth and hence need different tariff structures to suit their needs.

Many developing countries have propounded a modified Swiss formula for tariff reduction because of its flexible nature. It is worth recalling that the NGMA in 2003, before the Cancun ministerial, had proposed a modified Swiss formula for tariff reduction, which faced stiff opposition from developed countries.

India, along with Brazil and Argentina, has proposed a modified Swiss formula (popularly known as the ABI formula). This formula is heavily influenced by the formula proposed by the NGMA chair in 2003. Similar to the Girard formula, it incorporates the existing tariff profile of a country by including the average tariff rate of a country while undertaking tariff reduction. If the present tariff profile is characterised by high tariff rates, then the reduction in tariffs will be less. Hence, there is no massive decline in tariffs and whatever decline takes place is in consonance with the existing tariff profile. The other advantage of the modified Swiss formula is that it fulfills the mandate of less than full reciprocity principle unlike the Swiss formula, which will lead to harmonisation of the tariff rates.

However, this formula ran into rough weather because some developing countries from the Asia Pacific and Latin American regions opposed it. The opposition to this formula is based on the argument that it will benefit countries that have higher tariff rates such as India and will penalise countries that have autonomously reduced their industrial tariffs.

Nevertheless, the modified Swiss formula approach got a shot in the arm when the Caribbean countries proposed a formula on the lines of the ABI proposal. In fact, the formula proposed by the Caribbean countries is more stringent than the ABI formula. It proposes incorporating not just the average tariff rate of a country but also other factors such as the impact of reduction in tariff rates on employment, exports, tariff revenue, etc. Countries are still divided on the issue of tariff reduction. It is important for developing countries such as India not to yield and not accept the Swiss formula for tariff reduction under any circumstance.

Sectoral Approach – There is a Time for Everything

An interesting dimension in the NAMA negotiations is the sectoral approach. This approach talks of following an ambitious tariff reduction proposal for certain sectors, especially for sectors of export interest to developing countries. Developing countries are opposing the sectoral approach because they fear that focusing on certain sectors would dissolve the overall ambition of an across-the-board reduction in tariff rates. Moreover, countries are at variance on sectors of export interest to the developing world as a whole. At best, developing countries want to have a voluntary approach to the issue of sectorals. This is contrary to the demand of developed countries who want to make the sectoral approach

mandatory. Some developing countries like India are also demanding that the issue of sectorals should be taken up only after the tariff reduction formula has been agreed upon.

Non-Tariff Barriers – The Bigger Menace

Given the growing use of NTBs (barriers other than tariffs) they are clearly emerging as a bigger threat than tariffs. In fact, as the tariff rates come down, the use of NTBs as weapons to kill market access is only going to increase. Today, NTBs are clearly the most twisted negotiating agenda within NAMA negotiations. While other elements, particularly tariff negotiations appear to have an agenda for agreement or disagreement, proposals on NTBs are clearly lacking in initiative and creativity. This is true, notwithstanding the fact that there is a clear recognition in the July package on the urgency to intensify work on NTBs.

Earlier in 2002, the Chairman of the NGMA sent two letters dated 10 October 2002 and 27 November 2002 requesting members to notify NTBs which their exporters were facing in various markets. Subsequently the Negotiating Group in its meeting on July 2003 on NTBs, requested member countries to improve their submissions and establish a formal method for notifications. On 28 November 2003 the Secretariat sent out a format for categorisation of notifications. In spite of the best possible efforts, till the end of September 2005 no country had even tabled a proposal on tackling NTBs within NAMA negotiations. In fact, developed countries have relegated NTBs to the back burner and the entire focus of the NAMA negotiations is on reduction of tariffs. Many experts have argued that till the abuse of NTBs is not stopped, reduction in tariff rates alone will not ensure meaningful market access to developing countries.

S&DT – Right not a Charity

Special and differential treatment (S&DT) for developing countries and LDCs is an intrinsic feature of the multilateral trading regime. However, it has received a step-motherly treatment and is often made out to be like a charity and not as a right of developing countries and LDCs. In fact, developed countries have always used S&DT as a political rhetoric to make their proposals saleable to developing countries and LDCs. The NAMA negotiations are no exception to this. Although S&DT is recognised in the Doha Declaration on NAMA, it is not reflected in the negotiations anywhere. The Doha Declaration states that negotiations on NAMA shall take into account the special needs of developing countries and LDCs. The July package, besides providing for longer implementation periods for developing countries, also allows these countries to apply less than formula cuts of up to 10 percent of tariff lines. However, whether these measures will be honoured in letter and spirit remains to be seen. The present proposals from developed countries do not reflect these provisions adequately.

Preference Erosion – What Happens to me?

As the developed and developing countries fight it out on how to reduce the MFN tariff rates, LDCs are concerned that reduction in tariffs will eat into their preferential margins. Many developed countries provide preferential access to LDCs in their markets by imposing tariffs lesser than the MFN rates on the products of LDCs. However, if the MFN tariffs come down as a result of the ongoing negotiations, then, the interests of LDCs will take a beating, as they will have to face additional competition from bigger developing countries. This is a major concern for many LDCs as it could squeeze them out of the markets in developed countries.

Hoping against Hope

Hectic negotiations are on but there are still no signs of a consensus. The most difficult area in NAMA negotiations, unlike agriculture is the lack of unity amongst developing countries. There are many small blocs of developing countries in NAMA negotiations, but there is no single and consolidated bloc of major and powerful developing countries like the G20 in agriculture. Hence, the possibility of individual countries succumbing to pressure from developed countries is more. It is extremely important for developing countries and LDCs to keep up the ante and stick to their guns. Some major compromises and concessions have already been made. It is now time for developing countries and LDCs to get their pound of flesh. Any new tariff reduction formula should not prevent developing countries from using tariffs as a tool to pursue development objectives. Further, countries should have longer implementation periods to implement the reduction in tariffs. There is an urgent need to tackle the menace of NTBs. Possibilities of better market access will be nullified if there is no check on the use of NTBs against developing countries. LDCs should seek compensation for the erosion in their preference rates from developed countries. Finally, it is important for developing countries and LDCs to bear in mind that they do not have to lie down when the requirement is only to bend.

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'Of course a Deal is Still Possible, but...'

Sam Laird, one of the most renowned trade researchers, talks to Centad on industrial tariffs and negotiations on Non-Agriculture Market Access...

Centad: Negotiations on NAMA have never received the kind of attention given to agriculture or services. How significant are NAMA negotiations in the current WTO negotiations? What are the potential gains and cost for developing countries?

Sam Laird: In aggregate terms, the estimated global trade and welfare effects are similar in agricultural and non-agricultural products (including fish) – somewhere in the region of US$ 70–100 billion in each case. Trade in services is potentially more important, particularly if there were new access in the temporary movement of labour from developing countries. However, the distribution of those gains is different in each broad area. In NAMA it is estimated that some of the biggest gains by developing countries would be in the areas of textiles, clothing and leather goods, with production gains of over 30 percent for some countries. However, we also estimate that there could be production and employment losses of a similar magnitude in some cases. Of course, much depends on whether new anti-dumping, safeguards or Technical Barriers to Trade/Sanitary and Phytosanitary (TBT/SPS) measures are applied to the liberalised products. Under various CGE modelling efforts, developing countries are predicted to make huge long-term gains from the liberalisation of their own economies, but this does not take into account some potentially severe short-term adjustments and revenue losses, as well as undefined potential losses as they forego the use of tariffs as one of the few tools left for industrial development.There will also be some welfare losses, mainly among African, Caribbean and Pacific (ACP) countries, as preferences become less valuable, e.g. Generalised System of Preferences (GSP), Cotnonou, etc., as well as Regional Trading Agreements (RTAs).

Centad: On tariff reduction formula, negotiations are stuck because almost all countries are focusing on the structure and not on the numbers in the formula. However, the structures have no meaning without numbers, as the non-linear formula can lead to different reductions depending on the value of the coefficient. Why are countries hesitant in supplying numbers to their formula? Is this an issue of who will blink first?

Sam Laird: Although few recent formal proposals contain specific coefficients, there have been informal exchanges on the kind of numbers that proponents have in mind. In addition, there has been a lot of work at UNCTAD, the World Bank and the WTO on the implications of various proposals, based on more or less realistic assumptions about what a package would look like. However, it is fair to say that countries are reluctant to put hard numbers on to the formulae while there are ongoing discussions on sectoral elimination and on flexibilities linked to possible exclusions or the level at which unbound tariffs will become bound. All countries are in the process of balancing the accounts in NAMA, agriculture and services to try and see how they come out.

Part of the problem is that the Doha Ministerial Declaration, unlike the decisions to launch other recent rounds, does not contain any target for cutting rates by developed and developing countries, e.g. 36 percent by developed and 24 percent developing countries, or similar targets. To some extent this has allowed developed countries to push for formulae that would result in deeper cuts by developing countries, while the Doha Declaration talks about 'less than full reciprocity' by developing countries. In the view of some developed countries deeper cuts would be 'good policy' for the developing countries – à la Washington consensus. Yet, recent work at the World Bank, UNCTAD and elsewhere shows that, while some developing countries have done well under the extensive liberalisation they have undertaken unilaterally over the last 10–15 years, there is also concern about the failure of the unilateral reforms to deliver a supply response, especially in Africa.

The mood of the negotiations could be enhanced if there were some indications from developed country donors that they would be willing to help developing countries meet the costs of adjustment.

Centad: Is the Argentina, Brazil and India (ABI) proposal on tariff reduction, notwithstanding the support from the Caribbean countries, still alive especially after the flak it drew from developed and developing countries, including the countries from the Asia Pacific region? Alternatively, is there a consensus emerging on the pure Swiss formula?

Sam Laird: Until there is agreement on the whole package, everything is still on the table. The ABI proposal is in effect a rewrite of the earlier proposal by Ambassador Girard, the previous chair of the NAMA negotiating group. The Caribbean proposal is to allow for further modification, e.g., by increasing the key coefficient to take account of preference losses and earlier unilateral liberalisation. One key feature of the ABI proposal is that, it takes as a starting point, for each country its own average tariff, which then becomes the maximum rate for that country. It is a 'harmonising' formula within each country in that it reduces higher rates by a greater proportion than lower rates. However, the Chair of the NAMA Group claims that there is an emerging consensus on a 'simple Swiss' approach, which would most likely have one coefficient for developed countries e.g. 6 percent and another much higher coefficient for developing countries. Pakistan has suggested that this rate might be 30 percent. An important characteristic of a 'simple Swiss' approach is that it would tend to harmonise rates across countries, irrespective of their initial tariff structures.

Centad: You have argued in your writings that a hard approach embodied in the pure Swiss formula would open the EU, Japanese and US markets by twice as much. However, a Swiss approach for tariff reductions will perhaps not be acceptable to all developing countries. Given this scenario, is it pragmatic to negotiate for a dual approach of adopting a pure Swiss formula for developed countries and a modified Swiss for developing countries to cut industrial tariffs? What hurdles would such an approach face?

Sam Laird: In my analysis prior to the start of the negotiations, I was comparing a simple Swiss formula with a linear cut. In our recent analysis of proposals that have come forward, it is now clear that, given the overall low average tariffs in the developed countries, the approach they adopt does not make a big difference, except for high rates on individual products. (This analysis also includes a differentiated linear cut supplemented by the constraint that no individual tariff should be more than three times the national average after the application of the formula). The biggest differences in our estimated gains from the negotiations come from the degree of ambition (greater or less liberalisation, flexibilities, etc.), and not from differences in the formulae. One key question is whether developed countries will try to seek exceptions, e.g. in textiles, despite the mention in the Doha text that there are to be no 'a priori exceptions'. If any such exceptions were sought at the last minute, this could impact severely on the overall results, and developing countries need to be watchful of their interests. On the other hand, perhaps importers are confident that anti-dumping and safeguard defence mechanisms will be sufficient to take the sting out of any challenge from developing country exports in sensitive areas.

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Sectoral Initiatives:
A Paradoxical Component of NAMA!

Rajesh Chadha

The issue of market access for non-agricultural products found an explicit reference in the Doha Ministerial Declaration (Doha Development Agenda) adopted on 14 November 2001. Paragraph 16 of the Doha Ministerial Declaration states:

'We agree to negotiations which shall aim, by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries. Product coverage shall be comprehensive and without a *priori* exclusions. The negotiations shall take fully into account the special needs and interests of developing and least-developed country participants, including through less than full reciprocity in reduction commitments, in accordance with the relevant provisions of Article XXVIII *bis* of GATT 1994 and the provisions cited in paragraph 50 below. To this end, the modalities to be agreed will include appropriate studies and capacity-building measures to assist least-developed countries to participate effectively in the negotiations.'

The progress on negotiations on the Doha Development Agenda (DDA), which had a December 2004 deadline for completion, came to a grinding halt at Cancun in September 2003. However, efforts to resuscitate multilateralism continued during the following 10 months and success was achieved at the midnight of 30 July 2004. The WTO General Council emphasised that members resolve the Doha Work Programme through its *July Agreement* announced on 1 August 2004.

Apart from the four-page note on the *July Agreement* adopted by the General Council, there were four Annexes to this Agreement. Annex-B outlined discussion on the framework for establishing modalities in Non-Agricultural Market Access (NAMA) by the Negotiating Group on Market Access (NGMA). The earlier work of the NGMA outlined under the *Chair's Draft Elements of Modalities* dated 19 August 2003 was acknowledged and was suggested to be the reference for future work. The *July Agreement* referred to multilateral trade-friendly adjustments in tariffs, Non-Tariff Barriers (NTBs), sectoral initiatives, and concerns of the least developed countries (LDCs).

Sectoral Initiatives

The sectoral tariff component is an initiative outlined in the *July Agreement*. It is aimed at reduction or elimination of tariffs, in particular on products of export interest to developing countries. It was recognised that participation of all countries would be important to achieve this objective. The Negotiating Group was instructed to pursue its discussions on sectoral initiatives, with a view to defining product coverage, participation, and adequate provisions of flexibility for developing-country participants.

The LDCs would not be required to apply the formula nor participate in the sectoral approach. However, as part of their contribution to this round of negotiations, they would be expected to substantially increase their level of binding commitments. It was agreed that pending agreement on core modalities for tariffs, the possibilities of supplementary modalities such as zero-for-zero sector elimination, sectoral harmonisation, and request and offer, should be kept open.

The NGMA Chair's Draft had proposed a sectoral initiative in seven broad sectors. These included electronics and electrical goods; fish and fish products; footwear; leather goods; motor vehicle parts and components; stones, gems and precious metals; and textiles and clothing.

It was suggested that the sectoral tariff elimination would be achieved through three phases of equal time length. The basis for elimination would be from the bound rates after full implementation of current concessions, or for unbound items, the Most Favoured Nation (MFN) applied rates in 2001. The developed countries and other participants who decide so would eliminate tariffs at the end of the first phase. Other participants would achieve tariff reduction to a proposed level not more than 10 percent at the end of the first phase, maintain the same level during the second phase and finally achieve elimination of tariffs at the end of the third phase. Though the LDC participants would not be required to undertake these reduction commitments, they

Ironical Realities of Negotiations

would be expected to substantially increase their level of binding commitments.

The basic motivation of the NAMA negotiations is removing tariff and non-tariff obstacles to the free flow of international trade in non-agricultural goods. Tariff rationalisation is a major issue and requires elimination of tariff peaks, high tariffs, and tariff escalation. Tariff elimination in select sectors is apparently in conflict with the broader issue of tariff rationalisation. For example, having zero tariffs on electrical goods or on auto components would obviously be incongruent to the basic goals of tariff harmonisation. Zero tariffs on electrical goods and auto components but positive tariffs on raw materials, including metals, rubber, plastics, etc., would lead to the reverse mode of tariff escalation say, tariff de-escalation. Effective protection to the chosen zero-tariff sectors would be negative and then the entrepreneurs would seek some absurd compensatory policy initiatives.

Though the bait given to the developing countries has been through suggesting tariff elimination of certain sectors of export interest to the developing economies, the developed countries have their own interests in getting sectoral initiatives moving.

There are strong disagreements on the issue of sectoral initiatives among various World Trade Organization (WTO) member countries. While the developing countries prefer the voluntary reduction approach, the developed countries prefer it to be mandatory. Some countries have suggested inclusion of some more sectors while others want some deletions. Canada has expressed its interest to also include forest products and chemicals. Korea, Japan and Taiwan have expressed strong reservations against inclusion of fish and fish products as well as leather products. Most members, including India, have said that they would prefer to address the sectoral approach only once the overall tariff reduction formula has been approved, which, in fact, is the core of the tariff negotiations under NAMA.[1]

The US and some other developed countries have proposed the notion of 'critical mass', as was used for tariff elimination under the Information Technology Agreement (ITA). The principle of 'critical mass' requires that the countries that account for the 'majority of trade' in a sector should participate such that mutual gains are obtained without problems of free riding from the non-participants.[2] That the US has a great interest in zero-for-zero initiatives under sectoral initiatives is evident from the following statement[3]:

'Negotiation and implementation of zero-for-zero initiatives in key sectors in a critical mass of countries are also critically important to spur progress and interest in the DDA, as well as to foster the competitiveness of US products. Zero-for-zero initiatives are critical in key sectors such as information technology and related products (not already covered by

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1 'Doha Round Briefing Series: August 2003', 2(4), ICTSD and IISD.

2 'World Trade Organisation: Global Trade Talks Back on Track, but Considerable Work needed to Fulfil Ambitious Objectives', United States Government Accountability Office (GAO-05-538), May 2005.

3 'Comments of the Emergency Committee for American Trade on the Doha Work Program', Communication dated 31 January 2005 from the President, Emergency Committee for American Trade to the Executive Secretary, Trade Policy Staff Committee, USTR, Washington, D.C.

The Current Direction of NAMA Negotiations is not Good for Developing Countries

Darlan Fonseca, an articulate campaigner on trade and development, speaks to Centad about the future of NAMA negotiations.

Centad: Given the fact that industrial tariffs are an important policy tool and also a major source of revenue for many developing and least developed countries (LDCs), will negotiations on Non Agricultural Market Access (NAMA) be detrimental to the developmental needs of these countries?

Darlan Fonseca: NAMA could certainly become a major threat to development. To begin with, it is worth recalling that bulk of developing countries did not wish to start new negotiations for the reduction of their industrial tariffs. They have agreed to these negotiations on the belief that the mandate contained in Paragraph 16 of the Doha Ministerial Declaration provided them with enough flexibility to accommodate their specific developmental needs and concerns. The fact now is that the mandate is indeed explicit in recognising these concerns, but developing countries are under enormous pressure to reduce tariffs.

Given the fact that a number of WTO Agreements already restrict the use of certain policy tools that could be useful to promote industrial development in poor countries (such as the prohibition of certain subsidies and restrictions on performance requirements and investment measures), tariffs play an increasingly important role as a policy instrument. Tariffs are very easy to implement, hence are particularly attractive for poor countries with limited administrative capacity. Moreover, for most developing countries, tariffs are the only instrument available to implement industrial policies.

The industrialisation of developing countries has strategic importance; it stems from the urgency to generate employment and diversify their economies away from the production of primary commodities and low value-added goods. Therefore, industrialisation of developing countries would considerably contribute to poverty alleviation.

Last, but not the least, tariffs also play a fundamental role as a source of revenue for the government in many developing countries. The share of import duties out of total government tax revenue can be as high as 53 percent in developing countries. Even in countries where this share is much lower, say 10 percent, governments may find it extremely difficult to impose other taxes and replace this revenue.

Centad: Do you think that the issue of tariff reduction formula is the most ticklish of all the issues in the NAMA negotiations? Is there a possibility of having a common meeting ground on the formula issue especially after the flak that the tariff reduction proposal from Argentina, Brazil and India drew from developed countries and some developing countries?

Darlan Fonseca: The modalities that will determine the approach to tariff reductions are obviously a very sensitive and fundamental issue in the NAMA negotiations. In the July Framework, members agreed that they would use a formula to reduce tariffs. The members also agreed on some elements of such a formula. However, differences around the formula have increased over the past months, indicating that developing countries are definitely not comfortable with a formula that would not reflect their developmental concerns, including the right to use tariffs selectively.

In addition to the recent proposal by Argentina, Brazil and India (ABI), two other proposals by developing countries were submitted. The first was submitted by a group of Caribbean states and the second by Pakistan. Although both proposals use different approaches, what they reflect is a strong convergence among most developing countries that a simple Swiss formula with an arbitrary, low coefficient would be detrimental to their development. In fact, several developing countries have repeatedly said that special and differential treatment has to permeate all areas of NAMA negotiations.

Negotiations around the structure of the formula (that is, the type and approach of the formula) and the actual figures (the figures used in the coefficient that determine the steepness of the reductions) will continue to attract enormous attention in NAMA over the coming weeks. However, unless special and differential treatment and development are truly incorporated in the discussions, it is hard to see how the divergences will be bridged in the near future.

Centad: What kind of flexibilities do developing countries need to mitigate the harsh effects of the tariff reduction process? Are flexibilities such as having a longer implementation period and applying less than formula cuts to 10 percent of tariff lines, as given in paragraph eight of Annex B of the July package, sufficient for developing countries?

Darlan Fonseca: First of all, there is a difficult balance to strike between the formula and the flexibilities. However, the flexibilities alone (paragraph eight of Annex B) are unlikely to capture specific developmental concerns of all developing countries.

Industries in developing countries are very uneven. While some sectors in a few countries have reached a relative level of competitiveness, many industries are still incipient. This is not to mention the fact that several developing countries still rely largely on primary, unprocessed exports. Therefore, the formula and the flexibilities need to grant developing countries the right to protect specific sectors.

Whether the 10 percent exception in paragraph eight is enough or not is a question whose answer may vary from country to country. In any case, it is worthwhile mentioning that, in addition to limiting the number of tariff lines to be exempted from the formula to 10 percent of all tariff lines, the paragraph also says that the exempted lines must not exceed 10 percent of members' imports. Finally, the paragraph also says that at least half of the formula cuts will have to be applied to the exempted lines, which may be difficult for countries where low tariffs already apply to the sensitive sectors to be protected.

Finally, once the modalities are adopted, significant implementation periods, related to the administrative and economic realities of developing countries will also be extremely important.

Centad: How just is the demand of developed countries that developing countries should increase their tariff-binding coverage on industrial goods to 100 percent? Should any proposal on tariff-binding coverage not take into account the existing coverage of different countries?

Darlan Fonseca: Although exempting developing countries whose binding coverage is less than 35 percent from applying the formula is certainly fair, the effort that is being required from these countries is disproportionate.

The countries concerned by this option (paragraph six of the Annex) are very poor, mostly African, developing countries. Some of these countries have bound as little as 0.1 percent of their tariff lines in the WTO and increasing their binding coverage to 100 percent would mean increasing their commitments by a huge proportion.

Even more worrisome is the fact that a maximum ceiling has been established for their new tariff bindings (at 27.5 percent), which means that these countries will not be free to bind tariffs at any level. Moreover, this ceiling could also require tariff reductions where a tariff is currently set above that level.

Centad: Many Least Developed Countries (LDCs) are concerned over the erosion of preferences because of tariff liberalisation. What could be the possible methodologies for LDCs to deal with the issue of eroding preferences?

Darlan Fonseca: LDCs were exempted from undertaking mandatory reductions through the formula but are also affected by reductions in two ways. The first is that the modalities agreed to in the current round are likely to create a precedent that will be used in the future. The second serious implication for LDCs is that when other countries that grant LDCs more favourable tariff treatment reduce their tariffs, they reduce the difference between the tariffs applied to preference-receiver LDCs and those applied to all other countries. The reduction of that tariff gap will 'erode' the competitiveness of goods from LDCs vis-à-vis goods produced elsewhere.

The erosion of preferences is a serious threat because many LDCs rely largely on preferential treatment for their exports. Many African and Asian countries took advantage of preferences to start diversifying and industrialising their economies. There is no doubt that these countries will face higher adjustment costs as a result of the NAMA negotiations.

To mitigate these costs in these countries, a panoply of measures will be needed. These include targeted technical and financial assistance to help modernise sectors, to convert redundant capital into productive capital and to take advantage of new market access opportunities. These countries may also face an increase in unemployment, and will need the financial resources to, for instance, retrain their workers. Moreover, countries that currently do not grant preferential access to LDCs may wish to improve market access conditions for LDC exports so as to compensate, at least partly, for the erosion of preferences in other markets.

Centad: The notifications stage in Non Tariff Barriers (NTBs) negotiations in NAMA is over. However, there is no consensus on the direction or modalities for future negotiations; request/offer, multilateral/ plurilateral, vertical/horizontal, etc. Further, a well-directed proposal is yet to be submitted. What strategy should developing countries adopt in NTB negotiations to ensure optimum gains?

Darlan Fonseca: Developing countries are very interested in negotiating the reduction or removal of non-tariff measures that hinder their exports, particularly to the developed countries. Although each WTO member applies standards, in principle, for legitimate reasons, such as human health and safety, sometimes these standards are overly stringent and clearly used for protectionist purposes. Such measures include abuse of anti-dumping and safeguard measures, abusive use of technical barriers and sanitary and phyto-sanitary measures and abuse of administrative requirements (such as licensing).

Nonetheless, non-tariff barriers are very difficult to negotiate. Only a total harmonisation, or mutual recognition, of all standards of all members could actually avoid these difficulties. That is unlikely to happen and would not even be desirable given the WTO trade mandate.

Developing countries can continue with the identification of the hurdles they face so that the scope and measurement of the costs of NTBs are better known. Developing countries can also seek an improvement of the relevant WTO agreements, to avoid too much discretion where that is leading to abuses. Finally, developing countries can also use the mandate to negotiate NTBs to establish funds for compliance with specific NTBs.

Centad: Developing countries have been able to form effective coalitions in Agriculture such as the G20 and G33. However, the same cannot be said about the NAMA negotiations. What could be the possible reasons behind this? What strategy should developing countries follow in NAMA negotiations in the coming months before the Hong Kong ministerial meeting?

Darlan Fonseca: NAMA negotiations have been very atypical in the sense that no major coalition of developing countries has emerged. The African, the Caribbean and some Latin American countries have adopted common positions and the

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Preference Erosion: An Acid Test for Doha Round

Mustafizur Rahman

The ongoing negotiations on Non-Agricultural Market Access (NAMA), in World Trade Organization (WTO), aim at reducing tariff on industrial products, including reduction or elimination of tariff peaks, high tariffs and tariff escalation and elimination (or accelerated reduction) of all tariffs in certain sectors (the so-called *sectoral approach*). The July 2004 Framework stipulates that the product coverage would be comprehensive (without *a priori* exclusions), tariff reduction would commence from bound rates, and that all non-*ad valorem* duties are to be converted to *ad valorem* equivalents. As is envisaged under the July Framework, the least developed countries (LDCs) such as Bangladesh are not required to take any tariff reduction commitment under the current round of negotiations. Although LDCs are expected to bind at least some of their unbound tariff lines for industrial products, this exclusion from tariff reduction commitment is seen as a preferential treatment given to the LDCs as part of the special and differential treatment (S&DT).

Even if the non-LDC members are to reduce tariffs from bound rates and since the spread between bound rates and applied rates on most industrial products imported by the developed countries is not significant, in reality any tariff reduction commitment is expected to lead to reduction of Most-Favoured Nation (MFN) tariffs on those goods.

Bangladesh, like other LDCs, enjoys preferential market access in most of the developed countries under the various schemes such as Generalised System of Preferences (GSP). Also, it is widely recognised that the GSPs have been crucial in providing a competitive edge to exports from LDCs in developed countries. Thus, although the LDCs have been exempted from undertaking any tariff reduction commitments, reduction of MFN tariffs by non-LDC WTO members under the NAMA negotiations is likely to lead to an *erosion of the preference margin* enjoyed by the LDCs under the GSP Schemes. As a matter of fact, any MFN reduction commitment will also have negative implications for preferential margins enjoyed by LDCs that are members of various Regional Trading Agreements (RTAs) where they receive S&DT. For example, a commitment to reduce MFN tariff by India will reduce preference margin enjoyed by Bangladesh under the South Asia Preferential Trading Arrangement (SAPTA) {or the envisaged South Asia Free Trade Agreement (SAFTA}.

Several tariff reduction proposals/formulae are being considered in the context of the ongoing NAMA negotiations. It appears that members are moving towards a non-linear, Swiss or Swiss-type formula that would ensure deeper cuts for higher tariffs. There are also proposals under the sectoral approach whereby tariffs in entire sectors may be eliminated. As of now, no concrete proposal has been agreed upon as regards tariff reduction or the sectoral approach. However, there is no denying that preferential margins will suffer erosion as a result of the current round of NAMA negotiations. This is a real threat, which Bangladesh and other LDCs are facing.

Relevance for Bangladesh

Over the past decade the Bangladeshi economy has undergone an important transition to become a trading economy. In 2004–05 Bangladesh's export of goods and services was worth US$ 12.4 billion; total trade in goods and services is at present equivalent to about 40 percent of the Gross Domestic Product (GDP). The structure of Bangladesh's export is heavily tilted towards labour-intensive sectors such as apparels, fisheries and agriculture; apparels alone account for about three-fourth of the country's exports in goods. Continued competitiveness of these sectors is crucial in terms of the country's macro-economic performance, forex reserves and more importantly as providers of livelihood and forces of poverty alleviation.

It is also to be noted here that the MFN tariff rates on items exported by Bangladesh tend to be relatively higher. For example, average tariffs on apparels in the European Union (EU) is about 12.1 percent, whilst in the US and Canada these vary from 10 to 30 percent. As estimated by Subramanian, A. (2003), for Bangladesh the likely tariff preference margins enjoyed in major markets are as follows: US (12.1 percent), EC15 (12.3 percent), Japan (7.3 percent); Canada (21.7 percent); average for all four (12.4 percent). The concern of Bangladesh in the context of NAMA negotiations, originates from the fact that at present she is enjoying duty-free market access on all or most of her exports in majority of the developed countries under the various GSP schemes (the US being the only important exception since the US GSP Scheme does not cover apparels, which is Bangladesh's major export). Any reduction in the the MFN tariffs

Breaking the Ladder to Market Access

under the NAMA negotiations will reduce the preferential margin to the tune of the tariff reduction by the GSP donor country.

It is true that LDCs are not able to take full advantage of GSPs for a number of reasons including inability to comply with the rules of origin. For example, only 60 percent of Bangladesh's GSP eligible products can actually enjoy preferential market access under the European Union – Everything But Arms (EU-EBA) initiative. Notwithstanding this constraint the erosion of actual tariff preference is expected to be substantial. A study conducted by the Centre for Policy Dialogue, Dhaka (CPD, 2003) shows that the EBA initiative provides Bangladesh with a tariff preference facility equivalent to about US$ 260 million which would otherwise have been paid had there been no zero-tariff access for Bangladeshi products to the EU market.

Estimates of losses originating from tariff erosion show that for a number of LDCs these are likely to be significant. Thus, a study carried out by Subramanian, A. (2003) indicates that export losses to be incurred by Bangladesh on account of preference erosion originating from reduction in MFN tariffs would be about US$ 222.4 million.

Measures to Address the Concerns

A number of proposals has been floated to enable the affected countries address the adverse impact of preference erosion. Some have suggested that such countries may need to be supported through financing, with adjustment being an 'integral part of any response'. Indeed the EU has put in place an adjustment support programme in view of expected preference erosion of African, Caribbean and Pacific (ACP) countries. On the other hand, some (e.g. Sauve, P. 2004) have suggested that the level of preference erosion could be set as a floor for a 'dedicated new assistance programme'.

Solutions have also been suggested by way of (i) exclusion of potentially most affected tariff lines, (ii) offering lower tariff reductions, and (iii) longer phasing out for affected tariff lines.

What LDCs should argue most forcefully, is that the possible adverse implications of preference erosion reinforces their argument for a global zero-tariff access for all products from the LDCs. The July Framework also urges developed countries members as well as the advanced developing countries 'who are in a position to do so' to accord zero-tariff access to all LDC products. Essentially, this would mean zero-tariff access to the US market which is the only remaining QUAD country that does not allow zero-tariff market access to major products of exports interest to LDCs such as apparels. Such a demand is strengthened by the fact that most of the LDCs, except 15 countries in the Asia-Pacific region, already enjoy preferential treatment for apparels under the AGOA and CBI initiatives of the USA. In case the sectorals go ahead (where particular sectors will have the tariffs reduced at an accelerated pace), and if these include items of export interest to LDCs, the justification for such offsetting initiatives as global zero tariff access will be further strengthened. For example, as was mentioned earlier, Bangladesh's possible export decline as a consequence of preferential erosion is likely to be about US$ 222.0 million. To compare, tariffs imposed on Bangladesh's exports to the US market in 2003 stood at about US$ 300.9 million (which was more than four times the US ODA to Bangladesh in that year!). This also reinforces the justification for the enhanced (zero-tariff) market access for apparels to the US market under the Trade Relief Assistance for Developing Economies (TRADE) Act, which is now under consideration in the US Senate, particularly in view of the fact that the countries that are being considered under this Act include Bangladesh and other LDCs of the region.

How the global community treats the concerns of LDCs such as Bangladesh with regard to the issue of preference erosion will be a test of whether the Doha Round will actually turn out to be a 'Development Round'. If it is to be truly so, adequate measures must be taken to address the emerging concerns of the LDCs in this area.

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Locking IPR to Unlock Development

K.M. Gopakumar

The increasing level of intellectual property protection and its implications on human development in recent years has made intellectual property rights a truly interdisciplinary subject. It is no more the sole realm of lawyers and economists but it attracts development practitioners, political scientists and human rights activists at the international and national levels. The conclusion of Agreement on Trade-Related aspects of Intellectual Property Rights (TRIPS) and a series of bilateral treaties on trade and investment mainly between the US and developing countries established a high level of intellectual property protection across a number of countries irrespective of the level of economic and human development. At the same time, active efforts are on within the World Intellectual Property Organisation (WIPO) to harmonise substantial patent law of all the countries. These developments minimise the policy space of developing countries in many critical areas, such as agriculture and public health. This movement towards universal common standards in intellectual property rights creates roadblocks to sustainable development, particularly in developing countries. Against this background, Philippe Cullet attempts to question the ongoing march of intellectual property in his new book titled 'Intellectual Property Protection and Sustainable Development'.

The book focuses mainly on two themes. First, it explores the emerging international legal and institutional framework for intellectual property rights and sustainable development. Second, it examines key issues related to the implementation of the Convention on Biodiversity (CBD) and TRIPS in India. The thrust of the book is on the impact of intellectual property protection on biodiversity, in general and agriculture and food security, in particular. Cullet comprehensively discusses major issues of concern in a simple and lucid manner. There is a conscious attempt to provide the broad perspective of each issue in its historical context.

The book introduces the key conceptual and policy framework of intellectual property and sustainable development in the light of respective international and national legal framework. On the emerging order of international intellectual property law, it concludes that intellectual property law has moved away from differential treatment to unilateral measures. This has reduced policy space at national level. On the other hand, sustainable development law has moved in the opposite direction by bringing biological resources under national sovereignty and thus shifted from the common heritage of mankind. Cullet analyses *sui generis* system for plant variety protection including the Protection of Plant Varieties and Farmers' Rights Act 2002 in the light of genetic technology, life patents, farmers' rights and food security. In an attempt to find a tool for balancing intellectual property and sustainable development, he discusses the bio-safety and human rights ramifications of intellectual property, viz. bio safety and human rights. This discussion exposes some of the pitfalls in the human rights approach to intellectual property rights.

The book discusses in great detail the issue of protection of traditional knowledge (TK) in the context of genetic technology, life patents and plant variety protection. It starts with an effort to bring some clarity to the concept of TK and gives a broad conceptual framework, which now encapsulates 'common knowledge' passed on from one generation to another. It then maps the international efforts on the protection of TK within WIPO and the impact of appropriation of TK through intellectual property. It also examines the possibility of using the existing forms of intellectual property for the protection of TK and exposes the inability to provide a comprehensive protection. Nonetheless, it brings out the potential of geographical indications as a tool for the protection of TK. It further proceeds to examine the *sui generis* option and concludes that *sui generis* legal regimes should follow an integrated approach and address not only protection of TK but also conservation and sustainable use of TK. He, however, cautions that protection of TK should not prevent the progress of science and technology including transgenic technology.

The author suggests a *sui generis* system for TK as a remedy to the existing intellectual property regime, which not only fails to offer any comprehensive protection to TK but also facilitates commodification of knowledge. Thus, commodification of TK is justified because of the commercialisation of knowledge through other forms of intellectual property rights. This argument may be misused to justify unreasonably high standards of intellectual property. The author does not make any attempt to look at other options like the open access model for the protection of TK. The *sui generis* system is integrationist in its approach and will compromise the cultural element of TK. Further, the author has not clarified whether this *sui generis* systems required only at the domestic level or also at the international level. In the conclusion he writes, 'Further, developing countries should focus on developing intellectual property rights frameworks where this may serve the need of their citizens. The main area where this should be done and where existing intellectual property rights frameworks are lacking is in the area of traditional knowledge'. This suggests that developing countries should introduce *sui generis* at the domestic level. In the absence of an international regime the sui generis cannot protect the misappropriation of TK in other countries especially in developed countries, which are the potential high value market for some of the TK. In the absence of an international framework the domestic legislation helps only in enclosure of TK at the national level.

The book does not discuss the current debate on the interface between CBD and TRIPS within the World Trade Organisation (WTO). There is a forceful attempt by developing countries in the WTO to incorporate disclosure requirement in TRIPS. The discussion on TK ignored the ongoing negotiations in WTO. Although the submissions on this issue have been referred to in the book, the author does not analyse the WTO negotiations. He also ignores the impact of test data protection on health and agriculture. Implementing test data protection in the form of data exclusivity further hampers the accessibility and availability of even non-patented medicines and agro-chemicals. Considering the grave implications of data exclusivity on health and agriculture, such discussions would have enhanced the value of the book.

The author is realistic and cautious in his approach and rejects suggestions, which are not realistic. For instance, he terms any reversal of present trend in the commercialisation of knowledge especially in the area of life patents as unrealistic. Nevertheless, this cautious approach does not prevent him to state in the conclusion that 'it is imperative that intellectual property rights frameworks fully reflect the fact that intellectual property rights have impacts on the broader process of sustainable development as well as on the realisation of individual human rights'. The author makes two recommendations in the conclusion. First, to operationalise a differential treatment for developing and least developed countries in the field of intellectual property. However, the book does not clarify what those differential treatments are. Second, to provide *sui generis* protection to TK. Though the book succeeds in questioning the onward march of intellectual property rights towards universal minimum standards, it should do more to challenge the fundamental flaws of international intellectual property rights regime.

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The Current Direction ...

G90 countries are also united in some respects. However, there is indeed no cross-cutting, all-encompassing coalition of developing countries.

One of the reasons for this is that developing countries' interests in NAMA are undoubtedly very diverse. While some seek to remove the tariffs peaks and escalation that their exports face in developed countries, other struggle to maintain their trade preferences. While some are seeking greater market access, not just in developed countries but also in developing countries, some wish to protect sensitive industries and their right to develop.

Another reason, however, is that the modalities are structured in a way that has divided developing countries in many groups. They grant flexibilities to some, even greater flexibilities to a few and none to the rest of developing countries. The developed countries are well aware of the divisions among developing countries and have been exploring them very efficiently to avoid their unison behind common positions.

Despite this, more developing countries do realise the benefits of strategising and adopting common positions. As can be seen in the differences around the choice of a formula, developmental concerns are surfacing more strongly. Developing countries are realising that despite their differences, the current direction of NAMA negotiations is not really good for any of them.

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Glaring Disparities

Centad Team

Budget! Midget!

Annual budget allocation to the US Customs and Border Protection for 2006	=	US$ 6.7 billion	>	individual GDPs of 166 countries

Source: US Customs and Border Protection, http://www.customs.gov/xp/cgov/newsroom/press_releases/0022005/02082005.xml (visited on 8 September 2005), Central Intelligence Agency, 'The World Factbook 2005'. http://www.cia.gov/cia/publications/factbook/rankorder/2004rank.html (visited on 8 September 2005), Centad's calculations.

Monitoring Residues! Expending Boulders

Cost of setting up one EU grade residue monitoring equipment for fish products	=	15 million rupees	=	average aggregate income of 660 Indians for one year

Source: India's notifications to the WTO, TN/MA/W/10, 28 March 2003, World Bank, World Development Report 2005, 256, Centad's calculations.

Driving Over Meals

Daily cost for a single inspector to assess conformity of tyres to standards of importing country	=	US$ 600	=	Cost of feeding 1450 poor Indians with one square meal

Source: India's notifications to the WTO, TN/MA/W/10, 28 March 2003, World Bank, World Development Report 2005, 256, Centad's calculations. This is only a small component of the cost; the agency costs are more exorbitant.

When Zero isn't a Zero

Nine zeroes after a decimal to avoid failing a EU food standard test on chloramphenicol in seafood 0.0000000002 per unit (0.2 ppb)

Source: India's notifications to the WTO, TN/MA/W/10, 28 March 2003.

Table 1

Impact of the Swiss Formula on the Simple Average Bound Tariff Rates of India and Pakistan

Country	Simple Average Bound Tariff Rate	Final Bound Tariff Rate			
		B = 10	B = 25	B = 50	B = 100
India	34.3	7.74	14.46	20.34	25.53
Pakistan	35.3	7.79	14.63	20.69	26.09

Source: Centad's Calculations.

Table 2

Impact of the ABI Formula on the Simple Average Bound Tariff Rates of India and Pakistan

Country	Simple Average Bound Tariff Rate	Final Bound Tariff Rate			
		B = 0.5	B = 1	B = 1.5	B = 2
India	34.3	11.43	17.15	20.58	22.86
Pakistan	35.3	11.76	17.65	21.18	23.53

Source: Centad's Calculations.

Table 3

Impact of the Pakistani Formula on the Simple Average Bound Tariff Rates of India and Pakistan

Country	Simple Average Bound Tariff Rate	Final Bound Tariff Rate
India	34.3	16
Pakistan	35.3	15.5

Source: Centad's calculations.

Notes:

In South Asia, only India and Pakistan will have to undertake tariff reductions. Nepal and Bangladesh will be exempted because of their LDC status and Sri Lanka will be exempted because it has a tariff binding of 28.3 percent, which is less than 35 percent.

Swiss formula: T1 = (B*T0)/(B+T0), B = 10,25,50,100
ABI formula: T1 = (B*T2*T0)/[(B*T2)+T0], B = 0.5, 1, 1.5, 2
Pakistani formula: T1 = (B*T0)/(B+T0), B = 30 for developing countries
T1 = final bound rate
T2 = average of the base rates
T0 = base rate
B is a coefficient

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Sectoral Initiatives ...

the ITA), energy, chemicals, toys, environmental products, medical and scientific equipment, forest products, fish, and gems and jewellery. These sectors, many of which were developed first in Asia and Pacific Economic Cooperation (APEC) discussions, represent a balanced package and reflect the interests of both developed and developing countries.'

The issue of getting together the 'critical mass', based on the 'majority of trade', may not be difficult for developed countries in many of the prescribed product categories. The export- as well as import-share of the developed countries is each above 85 percent in the case of auto components (SITC-784). Developed countries' export-share for electrical goods (SITC-77) is above 60 percent and import-share above 67 percent. In the case of precious stones and metals (SITC-667 plus 897), the export share of developed countries is close to 50 percent and import share is close to 70 percent.[4]

India's Position on Sectoral Initiatives

India's NAMA submission dated 22 October 2002 (TN/MA/W/10) had raised objections to the sectoral initiatives on the grounds that such initiatives would worsen the issue of tariff escalation. Further, it would be easier for the developed countries to bring their existing (relatively) low tariffs down to zero than it would be for developing countries since their tariffs are relatively high. Such supplementary approaches should be considered only after the core modality for tariff reduction is finalised by the NGMA.[5]

Unless it is an excuse to liberalise trade, the above contention of developing countries appears to be based on sound principles of the fundamental theory of international trade economics.

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[4] 'International Trade Statistics Yearbook: 2002', United Nations.

[5] 'Market Access for Non Agricultural Products', Communication from India and nine other developing countries, TN/MA/W/31 dated 25 March 2003.

Demystifying NAMA and Development

Centad Team

What is Non Agricultural Market Access (NAMA) and how is it related to development?

NAMA includes all products that are not covered in agriculture, like wood and forestry products, textiles, clothing, fish and fishery products, electronics, manufactures, automotive products, machinery, leather, chemical products, and mining products.

The negotiations on NAMA in the World Trade Organisation (WTO) were launched in Doha in 2001. These negotiations aimed to improve the market accessibility of non-agricultural goods especially products of export interest to developing countries and least developed countries (LDCs). With the emphasis on improving market access for developing countries and LDCs, negotiations on NAMA are related to development.

Can better market access in non-agricultural goods in the export market foster development in developed countries and least developed countries (LDCs)?

Yes, better market access to non-agricultural goods in the export market can play a major role in fostering development in developing countries and LDCs. Majority of developing countries and LDCs are involved in the production of labour-intensive manufactured goods such as textile and clothing, leather, footwear and marine products. These manufacturing and industrial activities provides employment to a large number of people in these countries. For instance, the textile and apparel industry in India provide employment to 38 million people and is the largest employer after agriculture. In Bangladesh, the textile sector employs more than one million women workers. The exports from these sectors account for more than one-quarter of developing country exports with textiles and garments constituting more than half of such exports.

Better market access in terms of increased export opportunities will certainly generate more revenue for the government and more employment for low-income groups in developing countries and LDCs. For instance, it is estimated that if Bangladesh gets complete duty-free and quota-free access to the QUAD countries (the US, EU, Canada and Japan), its export revenue would increase by 45 percent. Such duty-free and quota-free access to the US and Canada would also increase export of textiles and clothing by more than US$ 700 million.

Moreover, better market access to non-agricultural goods can also play an important role in fostering development by boosting capital investment in domestic industry. While domestic demand in developing countries may be inadequate to warrant higher investment in capital upgradation, access to international markets may play a crucial role in helping developing countries continue with capital investment.

Are there any examples where better market access for non-agricultural goods has really led to development in developing countries and in LDCs?

Yes, there are numerous examples to show that better market access to non-agricultural goods has fostered development in many countries. Export of labour-intensive manufactured goods such as textiles and clothing, footwear and electronics was one of the most powerful forces that drove poverty reduction in East Asia. Exports created demand for goods produced in labour-intensive manufacturing industries, which in turn created demand for labour and increased real wages. In the mid 1970s, six out of ten people in East Asia lived in extreme poverty. This ratio reduced to less than two by the end of 1990s. Production for export markets in these countries also generated resources to import inputs and technologies required for sustained growth.

Twenty years ago, the Chinese town of Dongguan was an insignificant entity on the map. Today, it is the hub of one of the largest manufacturing export bases of the world. The city houses about 3000 computer and IT-related industries producing and assembling everything from keyboards to electronic disc drives. The turnover of the IT sector alone is about US$ 10 billion. Consequently, a large number of skilled jobs has been created.

Till the end of the 1970s, Bangladesh was an exporter of primary commodities. Today it is promoted as a model globaliser. Export of garments and textiles, which accounted for US$ 1 million in 1970, accounts for US$ 4.2 billion in 2000, and employs 1.7 million people in over 2800 factories. The automobile industry in Mexico has seen one of the most dynamic export growth in the region. Exports increased five-fold to US$ 21 billion from 1990 to 1997, and are providing more than one million jobs.

Is reducing tariff rates in developed countries a feasible way to increase market access for developing countries?

Yes, reducing tariff rates in developed countries is a feasible way to increase market access for developing countries. High tariffs in developed countries, especially on products of export interest to developing countries, are major barriers to exports from developing countries. For instance, the US imposes an average tariff rate of 3.2 percent on all non-agricultural goods. However, the bound tariff rate on textiles and clothing is 8.6 percent. This is more than two times the average tariff rate for other products. Similarly, EU has an average tariff rate of 4 percent on all non-agricultural goods. However, the tariff rate on textile and clothing is 7.9 percent, almost double the average tariff rate for other products.

These high tariff rates restrict market accessibility of developing country exports and deny the developmental impact that market access could have provided. Developed countries indulge in tariff escalation, whereby higher tariff rates are imposed on more processed products. For instance, the average US tariff for all imports is 1.6 percent, but this rises to 4 percent for imports from India and to 14–15 percent for imports from LDCs such as Bangladesh and Nepal. The EC imposes tariffs of less than 4 percent on Indian yarns, but this tariff rate escalates to 12 percent if the yarn is woven into garments. Tariff escalation as a tariff measure in developed countries discourages the growth of processing industry in developing countries. This restricts developing countries and LDCs to graduate from merely exporting raw materials to exporting processed and finished goods.

Tariff peaks are another major factor that hinders the market access opportunities of developing countries. Quad countries (the US, EU, Canada and Japan) maintain high tariff peaks especially on products of exporting interest to developing countries such as leather, footwear, textile and clothing. Some of the tariff peaks are as high as 900 percent. Such high tariff rate on products of export interest to developing countries disallows these countries to use exports as an important tool to foster development.

Will reduction in tariff rates be advantageous to Least Developed Countries (LDCs)?

Yes, tariff reduction on some products, especially on those which attract a very high tariff rate in developed country markets, will benefit LDCs. On the other hand, tariff reduction may also hurt the interests of LDCs. This will happen because tariff reduction may erode preferences that LDCs enjoy in the markets of developed countries. Most of the LDCs get access to the markets of developed countries on preferential tariff rates as compared to the developing countries. However, if the tariff rates that are applied to all the countries (MFN tariff rate) come down, then the preferential rate at which the products of LDCs get access will get affected. This may adversely affect the interest of LDCs. However, this cannot be advanced as a reason for not reducing tariff rates in developed-country markets. On the contrary, there is a need to develop compensatory mechanisms for those LDCs whose preference margins will get affected.

Apart from tariffs, are there other barriers that restrict exports from developing countries and LDCs to developed countries?

Yes, there are other barriers that restrict exports from developing countries and LDCs to developed countries. These barriers are called Non-Tariff Barriers (NTBs). With the process of conversion of quotas and other barriers into tariffs (tarrification), and further reduction of tariffs, NTBs are emerging as new tools for trade protection. United Nations Conference on Trade and Development (UNCTAD) has classified over 100 such trade measures including measures that control volume of exports, measures that control price, monitoring measures, technical barriers, standards as well as custom and administrative formalities.

These NTBs are being increasingly used to impose restrictions on a huge proportion of exports of developing countries. For instance, in 1999, 44 percent of India's exports to the US, 23.3 percent of exports to the EU and 46 percent of exports to Japan, were subject to non-tariff barriers. These measures unduly hamper market access opportunities of developing countries in developed countries.

The imposition of NTBs or the requirement to fulfill the import standards imposes huge financial burden on developing countries. According to a study by the World Bank 'Certification costs can be particularly significant for small firms. ISO 9000 certification for a single plant can cost upto US$ 2,50,000, with additional auditing costs after initial approval'. Similarly, tyre certification for exports is an expensive proposition; in some countries it costs a company around US$ 20,000 for the first application and approval. The certificate is valid for a year and US$ 1100 has to be paid for every year for getting the certificate revalidated; in addition, an amount of US$ 600 per day has to be paid for the factory visit of inspectors.

The other major problem in the use of NTBs is the imposition of standards stricter and stringent than the standards established by the international organisations. Meeting such strict standards requires huge investments and resources, which developing countries lack. For instance, the EU uses highly advanced technology for testing imported marine products for residue contamination, though adequate safety can be achieved using Codex standards (an international standards body). Additional equipment means incurring expenditure of US$ 3.5 million per apparatus to ensure EU-related adequate standards.

Apart from market access, are there other development related linkages of negotiations on non-agricultural market access?

Yes, there are other development related linkages of industrial tariffs and negotiations on non-agricultural market access. Many developing countries and LDCs use industrial tariffs as important policy tools. These countries also rely on tariffs as a major source of revenue. The present round of negotiations aims to achieve reduction of tariff rates for all the countries except the LDCs. In this regard, it is important to ensure that the tariff rates of developing countries are not subject to steep reduction, which is necessary to allow countries to use tariff rates as important policy tools. Any major reduction in tariff rates will also impose harsh adjustment costs on developing countries and hence impair the process of development. For instance, Senegal experienced large job losses when its average effective rate of protection was reduced drastically from 165 percent in 1985 to 90 percent in 1988. Similarly, in the early 1990s, tariff liberalisation caused large losses in formal sector jobs in countries such as Brazil, Nicaragua and Peru. It also substantially increased underemployment. Drastic trade liberalisation in 1990 led to huge job losses in the formal sector in Zimbabwe.

Hence, it is important to ensure that the tariff reduction process for developing countries is not steep and cushions are built in to compensate for harsh adjustment costs.

What should be done to increase the market access of non-agricultural goods of developing countries and LDCs so as to allow them to foster development?

The following measures could increase the market access of non-agricultural goods of developing countries and LDCs:

- Developed countries should undertake drastic reduction in their tariff rates, especially on products of export interest to developing countries and LDCs, such as textiles, clothing, leather, footwear and marine products.
- A compensatory mechanism should be developed to protect the interests of LDCs, whose preferences in developed country markets will suffer because of reduction in the tariff rates applied on an MFN basis.
- Developed countries should substantially reduce the use of NTBs against the exports of developing countries and LDCs. Developed countries should not use NTBs for protectionist purposes. Also, developed countries should not impose import standards that are more stringent and stricter than what the international standard setting organisations have established.
- Developing countries should not be asked to undertake steep and harsh tariff reductions, as this will impose harsh adjustment costs on these countries. Any process of tariff reduction should be gradual and should take into account the developmental concerns of these countries.

Glossary

Centad Team

Accelerated tariff elimination: When import duties are reduced faster than was originally agreed upon or projected. For instance, under NAFTA, tariffs on goods traded between the US and Canada were phased out earlier than was initially planned.

Ad valorem tariff: The tariff levied on imports, defined in terms of a fixed percentage of the goods' value. For instance, if India imposes an ad valorem tariff of 40 percent on butter, it means that the tariff will be 40 percent of the value of the butter being imported.

Applied tariffs: The current or the actual tariff rates levied on imported products. Applied tariffs may be below or equal to bound tariffs, but may not exceed them. For instance, the applied tariff in Pakistan for coffee is 20 percent, while the bound tariff rate is 100 percent. This implies that the actual tariff rate on imported coffee in Pakistan will be 20 percent, though Pakistan has the flexibility to increase this applied tariff rate to 100 percent.

Average tariff: The simple average of all applied ad valorem tariffs (tariffs based on the value of the import) applicable to the bilateral imports of countries. This rate is calculated by adding up all the tariff rates and dividing by the number of import categories.

Bound tariffs: In the WTO, when countries agree to open their markets to goods, they 'bind' their commitments. These bindings amount to ceilings on customs tariff rates. Sometimes countries tax imports at rates that are lower than the bound rates. This rate is legally binding under the WTO and applies on a Most Favoured Nation (MFN) basis. If a WTO member raises a tariff above the bound rate, affected countries have the right to retaliate against an equivalent value of the offending country's exports or receive compensation, usually in the form of reduced tariffs on other products they export to the 'offending' country. India has bound 72 percent of its tariff lines, with all agricultural products bound and approximately 68 percent of tariff lines bound with respect to industrial goods. India has bound products such as textiles and clothing, which were previously unbound.

Compound tariff: A combination of ad valorem and specific tariffs (such as ten percent plus US$ five per kilogram).

Mixed tariff: A choice between ad valorem and/or specific tariffs depending on the condition attached (for example, ten percent or US$ five per kilogram, whichever is greater).

Prohibitive tariff: Tariff at a level that discourages the import of a product in any quantity. For instance, in 1995, average tariffs in OECD countries stood at 214 percent for wheat and 154 percent for barley. Similarly, Senegal levies prohibitive tariffs on imported cycles to protect a small domestic manufacturer that sells only 2,000 bikes annually.

Simple average applied tariff rate: The average of a country's applied tariff rates. The simple average applied tariff is calculated by dividing the total of applied tariffs with the number of tariff lines. For instance, if there are three tariff lines with an applied tariff rate of ten percent, 25 percent, and 33 percent respectively, then the simple average applied tariff rate will be 22.67 percent.

Simple average bound tariff rate: The average of a country's bound tariff rates on different tariff lines. The simple average bound tariff rate is calculated by dividing the total of bound tariff rates with the number of tariff lines. For instance, if there are three tariff lines with a bound tariff rate of 100.7 percent, 63.8 percent, and 90 percent respectively, the simple average bound tariff rate will be 84.33 percent.

Specific tariff: Tariff levied at a specific rate per physical unit of a particular item. For instance, a tariff of US$ ten on every kilogram of butter imported.

Tariff: The tax imposed on the import or export of goods. In general parlance, however, it refers to 'import duties' charged at the time goods are imported. Tariffs have three primary functions: to serve as a source of revenue, to protect domestic industry and to remedy trade distortions. Tariffs can be ad valorem, specific or mixed.

Tariff binding: This requires the setting of a maximum tariff rate on an imported product. While the applied tariff rate charged by an importing country could vary, an importing country cannot exceed the bound rate without re-negotiating its WTO commitments. Tariff binding comprises two sets of issues. First is the issue of tariff binding coverage, implying the number of tariff lines to be bound. The second relates to the rate at which unbound tariff lines should be bound.

Tariff classifications: National tariffs are organised in the form of tables that consist of 'tariff classification numbers' assigned to goods and a corresponding tariff rate. The way in which an item is classified for tariff purposes will have an important and palpable effect on the duties charged. When classifications are applied in an arbitrary fashion, they can in effect nullify rate reductions. The GATT contains no rules regarding tariff classifications. In the past, countries had their own individual systems. However, as trade expanded, countries began to recognise the need for more uniform classifications, which resulted in the drafting of the Harmonised Commodity Description and Coding System, or the HS system in 1988. Today, most countries use a harmonised system of six-digit tariff numbers.

Tariff escalation: The practice of imposing higher tariff rates as the value added increases. For instance, countries impose low tariffs on raw materials or primary products whereas if the primary product is further processed and made into a finished product, a higher tariff is imposed. The EC imposes tariffs of less than four percent on Indian yarns, but this tariff rate escalates to 12 percent if the yarn is woven into garments.

Imposition of such tariff rates makes it difficult for countries exporting primary products to produce and export finished or value-added products.

Tariff line: A single item in a country's tariff schedule.

Tariff peaks: Most import tariffs are now quite low. But for a few products that governments may consider sensitive, tariffs remain high. These are 'tariff peaks'. Some affect exports from developing countries. There are two kinds of tariff peaks:

International tariff peaks: The percentage of tariff lines in a country that have a bound tariff rate of more than 15 percent. For instance, in Pakistan, 33.2 percent of the total tariff lines have bound tariff rates that exceed 15 percent.

National tariff peak: The percentage of tariff lines in a country that have bound tariff rates at least three times higher than the country's average tariff. In the case of dairy products as well as fruits and vegetables, developed countries impose peak tariffs that are, on an average, more than three times the peak tariff applied in India.

Tariff revenue: The revenue generated for the government from tariffs.

Tariff schedule: A database maintained by the WTO Secretariat that contains, among other things, members' commitments to reducing bound rates.

Tariff valuation: When countries assign arbitrary values for tariff purposes, they render tariff rates meaningless. GATT Article VII and the Agreement on Implementation of Article VII (Custom Valuation Agreement) define international rules for valuation.

Tariff war: When one nation increases tariffs on goods imported from or exported to another country, and that country then retaliates by also raising tariffs.

Tariffication: Conversion of NTBs (Non-Tariff Barriers) to tariffs at the level of their tariff equivalent. In the Uruguay Round, agricultural NTBs were tariffied and bound, to replace unwieldy NTBs with tariffs that could then become the subject of negotiation.

Weighted average tariffs: A measure that weighs each tariff by the share of total imports in that import category. Thus, if a country has most of its imports in a category with very low tariffs, but has many import categories with high tariffs but virtually no imports, then the trade-weighted average tariff would indicate a low level of protection. The standard way of calculating this tariff rate is to divide total tariff revenue by the total value of imports. Since many countries regularly report this data, this is a common way to report average tariffs. To illustrate the difference between simple average tariff and weighted average tariff, Canada has a simple average tariff of 7.1 percent but its trade-weighted average, in contrast, is a mere 0.9 percent.

Tariff reduction formulae and approaches

Swiss formula: Reducing tariffs by using a harmonising coefficient that cuts higher tariffs more steeply, in proportion to lower tariffs, and establishes a maximum final rate no matter how high the original tariff was. Under a simple Swiss formula, the higher the tariff, the greater the cut. Developing countries are generally opposed to the Swiss formula, as they tend to have higher tariffs on industrial goods than their richer counterparts. The Swiss formula is $T1 = (B*T0)/(B+T0)$ where T1 is the new tariff rate, T0 is the initial tariff rate and B is the reduction coefficient.

Girard formula: Tariff reduction formula that takes into account the interests of developing countries by incorporating each country's average tariff. The equation for the formula is $T1 = B*T2*T0/B*T2+T0$, where T1 is the final bound rate, T2 is the average of the base rates, T0 is the base rate and B is the coefficient. Higher the value of B, lesser will be the rate of tariff reduction. For example, in the case of India, the bound tariff rate for fish and fish products is 100.7 percent. If the tariff reduction for this category takes place with a lower value of B, say 0.5, then the tariff rate after reduction will be 14.6 percent. If the value of B is changed to 1, the tariff rate after reduction would be 25.5 percent.

Sectoral approach: Cutting or eliminating tariffs on certain sectors independent of the tariff cutting formula that is followed for other sectors. India has not made any submission on the issue of sectoral liberalisation. India's argument is that the sectoral approach should be voluntary in nature and should be taken up only after the issue of a tariff reduction formula is settled.

Zero-for-zero approach: Tariff reduction approach, which implies that in identified sectors all countries should bring down their tariff rates to zero. This implies losing policy flexibility. For instance, in the fish and fish products category, India and Pakistan have 87 percent and 90 percent of tariff lines unbound respectively. When such a high proportion of tariff lines is unbound in a sensitive sector it would not be prudent for these countries to support the zero-for-zero approach.

EC tariff reduction approach: The EC proposed a Swiss formula at the NAMA negotiations, in March 2005. The formula is $T1 = (X*T0)/(T0+X)$ where T1 is the final tariff, X is the given coefficient and T0 is the initial tariff. According to this ambitious proposal unveiled by EC, developing countries that accept this Swiss formula could use flexibilities such as exempting some tariff lines from tariff cut by using the formula. Further, if developing countries do not use the flexibilities they earn 'credits', which are used to increase the coefficient (X).

US tariff reduction approach: The US has proposed a Swiss formula with dual coefficients: one coefficient for developed countries and another for developing countries. The US proposal also states that the two coefficients must be 'within sight of each other', which means that the coefficient for developed countries should not be significantly greater than the coefficient for developing countries. In other words, this formula talks of harmonising the tariff rates of developed and developing countries. This approach will be detrimental to developing countries.

Norway tariff reduction approach: Proposed by Norway, this is a non-linear tariff cutting formula with two coefficients that includes a simple and transparent system of credits. The formula is $T1 = (A*T0)/A+C)$, where T1 is the new bound tariff after the formula cut, T0 is the old bound tariff, A is the coefficient indicating the level of ambition. 'A' will have different values for developed and developing countries. 'C' is the credit that the country gets for binding 100 percent of its tariff lines and participating in the sectoral approach to tariff reduction.

Argentina, Brazil and India (ABI) approach: ABI have proposed a modified Swiss formula for tariff reduction, which takes into account the average tariff rate of every country while undertaking the tariff reduction. This formula is expressed as $T1 = B*T2*T0/B*T2+T0$, where T1 is the final bound rate, T2 is the average of the base rates, T0 is the base rate and B is the coefficient. The ABI approach is primarily based on the Girard formula.

Pakistani tariff reduction proposal: Simple Swiss formula for tariff reduction proposed by Pakistan, with two coefficients. Based on existing bound average tariff rates, the coefficient for developed countries would be six and that for developing countries 30. This would have the effect of harmonising tariffs in both bands while retaining the difference in average tariff levels between the groups. According to Pakistan, its proposal would reduce developing countries' average bound rates of 35 percent and applied rates of 25 percent to around 15 percent, while developed countries' average bound and applied rates would be cut roughly by four percent.

Non-tariff barriers: Government and non-government measures other than tariffs that restrict or distort international trade. Examples include import quotas and discriminatory government procurement practices. Baldwin (1970) defines 'non-tariff distortion' as 'any measure (public or private) that causes internationally traded goods, services or resources devoted to the production of these goods and services to be allocated in such as way as to distort potential real world income'.

Non-tariff measures: Measures other than tariff measures that are used to regulate international trade are called non-tariff measures. These could be in the form of standards, certifications or custom formalities. When non-tariff measures discriminate between domestic sellers and non-domestic sellers, they are called non-tariff barriers.

Technical Barriers: These are various standards applied to imported products for health and safety reasons to ensure that imported products conform to the same standards as those required by law for domestically produced standards. Technical barriers may lead to prohibition of non-complying imports or necessitate cost increasing production improvements.

Parallelism: 'Parallelism' is a commonly used term in NTB negotiations under NAMA. It means that NTBs should be addressed in parallel to reduction in tariffs, as NTBs on many occasions have nullified existing market opportunities.

(Contd. from page 9)

Of course ...

The big issue in the current negotiations is what developing countries will have to do, and calculations based on most proposals show that they will have to make a higher percentage point reduction cut in their tariffs. This could be beneficial in the long term, but it could have serious short-term repercussions, especially for industrial policy, unless there is flexibility for developing countries as well as funds (preferably not more loans) to offset the costs of adjustment and to kick start their economies – something that would need to be addressed outside the WTO. In this sense the G8 proposals are helpful.

Centad: Developing countries such as India argue that tariff reductions modality needs to be resolved before undertaking any negotiations on sectorals. Is this stand too rigid? Why can't developing countries make a conditional offer on sectors of export interest to them by proposing to cut tariffs in these sectors more steeply than the sectors outside the sectoral approach, provided developed countries eliminate their tariffs on these sectors?

Sam Laird: One problem is that estimates show that the sectoral negotiations may have a greater impact – positive and negative – on developing countries than any formula. Another problem is that in some of the key sectors, developing countries also have important defensive interests, both in terms of their own imports and in protecting preferences in other markets. Setting zero rates for these sectors may also increase tariff dispersion. There is also some hesitancy about putting anything on the table until the shape of the overall package becomes clearer. In this respect it is also important to recall that the current negotiations have to be concluded as a 'single undertaking 'whereby' nothing is agreed until everything is agreed'. And given the lack of progress in services and the blockages in agriculture, one should not expect NAMA to forge ahead of the other areas of negotiations. Having said that, there are sectoral negotiations underway on the basis of trying to form a 'critical mass' of traders that could agree on sectoral elimination, allowing others to become free riders. The size of the critical mass will depend on how many traders dominate trade flows in individual products.

Centad: Given the present deadlock on NAMA negotiations, is a deal still possible? What possible strategies could developing countries follow in the coming months to ensure maximum development gains for the NAMA negotiations?

Sam Laird: Of course a deal is possible, but it is unlikely to happen in isolation. There has been a major effort to clarify technical issues, and there has also been a great deal of probing to try to determine where the 'other side' might be willing to show flexibility. That being said, the developed countries have pushed very hard, especially against the larger developing countries for which trade-offs in other areas of the negotiations are key. The developing countries, which have many diverse interests even in NAMA, need to make their own calculations of how possible outcomes might affect them and be prepared to defend their end. But they should also be seeking commitments on extended transition periods, and, as I said previously, commitments by donors to help them through the pain of adjustment and 'aid for trade' to address supply-side issues.

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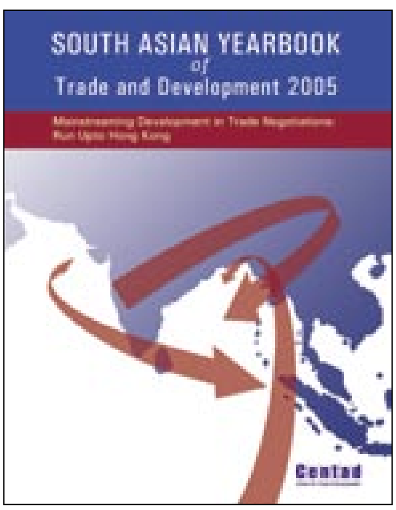
Launch of Centad and South Asian Yearbook of Trade and Development



Centad is organising a South Asia Conference on Trade and Development — *Mainstreaming Development in Trade Negotiations: Run Upto Hong Kong* to mark the launch of Centad & South Asian Yearbook of Trade and Development on 27–28 October 2005. The conference would identify and endeavour to institutionalise the interests and priorities of South Asia in the ongoing trade negotiations. Close to 100 delegates from the government, civil society, research organisations, academia and media from five South Asian countries would deliberate and brainstorm for two days on how to make trade work for development in South Asia.

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