



**United Nations Conference on Trade and Development**

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# **Development opportunities & challenges in the WTO Industrial Tariff Negotiations**

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# Doha Declaration on market access for non-agricultural products (NAMA)

- Address tariff peaks, high tariffs, tariff escalation, non tariff barriers, especially on products of export interest to developing countries.
- Comprehensive product coverage
- Less than full reciprocity

## FACT: DEVELOPING COUNTRIES AND LDCs FACE HIGHER TARIFF RATES

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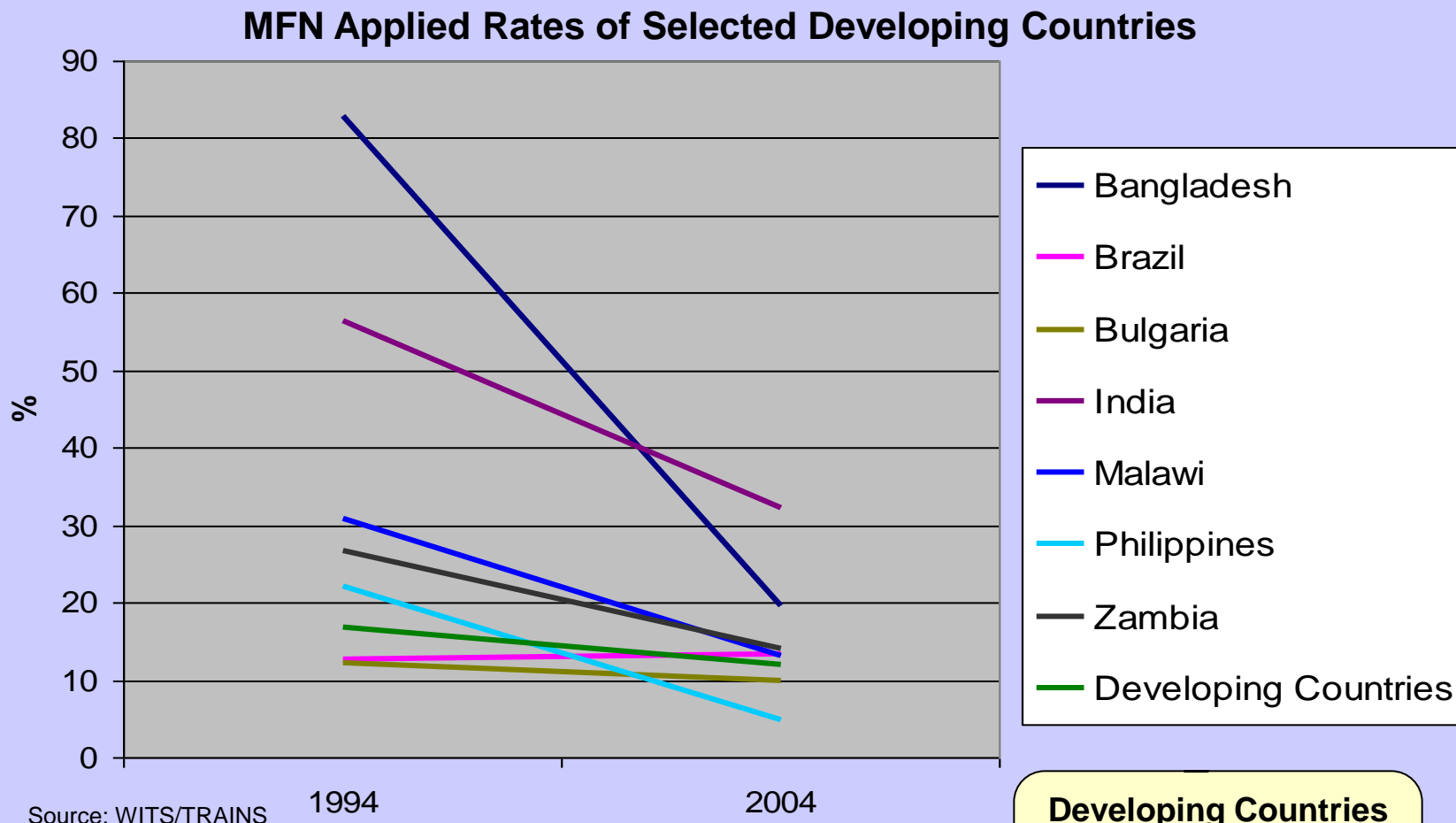
### MFN Average Applied Tariff Rates by Country Grouping

		Exporter		
		Developed Country	Developing Country	LDC
Importer	Developed Country	1.31	2.12	3.05
	Developing Country	9.00	6.26	6.33
	LDC	10.88	14.79	9.95

Source: UNCTAD Computations WITS/TRAINS Database



# CONTEXT: DEVELOPING COUNTRIES HAVE BEEN LOWERING THEIR TARIFFS ON INDUSTRIAL GOODS

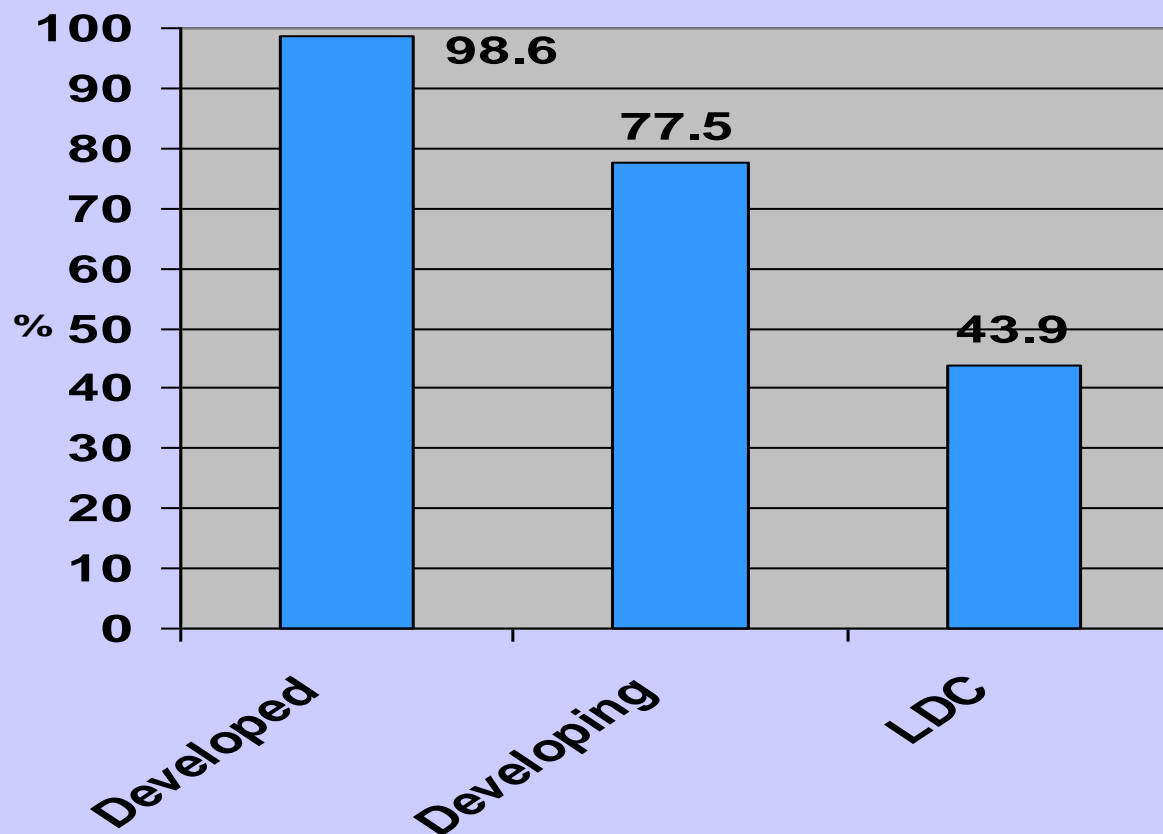


**Developing Countries  
have done a lot of  
autonomous  
liberalization**

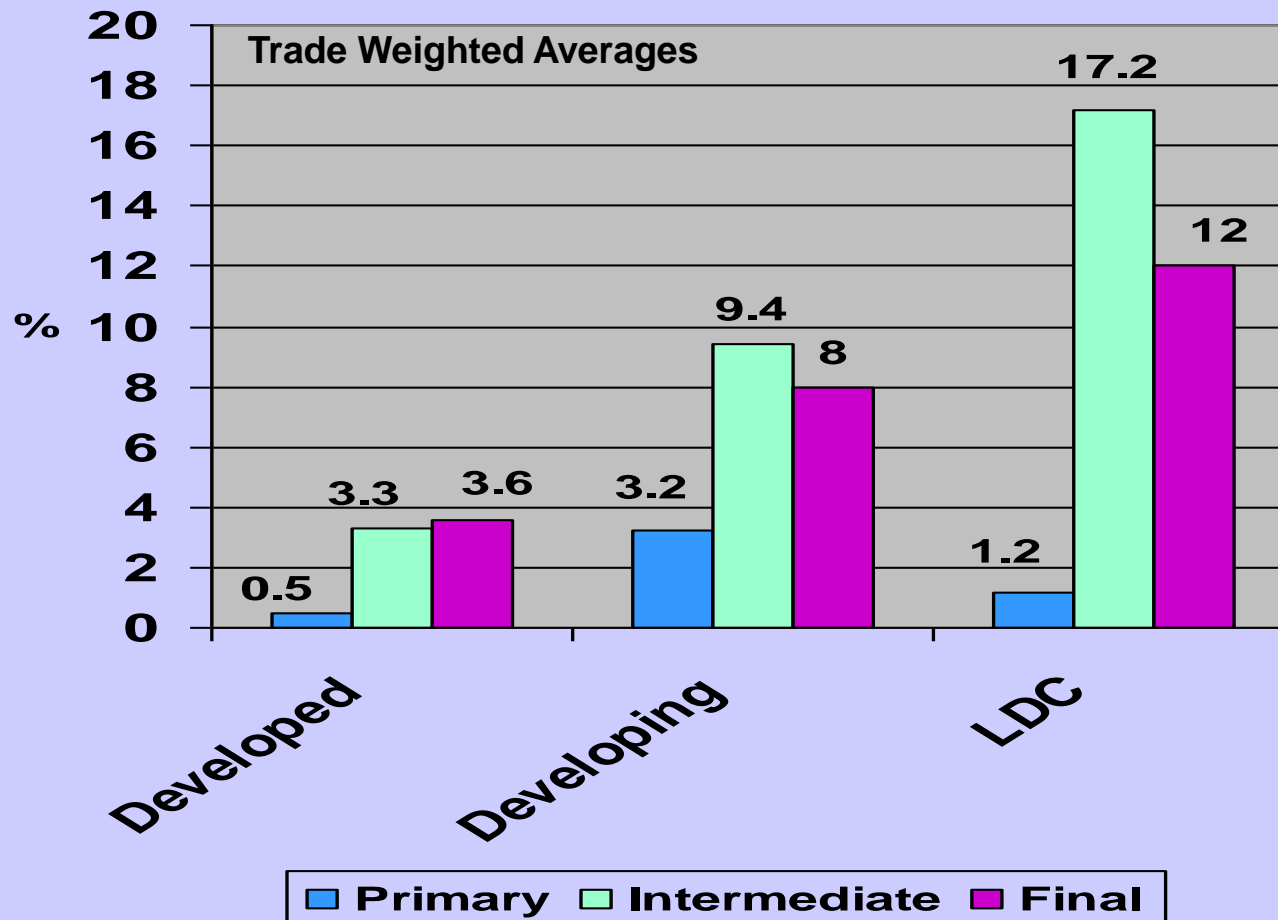


## FACT: BINDING COVERAGE LOWER IN DEVELOPING COUNTRIES

Percentage of Bound Items



## FACT: TARIFF ESCALATION INHIBITS EXPORTS OF PROCESSED GOODS



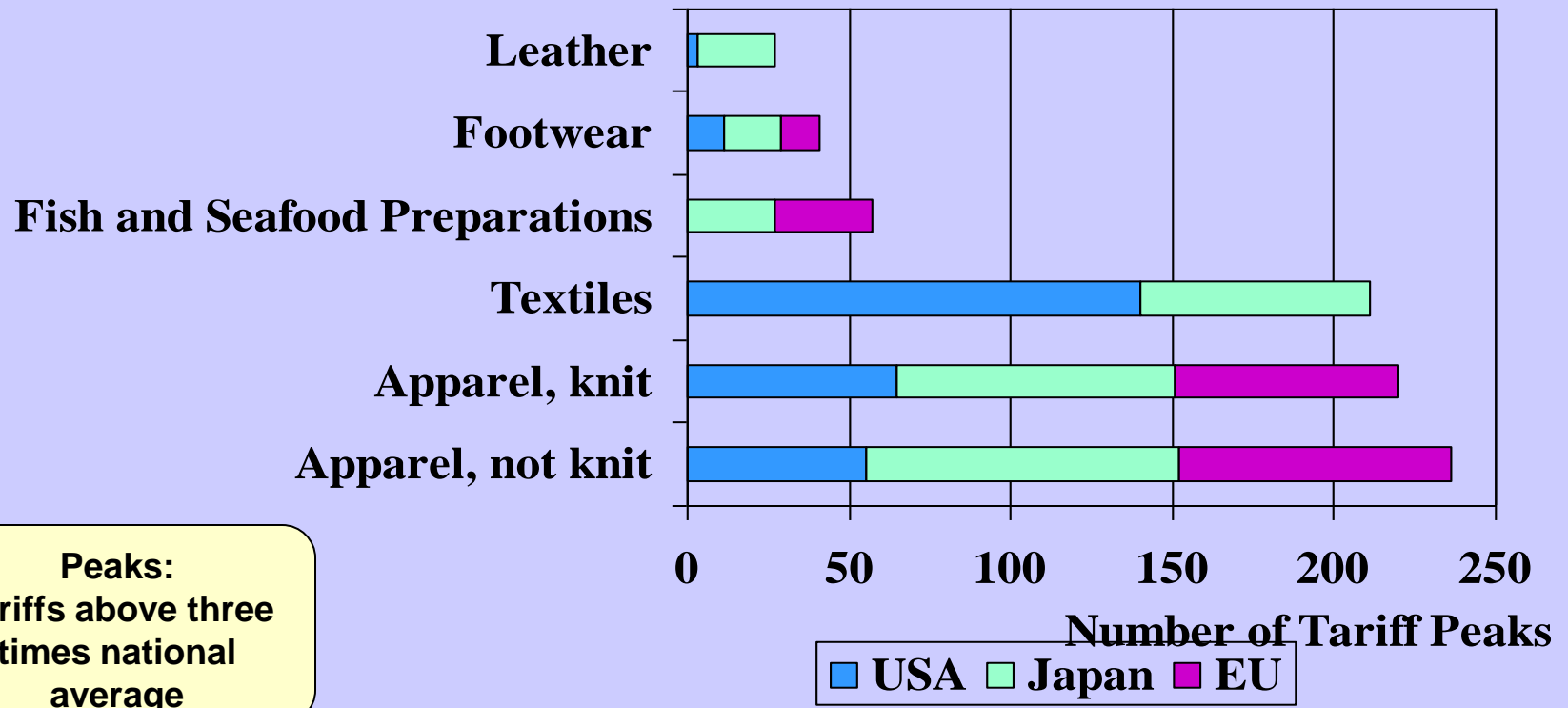
Source: UNCTAD Computations WITS/TRAINS Database



Division on Trade in Goods, Services and Commodities  
United Nations Conference on Trade and Development

## FACT: TARIFF PEAKS AFFECT DEVELOPING COUNTRIES EXPORTS

### Number of Tariff Peaks Among Selected Developed Countries



Source: UNCTAD Computations WITS/TRAINS Database



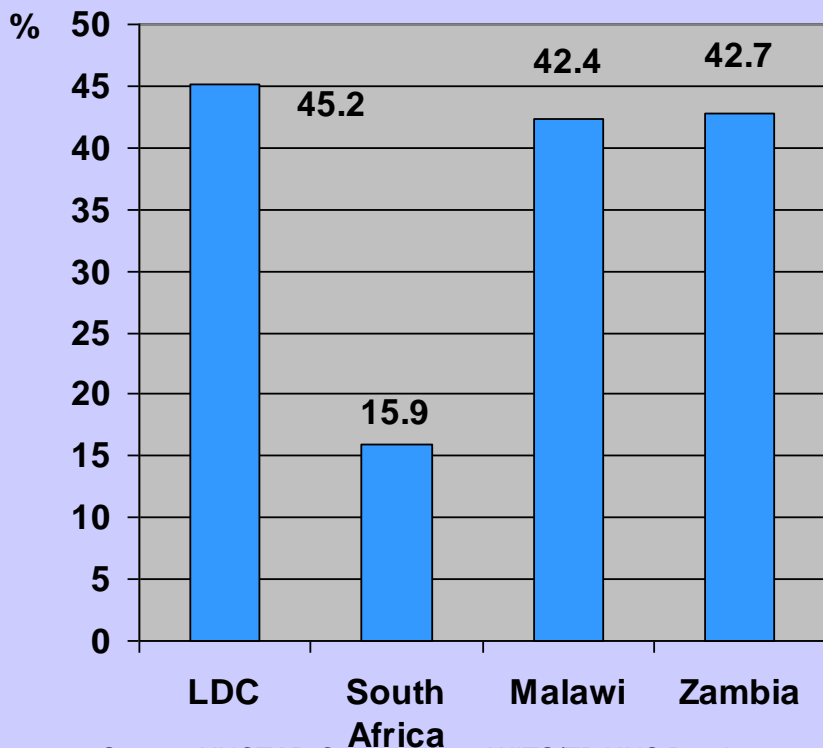
# KEY ISSUES FOR AFRICA

**Binding coverage:**  
 LDC 74%  
 South Africa 96%  
 Malawi 19.93%  
 Zambia 4%

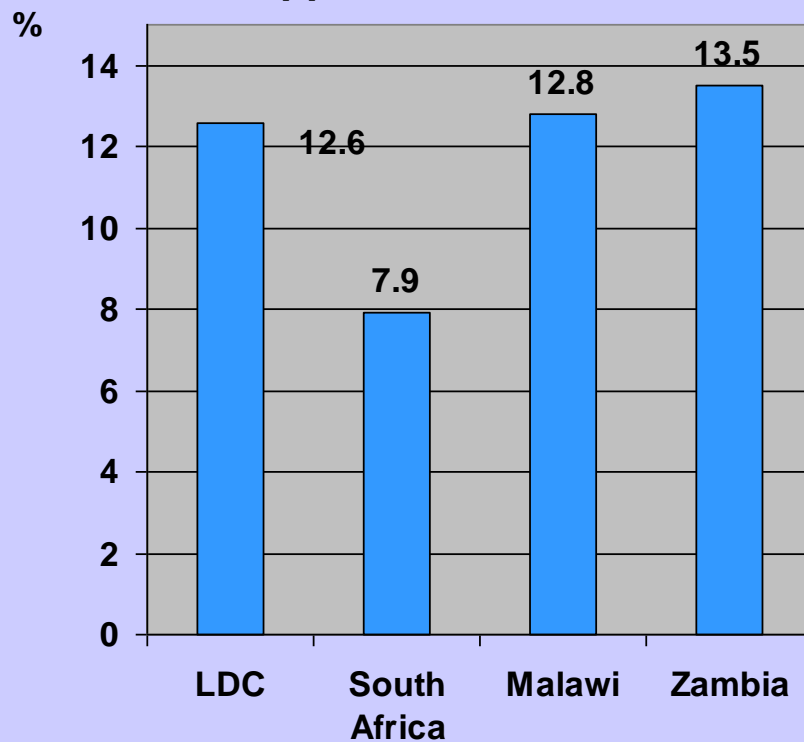
## Initial Tariffs

Trade Weighted Averages

### Bound Tariffs



### Applied tariffs



Source: UNCTAD Computations WITS/TRAINS Database





# THE CHALLENGE OF DOHA

More ambitious proposals in NAMA usually imply:

- Greater exports and welfare gains

**But:**

- Greater imports, lower tariff revenues, reduced output in some sectors and labour market adjustment

- May mean foregoing industrial policy options (« policy space »)

Gains and losses are not evenly spread across countries or sectors

# Trade and Development Issues

- Positive linkage between trade and growth
  - BUT questions about relative importance of openness and institutional factors
- Some highly protected sectors (agriculture/ textiles & clothing) v. important for developing countries and for poorest section of those societies
- Countries that have been able to diversify into manufactures do better than commodity-dependent countries
  - Case for policy space (industrial development)
- Protection (and rules?) loaded against trade interests of developing countries

# Adjustment Costs

- Experience of adjustment to trade reforms in Africa
  - Mostly negative – job losses, reduced growth, social problems
  - Case for moving carefully
- Examples:
  - Cashew processing industry in Mozambique
  - Textiles in Zambia
- Policies to mitigate the costs:
  - Phase-in policy changes so that labour and capital has more time to adjust
  - Paying compensation to potential losers
  - Social policies and safety nets: education, health and physical infrastructure

# What are key elements of WTO NAMA negotiations?

- Tariff reduction formula (cf request & offer or zero for zero)
- Exceptions allowed for sensitive items
- Binding coverage to be increased
- Level for binding applied rates
- Sectoral elimination (voluntary?)
  - Electronics & electricals; fish & products; stones, gems & precious metals; clothing; footwear; leather goods; motor vehicle parts)

# CURRENT STATE OF PLAY OF NAMA NEGOTIATIONS: “JULY PACKAGE”

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In July 2004, negotiators reached an agreement that **re-vitalized** WTO negotiations

The Framework contains for NAMA:

- **Initial elements** for future work on modalities
- **Formula-based approach**, but options for other modalities kept open
- **Non linear formula** applied on a line-by-line basis
- **Softer language on sectoral elimination** as a “key” element
- **Increase binding:** [two] times the MFN applied rate
- Proposal for **credit for autonomous liberalization** by developing countries since the conclusion of the Uruguay Round
- **Some flexibilities** for developing countries

**However, many issues are still unresolved such as timing, extent of tariff reductions and the specific formula to be used**



# STATE OF PLAY OF NAMA NEGOTIATIONS

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## Commentary by NAMA Chairman:

“ We have reached an impasse in the NAMA negotiations on the most fundamental element, **the formula.**”

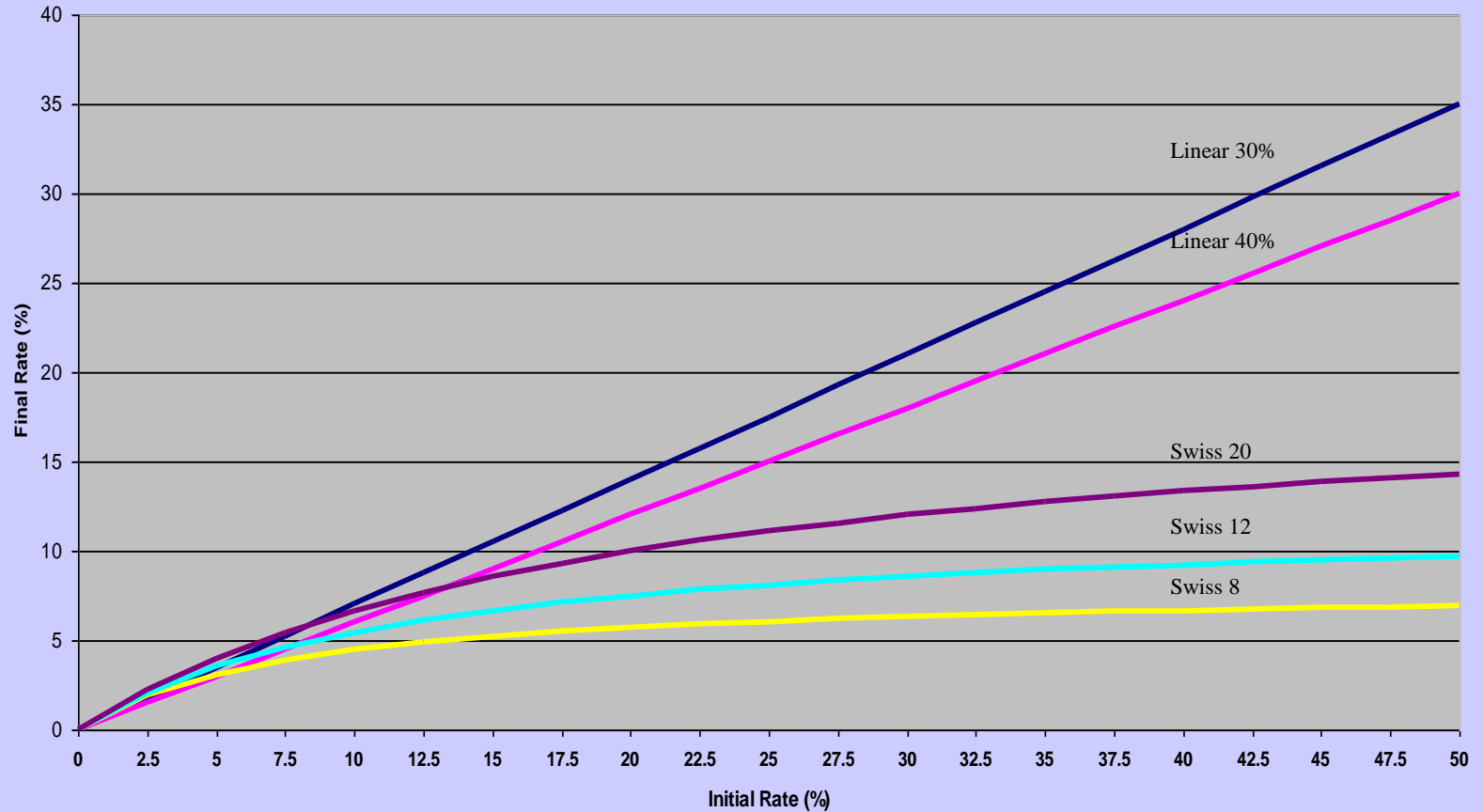
## What are the proposals/positions on the table?

- **US and EU** would agree to differentiated coefficients “Swiss Formula”
- **APEC** Swiss type formula with coefficients to be negotiated
- **Chile, Costa Rica, Mexico and South Korea** simple Swiss type formula
- **Argentina, Brazil and India (ABI)** which claims that a country’s existing average tariff be factored into the formula.
- **Caribbean** a new reduction formula for developing countries, ABI plus other relevant factors that are important for developing countries
- **Pakistan** Swiss with two differentiated coefficients DG 30% DC 6%
- **Most Developing Countries** have serious reservations about the fairness of a simple Swiss type formula



# Linear and Swiss Tariff Cuts

Comparison of Linear Cut and Swiss Formula  
(Tariffs for 0% to 50%)



## OTHER ISSUES - BINDINGS

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- **Binding coverage & level (Paras 5 & 6)**
  - Reduction from [2] times MFN applied, except if current coverage less than [35]%, then bind [100]% of lines at average developing country (12 weighted or 28 simple)
- **Flexibility (Para 8)**
  - Less than formula to [10]% if not less than half formula and exclusion not more than [10]% of imports OR
  - Exempt [5]% of lines if not more than [5]% of imports
- **LDCs «to substantially increase their level of binding commitment »**





## **OTHER ISSUES – SECTORAL INITIATIVES & SUPPLEMENTARY APPROACHES**

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- **Elimination tariffs on some sectors (Para 7)**
  - Girard text mentioned electronics and electrical goods, fish and fish products, textiles, clothing, footwear, leather goods, motor vehicle, parts and components, stones, gems and precious metals
    - Not listed in July package (except through cross reference to Girard in Para 3)
    - Some discussion of new range of sectors for zero-for-zero liberalisation
- **Cuts agreed under formula & sectoral initiatives to be supplemented by request and offer, zero-for zero, and sectoral negotiations. (Para 12)**
- **Elimination of low duties (Para 13)**



## OTHER ISSUES

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- **Non-tariff barriers (Para 14) – little progress**
- **Account to be taken of preferences and tariff revenues (Para 16)**
- **Less than full reciprocity? (Para 2)**
- **No target –just modalities (Para 3)**
  - What is the level of ambition and for whom?



# SCENARIO ANALYSIS: OVERVIEW

## Purpose:

- To determine the **implications for developing countries** of various NAMA liberalization scenarios based on the current state of play of negotiations

## Methodology:

- **Develop NAMA scenarios** of possible outcomes based on the current state of play
- Use of UNCTAD's Database to determine **tariff shocks**
- Use Computable General Equilibrium modeling: **GTAP** (Global Trade Analysis Project)

## Key Assumptions and Limitations:

- **Perfect competition** and **constant returns to scale** assumptions underestimate gains/losses from trade
- Real wages of unskilled **labour** in developing countries are fixed and the **quantity of labour flexible**
- **Ad-valorem equivalents** for developed countries bound and applied specific tariffs
- **Capital Account adjusts to equate Trade Balance ( $I-S=X-M$ ), Static analysis**
- **Armington assumption** for bilateral trade that differentiates imports by source
- Does not take all **non tariff barriers** fully into account
- **Market entry** is not assured if policy barriers are eliminated



# DRAFTING THE SCENARIOS

1 Three different non-linear formulae are considered

Swiss

WTO

Capping

2 For each formula, three different cases are considered based on the other elements that are currently under negotiation

Ambitious

Moderate

Flexible

In addition, a free trade scenario is considered



# DRAFTING THE SCENARIOS: FORMULAE

Free Trade	Swiss	WTO	Capping
<p><math>T_1 = 0</math></p> <p>All tariffs and other barriers to trade are eliminated</p>	<p><math display="block">T_1 = \frac{(a \times T_0)}{(a + T_0)}</math></p> <p>Where a is a maximum coefficient</p>	<p><math display="block">T_1 = \frac{(B \times t_a \times T_0)}{(B \times t_a + T_0)}</math></p> <p>Where B is a coefficient that can be varied to reflect different initial tariff levels.</p> <p>Where <math>t_a</math> is a national bound average of the base rates.</p>	<p><math>T_1 = (a \times T_0)</math></p> <p>Capping mechanism of three times the average national applied rate.</p>



# DRAFTING THE SCENARIOS: FORMULA COEFFICIENTS

	Swiss	WTO	Capping
Ambitious	Average weighted industrial tariff by country grouping	B = 1	
Moderate	Developed = 3.4% Developing = 12.5%	Developed B = 0.5 Developing B = 3	Developed 50% cut Developing 33% cut
Flexible	Twice above	Developed B = 0.5 Developing B = 5	



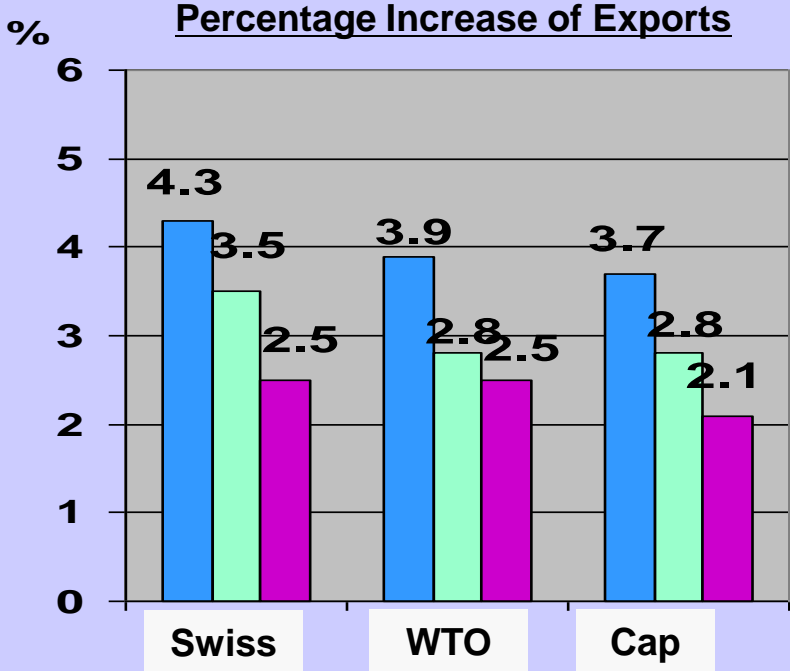
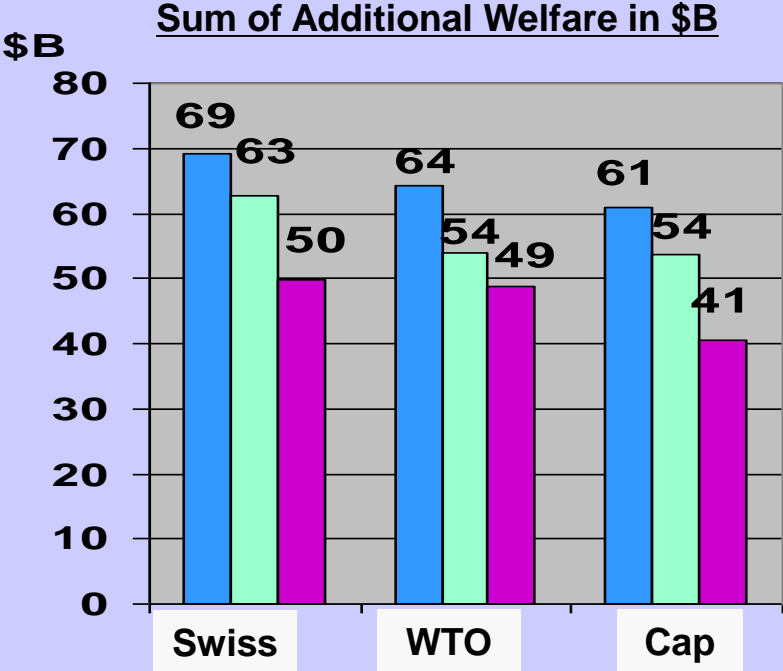
# DRAFTING THE SCENARIOS: OTHER ELEMENTS UNDER NEGOTIATION

	Binding Coverage	Sectoral Elimination	Elimination Of Low Tariffs
<b>Ambitious</b>	<p>100% for all countries</p> <p>DC and DG = 2 x applied rate</p> <p>LDC = simple average of bound tariffs developing countries (29.4%)</p>	Yes	All tariffs below 2% reduced to zero
<b>Moderate</b>	<p>DC = 100% at 2 x applied rate</p> <p>DG and “Paragraph 6” countries = 95% at 2 x applied rate or 2 x simple average of bound tariffs for developing countries (29.4% x 2 = 58.8%)</p>	<p>Developed: yes</p> <p>Developing : no</p>	Developed countries only
<b>Flexible</b>	<p>DC = 100% at 2 x applied rate</p> <p>DG and “Paragraph 6” countries = 90% at same as above</p>	No	None



# NAMA LIBERALIZATION CAN INCREASE WELFARE AND EXPORTS IN THE LONG RUN

## Developing Countries



■ Ambitious   
 ■ Moderate   
 ■ Flexible

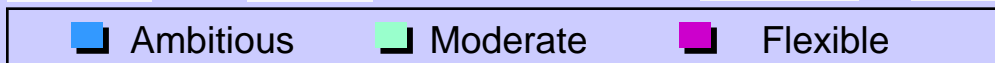
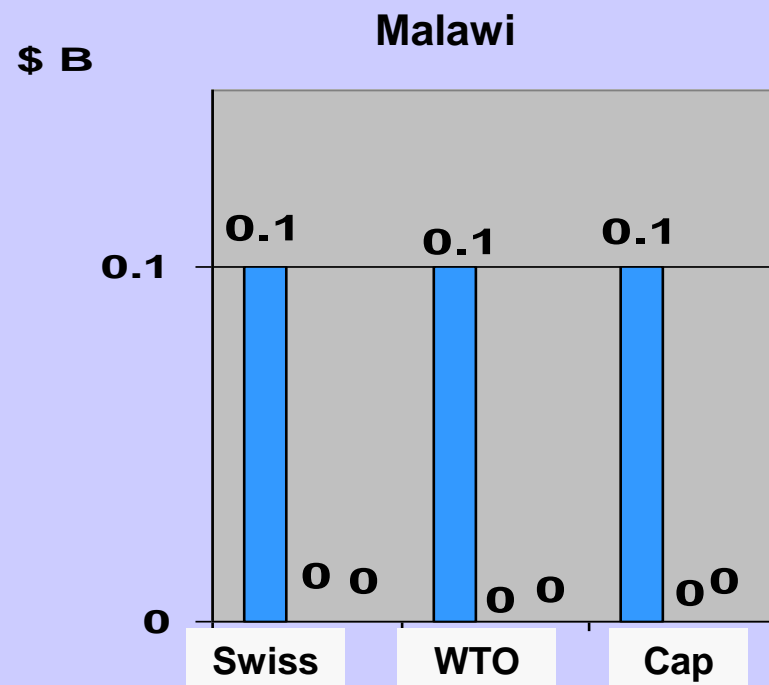
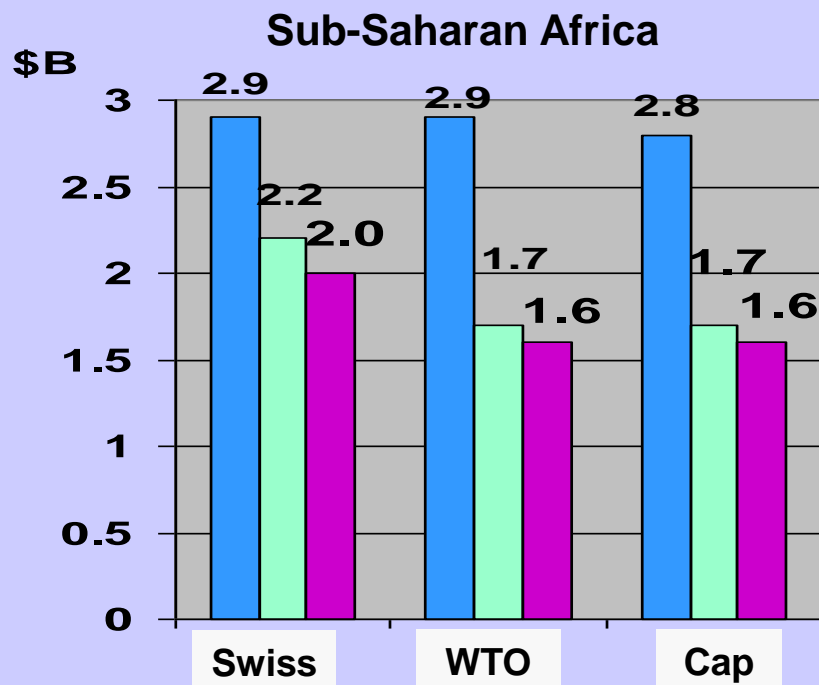
**These long term gains can only be realized by mitigating against the short term risks**





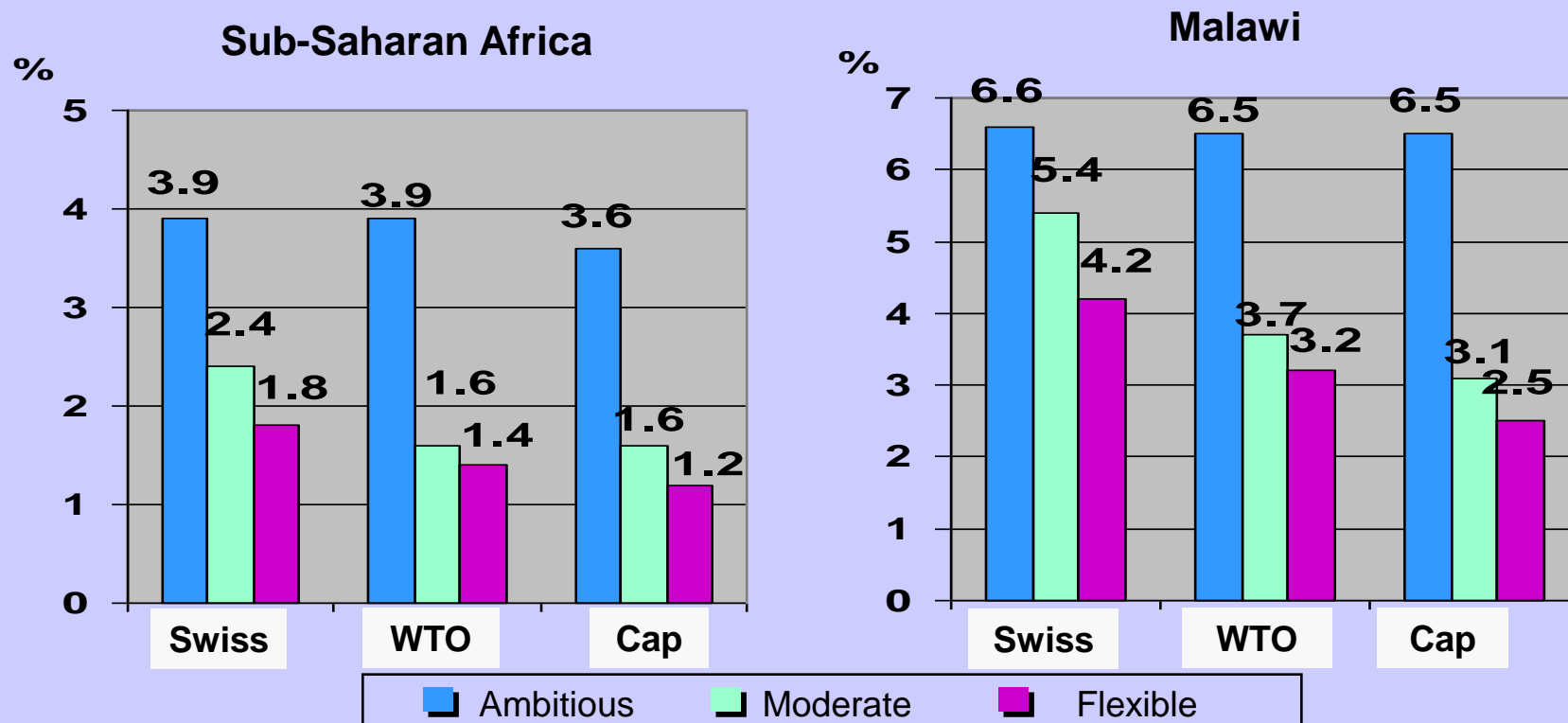
# KEY ISSUES FOR AFRICA - WELFARE

Sum of Additional Welfare in \$B



# KEY ISSUES FOR AFRICA - EXPORTS

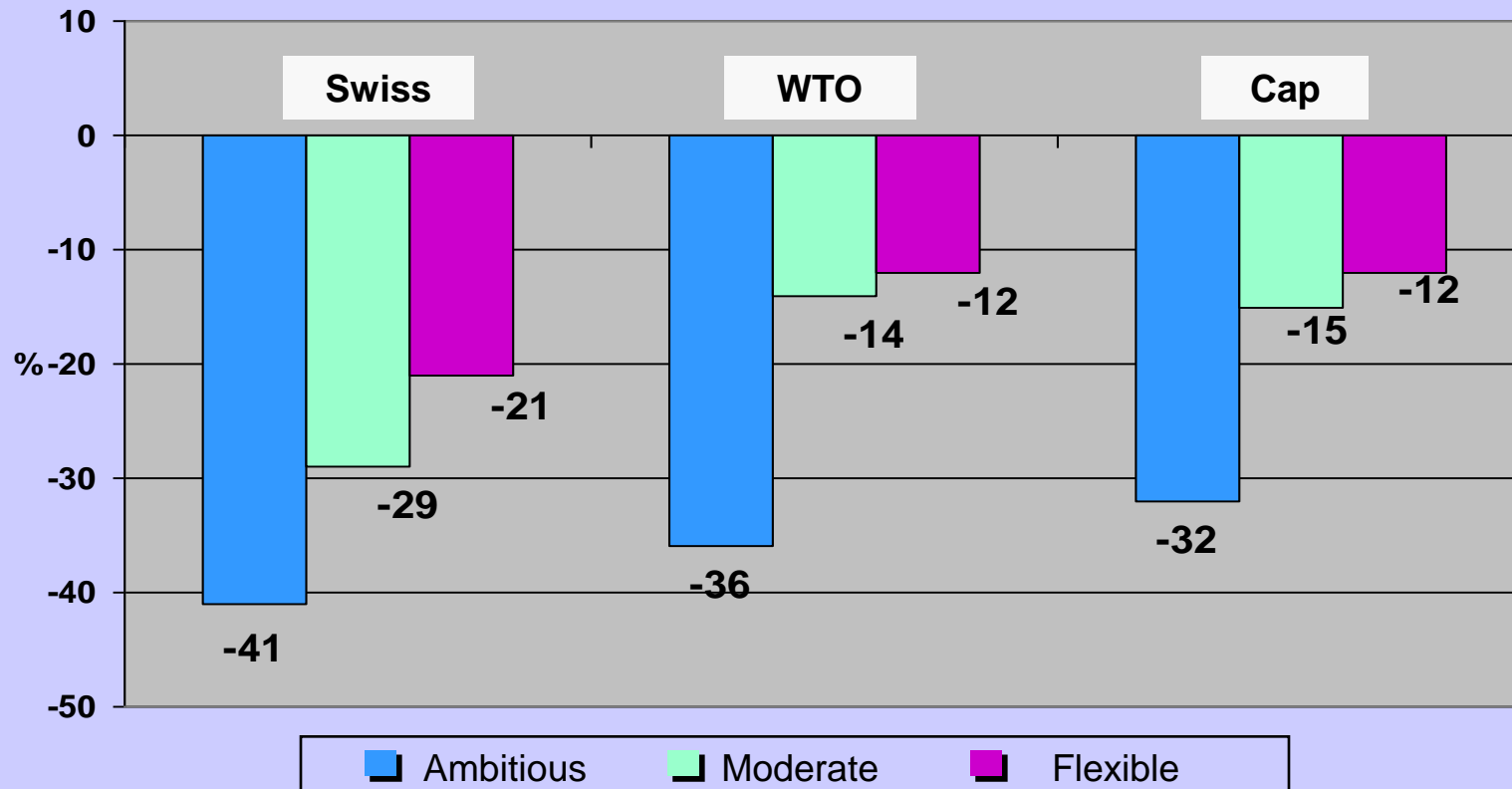
## Percentage Increase of Exports



# RISKS: DECLINE IN TARIFF REVENUE AMONG DEVELOPING COUNTRIES

% Change in Tariff Revenue Relative to Base for Developing Countries

Base Revenues: \$156 b

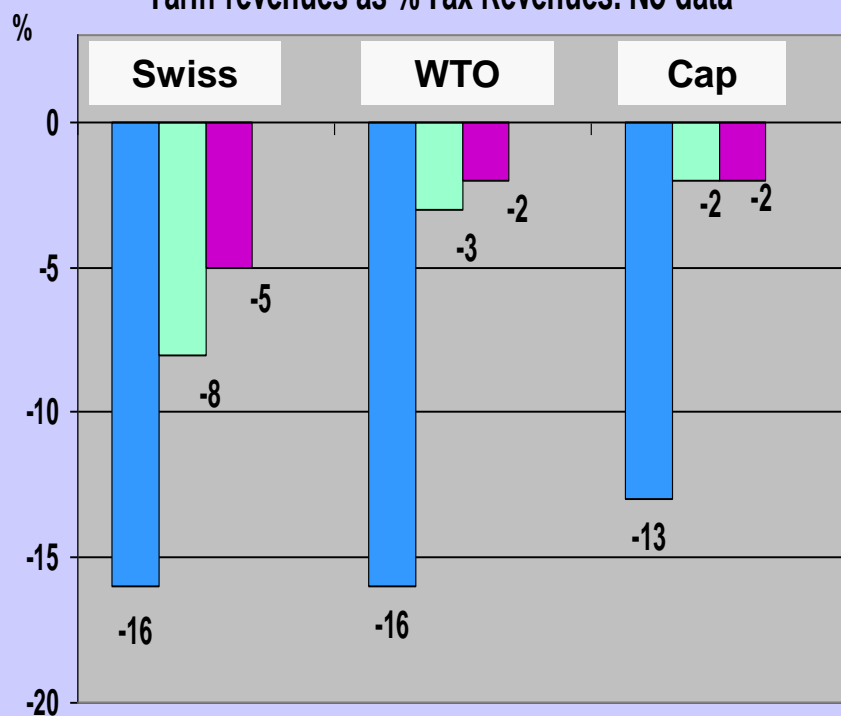


# RISKS: DECLINE IN TARIFF REVENUE FOR AFRICA

% Change in Tariff Revenue Relative to Base

Base Revenues: \$10.6 b

Tariff revenues as % Tax Revenues: No data

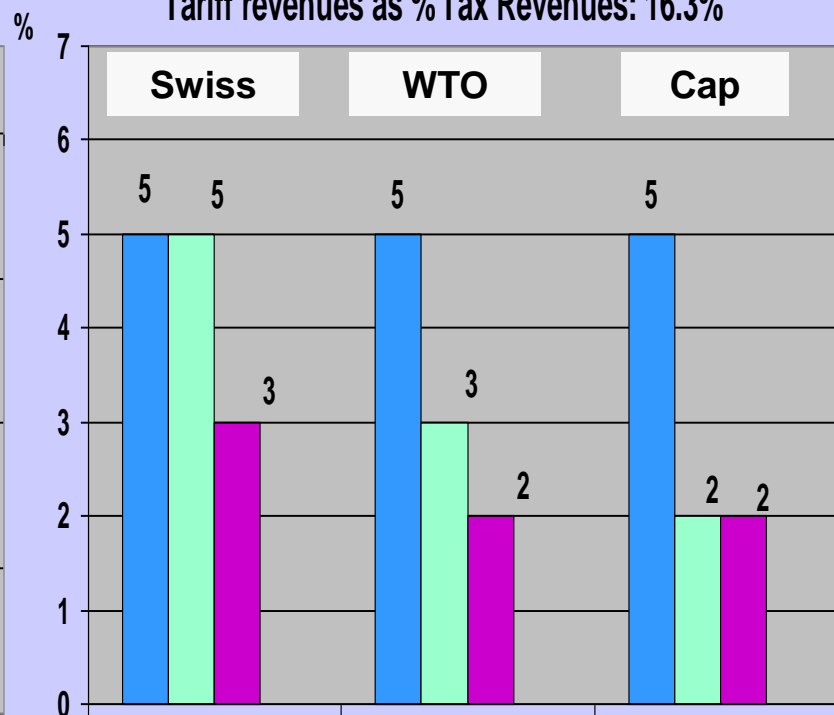


Sub-Saharan Africa

% Change in Tariff Revenue Relative to Base

Base Revenues: \$0.1 b

Tariff revenues as % Tax Revenues: 16.3%



Malawi



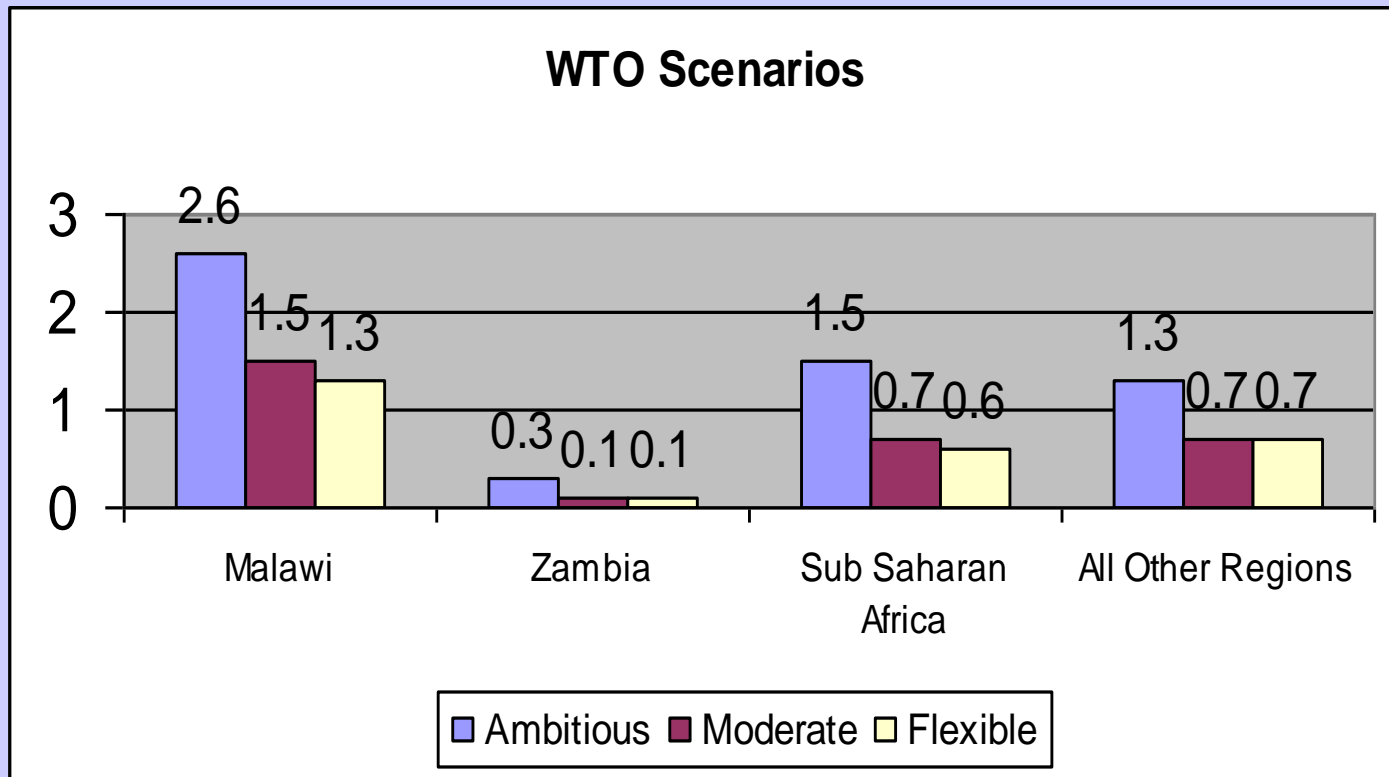
# RISKS: EMPLOYMENT LOSSES IN CERTAIN SECTORS

Percent Changes in Labour Usage Relate to Base, by Sector  
Swiss Formula, Ambitious Scenario

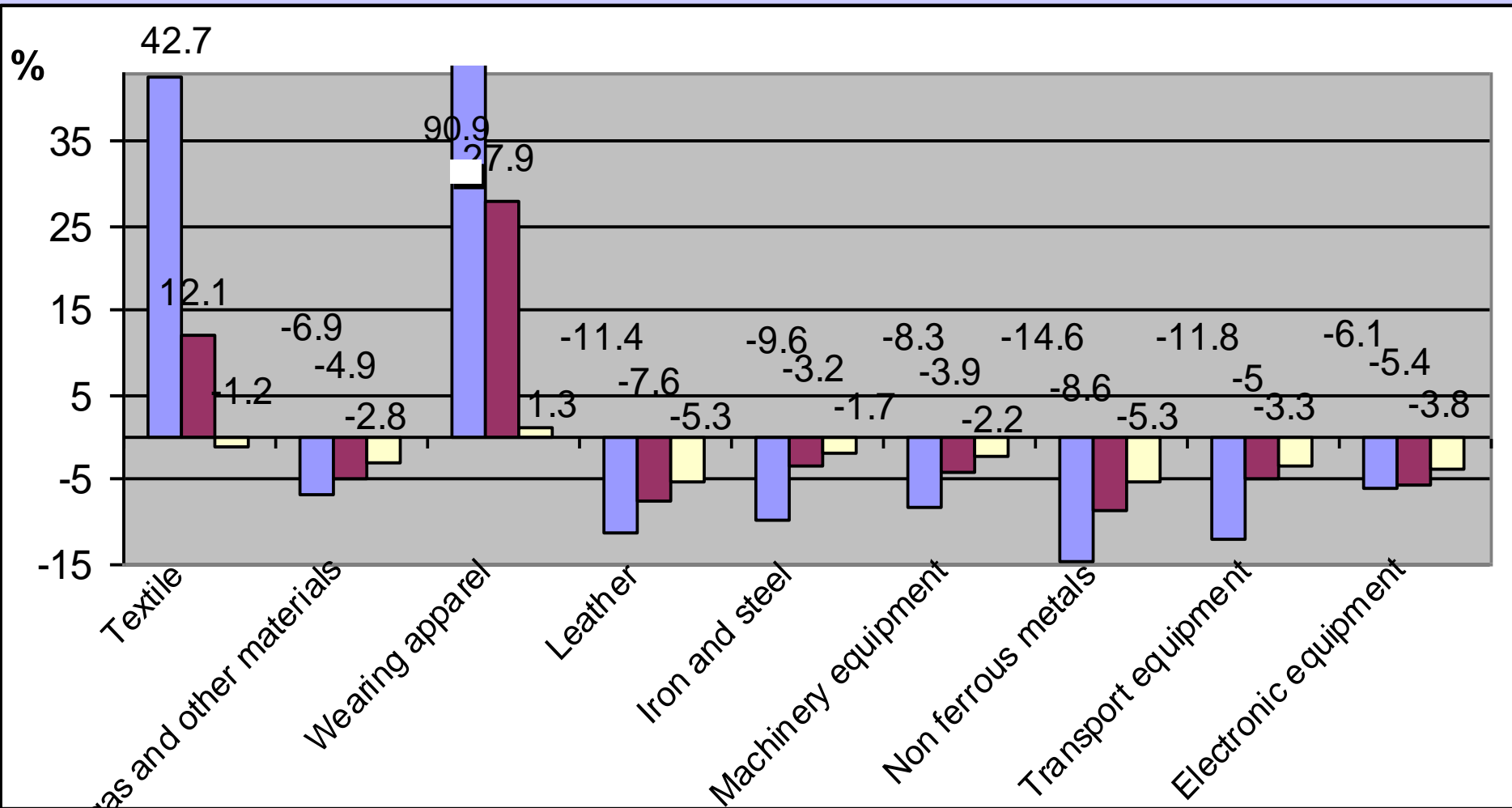
		Machinery and Equipment	Non Ferrous Metals	Other Manufacturing	Motor Vehicles	Electronics
Asia	China	-2.8	-4.1	-0.2	-10.4	6.7
	India	-2.2	-25.9	-2.1	-5.6	-1
	Rest of South Asia	-8.7	-13.4	-7.3	-36.8	-14.9
	South East Asia	0.2	-6.4	-2.3	-6.6	-1.7
Americas	Brazil	-5.2	3.2	-2	-4.3	-1
	Central America and Caribbean	-6.3	-8.2	-6.2	-2.1	-6.8
	Andean Pact	-4.7	6.4	-2.9	-9.6	-10.7
	Argentina, Chile & Uruguay	3.2	-1.4	-2	9.3	-7.6
Africa and Middle East	Middle East and North Africa	0.2	5.8	-1.5	1.9	5.1
	Sub Saharan Africa	-0.6	8	-0.5	0.6	-3.5



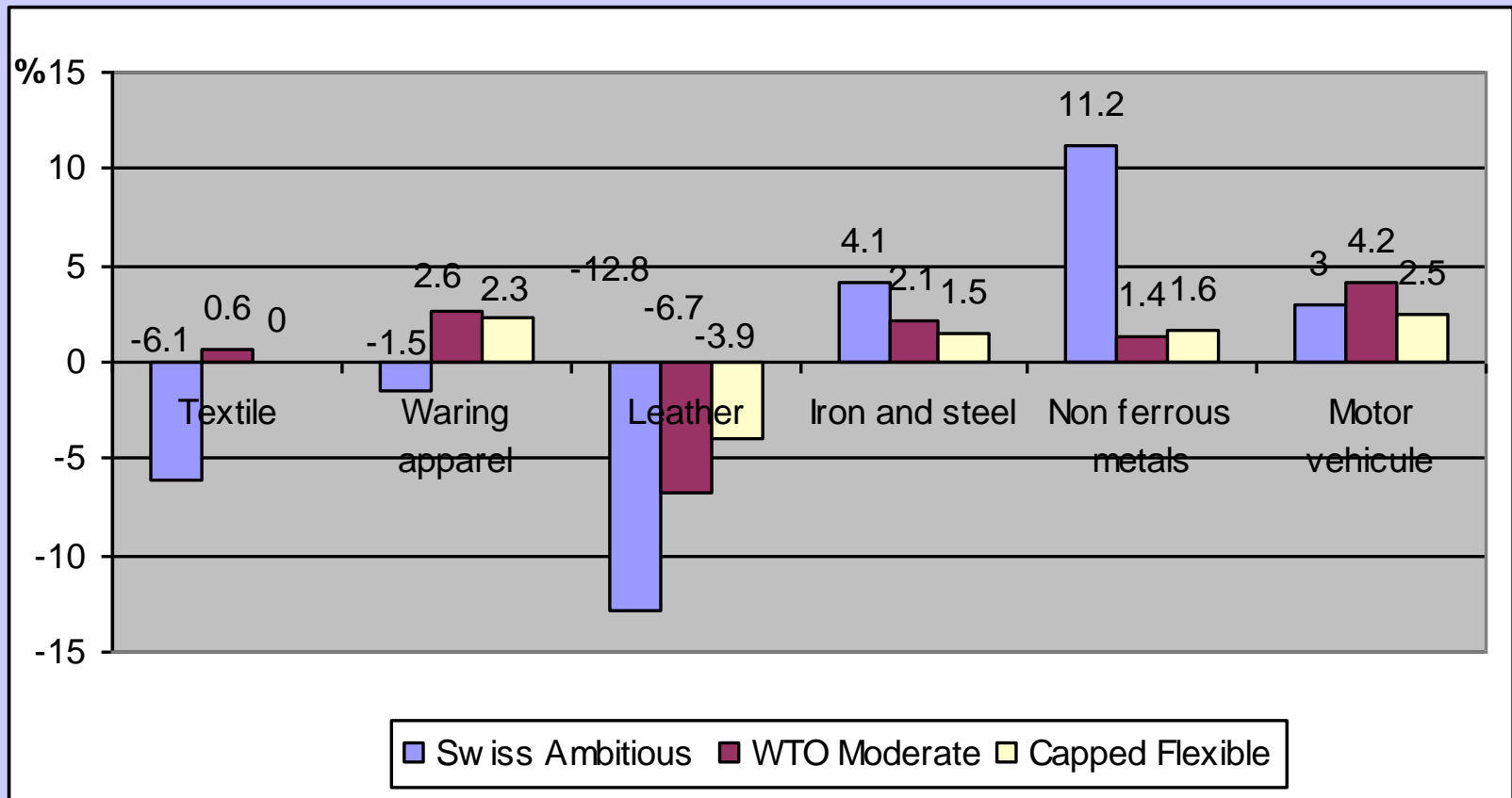
# CHANGES IN EMPLOYMENT FOR AFRICA



# CHANGES IN EMPLOYMENT BY SECTOR FOR MALAWI



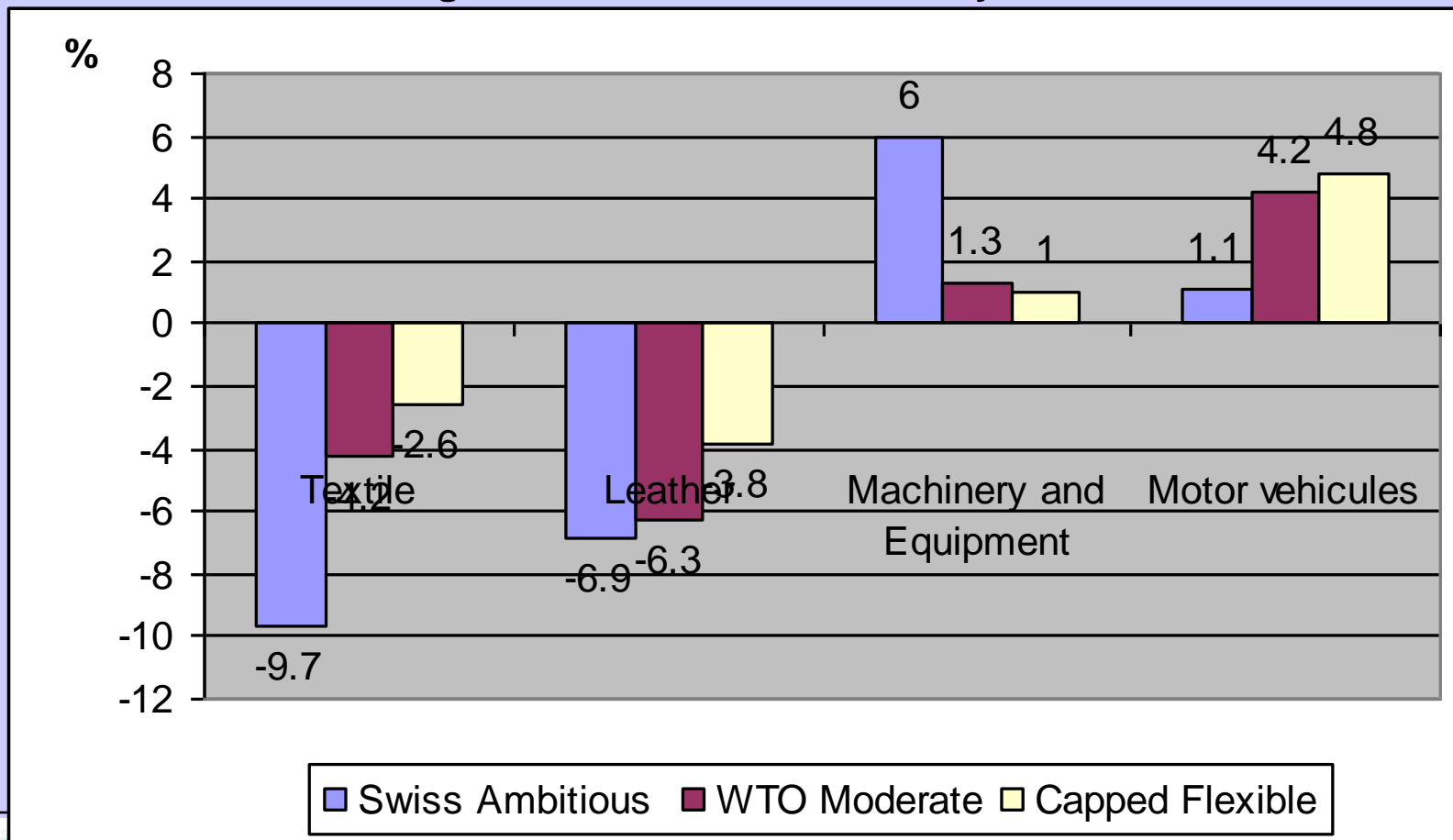
# CHANGES IN EMPLOYMENT BY SECTOR FOR SUB-SAHARAN AFRICA





# KEY ISSUE: EMPLOYMENT FOR AFRICA - ZAMBIA

**Changes in unskilled labor used by sectors**



## CURRENT NEGOTIATIONS REPRESENT AN OPPORTUNITY TO ADDRESSES TRADE BARRIERS THAT REMAIN

1. Developed countries tariffs on developing countries exports are **twice** the rate imposed on developing countries. **Focus** should be on tariff peaks, high tariffs and escalation **not on averages**
2. Both “capping” and “swiss-style” formulae can achieve the **same degree** of trade liberalization, but “capping” formulae have the added **benefit of transparency**
3. Including **sectoral elimination** as a modality has a greater impact on the final outcome than the choice of formula
4. Allowing countries to **bind** at twice the **simple average of bound tariffs** (29.4% x 2) for developing countries provides greater flexibility for sensitive products
5. Developing countries may achieve **some important trade and welfare gains**, but these gains come at **cost** – lower tariff revenues, and reductions in output and employment in some sectors

**Liberalization should be accompanied  
by provision intended to facilitate adjustment**



# CONCLUSION

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- Benefits in the long run, but adjustment costs in the **short run**
- The challenge for developing countries is to determine the **special and differential treatment** they require
- Therefore a **cautious** or measured approach may be preferable, as is recognized in the Doha Declaration which calls for **non-full reciprocity**
- Gains will only be possible through a **development-centred agreement** and strategies to **reduce** the adjustment costs

**Developing Countries need coherent trade policies  
and NAMA negotiating strategies**

