NAMA NEGOTIATIONS: DEVELOPMENT VIEW

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NAMA is an area where the outcome appears likely to be the least development-friendly. The August 2004 Framework on NAMA (in Annex B), supplemented by the Hong Kong Declaration, is very tilted against the developing countries. A new system is being created that will remove or reduce the present development flexibilities in the General Agreement on Tariffs and Trade (GATT). As a result, the deindustrialisation process that is already taking place in many countries will accelerate.

First, members are asked to bind all their industrial tariffs. At present, each country can choose how many of their tariff lines they want to bind. This flexibility will be removed as the August 2004 Framework requires all members to bind 100% of their lines, or at least 95%.

Secondly, unbound tariffs will have to be bound at low levels. This is because the August 2004 Framework proposes that the applied rates of unbound tariff lines will be multiplied by two and then a formula will be used to reduce the tariff rates to the new bound levels. In many cases the new bound rates will be significantly below the applied rates, which are already low because of structural adjustment. In contrast, up to now, each country is allowed to choose at which level to bind their previously unbound tariffs. The removal of this flexibility would have serious implications. These implications would be grave if the August 2004 Framework is adopted, because for the first time ever in the GATT/WTO system the applied rates would be used in calculating the newly bound rates, and the formula linking the two is so strict that the new bound rates will likely be close to or below (in many cases significantly below) the applied rates.

Thirdly, for the first time, developing countries will be subjected to a formula to reduce tariffs. And it will be a Swiss formula, which cuts higher tariffs more deeply than lower tariffs. Since most developing countries have quite high industrial tariffs, their tariffs will be cut more steeply than the tariffs of developed countries (unless the developing countries are allowed to have vastly different coefficients in the formula than the developed countries).

If developing countries have to cut their tariffs more than developed countries, this also goes against the principle of “less than full reciprocity” that is mandated in the Doha Declaration. The depth of cuts depends firstly on the formula and secondly on the coefficient agreed to. On the first, a non-linear formula was agreed to in the August 2004 Framework and the Swiss formula (a variant of the non-linear formula) was agreed to in the Hong Kong Declaration; the Swiss formula’s characteristic is that higher tariffs are slashed at higher rates. On the second, the developed countries agree that there can be two coefficients: one for developed countries and one for developing countries. However they also insist that there not be much difference between the two coefficients, with the coefficients 10 (for developed countries) and 15 (for developing countries) being

mentioned. The lower the coefficient, the more drastic the rates of reduction. The coefficient also denotes the maximum level of tariff after the reduction exercise. Thus a coefficient of 15 for developing countries implies that their industrial tariffs will be brought down to less than 15%.

Fourthly, the cuts are to be done on a line-by-line basis. This means that every product will be cut by this drastic formula. In the Uruguay Round, the developing countries had to cut their tariffs by an overall target of 30%, but they could choose at which rate to cut which product's tariffs, so long as the overall average came to 30%. This flexibility is to be removed.

Finally, there is a "sectoral approach" in which tariffs will be eliminated in products belonging to certain selected sectors. Developing countries want this approach to be on a voluntary basis. But pressures are being put on them to participate.

There are non-tariff barriers (NTBs) which hinder the access of developing countries' products to developed countries' markets. NTBs are supposed to be an integral part of the negotiations in NAMA. However this issue has been given low-priority treatment and it is unlikely that there will be any significant outcome in this area which is of high export interest to developing countries.

Some flexibilities are provided in the August 2004 Framework to developing countries, but they are very few and very limited. The flexibility is that they can EITHER (1) apply less than formula cuts to up to [10]% of the tariff lines provided that the cuts are no less than half the formula cuts and that these tariff lines do not exceed [10]% of the total value of a member's imports; OR (2) keep as an exception, tariff lines unbound, or not applying formula cuts for up to [5]% of tariff lines provided they do not exceed [5]% of the total value of a member's imports.

There is a **marked imbalance or unfairness in the meanness of this flexibility** for developing countries in NAMA, when it is compared with the generous flexibilities proposed by the EU or the G10 for themselves in agriculture. The EU has for example proposed that 8% of developed countries' agriculture tariff lines can be self-designated as sensitive products (which will then not be subjected to the full formula cuts) and they are not limited to 8% or any level of total import value; compared to developing countries' flexibilities in NAMA where only 10% of tariff lines can enjoy less than full formula cuts (even then limited to half the formula cuts) and these tariff lines are limited to 10% of total import value. Even then, the developed countries (backed by a few developing countries) want to reduce the NAMA flexibility for developing countries by reducing the numbers in the brackets, or to link them to the severity of tariff reductions (i.e. the coefficient).

For developing countries that have bound less than 30% of their tariffs (known as the paragraph 6 countries), there is a concession that they need not be subject to the formula. However the August 2004 Framework requires them to bind all their tariffs, and at a level that is the average level of bound tariffs of developing countries (taken to be 27.5%).

This is an inadequate concession, for it would still ask too much of these countries in terms of wide and rapid liberalisation. These countries have put forward their own proposal for more flexibilities, but this has so far not been accepted.

The aggressiveness of the developed countries in NAMA contrasts with the leniency with which they would like themselves to be treated in agriculture, where they have more defensive interests.

For many developing countries, the obligations they have to undertake if the NAMA negotiations proceed along the present lines will require them to cut their tariffs steeply, and this will only worsen in future rounds of negotiations. It will accelerate the deindustrialisation process that is already under way in many developing countries, and hinder the prospects of their industrial development.

In the negotiations till now, most developing countries feel disadvantaged that they are unable to see the full picture of the implications of variations of formulae and coefficients on their tariffs (and on their domestic industries). Few countries have the technical capacity to work out the national figures for themselves.

The difficulties are compounded by the fact that the discourse on the NAMA tariff reduction exercise is carried out normally in terms of coefficients and formulae. It is very difficult for diplomats and policy makers (except those who are mathematically trained) to quickly translate the coefficients into what they mean in terms of percentage reductions of various tariff lines.

The developed countries have projected the idea that having two coefficients would take care of the requirements of special and differential treatment for developing countries, and even of the "less than full reciprocity in commitments" principle that was mandated by the Doha Declaration. But merely having separate coefficients will not fulfil these two requirements, unless there is a vast difference in the coefficients.

For example, if a coefficient of 10 in a simple Swiss formula is applied to developed countries, then the EU states, which have an average bound tariff of 3.9%, will only cut their bound tariffs approximately by 28%. With a lower coefficient of 5, the EU's cut would be by 43.8%.

Compare this with the situation of a developing country with an average bound tariff of 30%, which is about the average level for developing countries. If a coefficient of 10 is applied, the average tariff would fall from 30% to 7.5% (or a reduction of 75%, far more than the EU's 28%). A coefficient of 15 leads to an average 10% final tariff (or a 66.6% reduction). A coefficient of 20 leads to a final tariff of 12% (60% reduction). Even a coefficient of 30 leads to a final tariff of just 15% (50% reduction).

In these cases (coefficients 10 to 30), the developing country would have to undertake far deeper cuts than the EU.

Only at much higher coefficients will this developing country undertake similar percentage reductions as the developed countries. For example, with a coefficient of 70, the developing country will cut its tariff from 30% to 21%, a reduction of 30%. This is still more than the 28% reduction by the EU if it applies a coefficient of 10.

However, the developing countries are not required to undertake the same level of commitments as the developed countries since the Doha Declaration says they are to undertake "less than full reciprocity in reduction commitments". They can cut their tariffs by less than the percentage rates of developed countries.

If the EU were to cut its tariffs by an average 28%, then the developing countries should be required to cut by only a fraction of that. If that fraction is half, then their required reduction is 14%. If the fraction is two-thirds, the required reduction is 18.5%.

Taking the two-thirds fraction, the developing country in our example would have to reduce its average tariff by 18.5%, or from 30% to 24.5%. It would require a coefficient of 120 to cut the tariff from 30% to 24% (or by 20%).

Thus, a coefficient of 10 for the EU would mean that the developing country would need a coefficient of at least 120 in order that the less-than-full-reciprocity principle is met. (This analysis is also valid in relation to the US as its average industrial tariff is even lower than that of the EU.)

This fact is not so immediately evident because most of the discussions are in terms of formulae and coefficients, when it should be in terms of percentage cuts, as happens in the agriculture negotiations, and as has happened in previous GATT negotiations. There is ground for concern that many developing countries that are affected by the formula are finding it more difficult to follow the negotiations. This may remain so unless it is made transparently clear to them what percentage reductions are involved with each coefficient and formula.

The danger is that with the confusion engendered by discussions focusing on coefficients, developing countries will be put under greater pressure to give in to the demands of the developed countries to accept a low coefficient, which would require their tariffs to be slashed by very high percentages.

As a result, the local industries in many sectors and many countries would not be able to withstand competition from imports that suddenly become much cheaper. Governments would also lose a significant part of their revenue, as tariffs are brought down sharply and suddenly. The prospects of future industrialisation of the affected developing countries would also be adversely affected.

The implications of the NAMA proposals are serious as their adoption is likely to exacerbate the deindustrialisation that has already taken place because of rapid liberalisation, mainly under the structural adjustment programmes of the IMF and World Bank. For example, the domestic industries of many African countries have closed or have been seriously damaged in the 1980s and 1990s.

There is a myth that developed countries and successful developing countries industrialised because they had low or zero tariffs, and that the lower the tariff the higher the industrial growth. In fact, developed countries made use of high tariffs to protect their industries during their industrialisation phase. Also, the successful East Asian economies of Taiwan, South Korea and Japan resorted to tariff measures to pursue their industrial development. Two recent papers, by Ha Joon Chang (of Cambridge University), and by Yilmaz Akyuz (former Chief Economist of the UN Conference on Trade and Development (UNCTAD)), have demonstrated this.

For example, the US maintained average applied industrial tariffs of 40 to 50% from 1820 to 1931. France had average tariffs of 20 to 30% from 1913 to 1931. Spain had 41% tariff in 1913 and 1925, rising to 63% in 1931. Germany's tariff was 20-21% in 1925 and 1931 and 26% in 1950 (Chang 2005).

The US had 44% tariff in 1913 when its per capita income (at 1990 prices) was $5301, and 14% tariff in 1950 when its per capita income was $9561. Germany had 26% tariff in 1950 when its per capita income was $3881, and the UK's tariff in 1950 was 23% ($6907 per capita income). In 2001, the average applied tariff was 13.6% for LDCs ($898 per capita income), 8.1% for developing countries ($3260 per capita income), 10.4% for Brazil ($5508 per capita income), 12.3% for China ($3728 per capita income) and 24.3% for India ($1945 per capita income). (Per capita incomes are on a PPP basis at 1990 prices.) (Akyuz 2005: p14).

Asking developing countries to reduce their tariffs to very low or zero levels is akin to industrial countries, having reached the roof, kicking away the ladder which others are climbing.

The ability to use tariffs for industrialisation is all the more important since the use of other tools (which other countries had used during their industrialisation) has now been constrained by WTO rules, for instance on TRIMs and subsidies. Also, for many developing countries, customs revenues constitute 20 to 30% or more of government revenue, while for developed countries this is less than 1%. Cutbacks on government revenue could result in decreased social spending such as on health and education.

Another relevant point is that developing countries need the policy space and flexibility to be able to modify their tariff levels at various phases of industrialisation, as Akyuz (2005) has shown. In an early phase, a country would be wise to have higher tariffs on consumer goods it wishes to produce, while having low or zero tariff on inputs and machinery. In a second phase, it can lower the tariffs on consumer products as it gets more efficient, while raising tariffs on inputs that it may now want to produce. In a third

phase it may increase the tariff on machinery so as to produce capital goods, while reducing tariffs on consumer goods and inputs. In an advanced phase it can afford to have low tariffs on the various categories of goods. Thus, it should not be the case that a country binds tariffs at low or zero levels on products it does not presently produce. It should have the space to increase its applied tariffs on some products as it develops. It is important to maintain the policy space, i.e. a difference between the bound and applied rates.

Proposals:

1. The best option is to replace the Swiss formula with the linear cut of average tariff as in the Uruguay Round, with flexibility to choose the cut per tariff line.

2. Otherwise, if the Swiss formula is to be retained, each country should have a different coefficient. The average percentage cut for developed countries should be worked out, and the relevant coefficient assigned for each country. Developing countries should be required to cut on average by half or two thirds of the rate agreed to by developed countries. Each developing country can be assigned a coefficient consistent with the average rate for developing countries.

3. The flexibilities should be expanded: For example (1) 20% of tariff lines need not be subjected to the full formula cut, (2) this should not be restricted to 20% of any percentage of value of imports, AND (3) countries can keep 10% of tariff lines unbound.

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