

NAMA AND ITS IMPLICATIONS FOR SOUTH ASIAN COUNTRIES

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Introductory Remarks

- South Asia does recognize how vital it is to have freer, fair and equitable international trade for prosperity, development and alleviation of abject poverty from the region.
- South Asia does not subscribe to the belief that trade liberalization hampers development opportunities.
- We therefore have a strong interest and desire in the successful conclusion of the NAMA negotiations and of course the Doha round in its totality.

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- Success of NAMA negotiations are important for our region because it will determine the market access opportunities that are vital for our growth.
- Concomitantly, being the under-developed region we however favor a cautious but calculated approach in MTNs.
- With these introductory remarks I shall move to the paper prepared by CUTS for this seminar.

Objective of the Paper

- To develop negotiating input for regional negotiators and policymakers that reflects a common position of the South Asia concerning issues related to still to be completed NAMA negotiations.

Aim & Focus of NAMA Negotiations

- NAMA aims to reduce both tariffs and non-tariff barriers (NTBs) that impede market access for all products that are not covered under the negotiations on agriculture or services.

NAMA ISSUES TO BE SETTLED

1. Product coverage: yet to be determined which product is to be covered in NAMA negotiations.
2. Reconciliation of the process of tariff reduction (through the non-linear 'Swiss Formula').
3. Interpretation of the 'less than full reciprocity' i.e., developing countries to decrease tariffs to a lesser extent than DCs, and over a longer period of time.

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4. Tariff bindings: Yet to agree on what percentage of unbound tariffs will be bounded, at what level these tariffs will be bounded, and whether bound tariff should be included in the Formula. Whether such negotiations should cover bound rate only or both the bound and the applied rate. Negotiation also focus on methodology of conversion of specific duties into ad-valorem duties.

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5. The need to address tariff peaks and cascading for sectors of direct export interest to developing countries.
6. NTBS (quotas and technical barriers): Issues are:
 - Which NTBs should be included into NAMA negotiations and which will be covered by other WTO committees (TBT, SPS, trade facilitation and rules negotiations).
 - Which NTBs should be allowed or prohibited.

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7. Sectoral approach and participation in this approach: Sectoral negotiations aim for complete tariff elimination. Participation of developing countries, mostly LDCs could be voluntary, all other members are expected to eliminate or substantially reduce tariffs on specific products. Some countries desire to eliminate low tariffs (3 or 5%), but for some developing countries these tariffs do provide an important source of revenues. Developing countries wants flexibilities on this account.
8. Preference erosion: Generalized tariff reduction is expected to erode preference now enjoyed by LDCs.

Stocktaking of Observations: SAFIT I & II Studies

- Since the techniques and modalities of negotiations have significant repercussions for the outcome, SAFIT I study suggests the following:
 1. SA must evolve a negotiation strategy that results into such ground rules, which ensures S&D rights for developing nations and LDCS.
 2. SA should adopt an approach to secure maximum tariff reductions for products of their export interest.

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3. SA should determine the extent to which it is willing to liberalize its trade to win tariff reductions and removal of NTBs by developed partners.
4. SA may agree to reduce the bound rates.
5. For products where SA does not have potential comparative advantage it may agree to steep cuts in both bound and applied tariff rates.
6. SA should ask for conversion of all specific duties into *ad-valorem* from DCs.

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7. SA should strive to seek substantial reductions or eliminations in tariff peaks and escalations for products of its export interest.
8. SA should seek the allowance (credit) for autonomous trade liberalization undertaken by SA countries in terms of greater flexibility in the choice of 'base tariffs' to be used as a basis for tariff cuts as a result of the industrial tariff negotiations.

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9. SA must seek flexibility in 'staging' of tariff reductions, i.e., longer period than DCs.
10. SA need to press for international financing for training of public officials, screening industrial countries' policies, and building a network with other developing countries to evolve a joint negotiation stand.

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- Under SAFIT II study, the main issue highlighted is NTBs, especially TBT for textiles & clothing and SPS for marine products. Bangladesh, India and Pakistan highlighted these as major hurdle to their exports in their submission to NAMA negotiations. Bangladesh has also reported that Rules of Origin are discriminatory, unreasonable and inconsistent.
- As no significant progress is made on NTBs, study makes no specific proposal for adoption or rejection of modalities.

Status of NAMA Negotiations at WTO

- December 6, 2008: the chairman of the NAMA negotiations developed modalities' text based on the previous 3 texts, and provides for wider options for ministers to negotiate a balanced final package for the full modalities. It covers:
 - Formula and flexibilities.
 - Sectors for deeper tariff reduction or elimination.
 - Modalities for other developing members.
 - NTBs.

Status: Formula and Flexibilities

- Tariff reduction will be made using a “Swiss Formula” with separate coefficients for DCs (8) and developing countries (20, 22 and 25). The same coefficient will be applicable to all DCs. For developing countries there will be a menu of options, that will apply according to the scale of the flexibilities they choose to use. The lower the coefficient higher the flexibilities and vice versa. Note: the Formula produces deeper cuts on higher tariffs (a higher coefficient means lower reductions in tariffs).

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- The use of different coefficients would depend on three new options:
 - A member applying the lowest coefficient (20), would be entitled to make smaller or no cuts in 14% of its most sensitive industrial tariff lines, provided these lines do not exceed 16% the total value of its NAMA imports. Alternatively, the member can keep 6.5% of its tariff lines unbound or exclude them from tariff cuts, provided they do not exceed 7.5% of the total value of its NAMA imports.

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- Applying a coefficient of 22: entitles a member to make smaller or no cuts in a smaller number of products: up to 10% of its most sensitive industrial tariff lines from the full effect of the formula, provided that these lines do not exceed 10% of the total value of its NAMA imports. Alternatively, the member can keep 5% of its lines unbounded or exclude them from tariff cuts, provided they do not exceed 5% of its NAMA imports.
- A coefficient of 25: No flexibility: member will have to apply it on all its products without exceptions.

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- Tariff reductions will be implemented gradually over a period of 5 years for DCs and 10 years for developing countries, starting January 1 of the year following the entry into force of the Doha agreement.
- The text also contains anti-concentration clause, to avoid excluding entire sectors from tariff cuts. A minimum of 20% tariff lines or 9% of the value of imports in each tariff chapter would be subject to the full formula tariff reduction.

Status: Sectoral Approach

- Here tariffs in a particular sector would be reduced or even brought down to zero. The text underscores the voluntary nature of the participation in this initiative but mentions that some members (e.g., USA) want commitment by others (e.g., India) on participation in the initiative as a way to 'balance the overall ambition.' There is still no consensus on how and when to define the commitment of members to participate in sectorals without altering the non-mandatory character of these negotiations.

Status: Modalities for Other Developing Members

- LDCs are exempt from tariff reductions. Due to overall tariff reduction there is erosion in market access for LDC, there are proposed solutions for them.
- Relatively weaker developing members will retain higher average tariffs and a greater flexibility on how they structure their tariff schedules. But they will increase the number of bindings and reducing “the water” (the difference between bound and applied rates).
- There are provisions for other developing countries who do not enjoy preferential access and would be disproportionately affected by such solution. The tariff cuts would be accelerated for such countries for the specific lines of their export interest.

Status: Non-tariff Barriers (NTBs)

- The NTBs proposals are at different levels of maturity with one or even a few almost ready for a text-based discussion. The members, however, have concerns mainly over the scope of coverage (on NAMA goods only or to be extended on agricultural goods).

SAFIT Policy Recommendations for SA Negotiators

- December 6, 2008 NAMA text should be the basis for future negotiations. There is no need to revise this text.
- The principle of “less than full reciprocity” in reduction commitments must be adhered to and flexibilities must be appropriate and adequate to address domestic sensitivities in SA.
- The ‘anti-concentration clause’ could adversely affect our sensitive sectors. This clause could reduce our flexibilities to identify which sectors and products are sensitive and need protection. So a careful stand needs to be developed.

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- Text suggests that lower the coefficient higher the flexibilities but virtually all products would be bounded. On this South Asia should take a position for the exclusion of their sensitive products from the list of bound goods.
- The issue of tariff peaks and escalation (i.e., cascading) in developed countries need to be separately dealt in negotiations from that of tariff reductions on other industrial products.

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- South Asia needs to formulate position on which NTBs should be included into NAMA negotiations. SA position should be that NAMA negotiations should not be spread over issues that are the mandate of other negotiation committees such as TBT and SPS. Because their considerations in NAMA will unnecessarily complicate its own work. So NAMA should not jump over to other committee's turf. Additionally, SA should take a strong position on the issues 'contingent protection,' that are increasingly practiced by DCs in the aftermath of MFA and is hurting SA exports. So SA need to have a carefully articulated position. Of course it requires studies to develop South Asian position.

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- On 'remanufactured goods' South Asia needs to develop a careful position since there are divergent views. There are fears that trade in these goods might harm local competing industry and degrade environment. Others view remanufactured goods' imports as a cheap source of consumption for poor.

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- The mandate to participate in sectoral initiative is voluntary. But DCs insist 'Big' developing countries must take part in at least one or two sectoral initiatives (chemicals, industrial machinery, electronics, etc.). SA must insist that participation should be voluntary. They should never succumb to this pressure from DCs. SA needs to take a joint yet the strongest possible position; otherwise it would erode the control of our domestic industries of strategic interest.

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- There is already an understanding about duty free and quota free market access to LDCs for about 97% of total products. Now LDCs must work for the exemption of the remaining 3% products of their export interest. They should also vigorously engage developing countries to provide DFQF market access to them.

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- LDCs are exempt from applying the reduction formula. But any reduction in tariffs will erode their preferences. Therefore, LDCs must closely watch the progress in this area of negotiations.
- LDCs are not active participants to discussions on NTBs. NTBs do affect LDCs' market access. International and regional organizations need to help LDCs in building their capacity in this regard.

Limitations & Some Further Suggestions

- Details are not included. As it is a synthesis of background SAFIT studies . Of course these studies were conducted at earlier dates but the paper tries to incorporate the recent developments.
- I think, we need to emphasize on classic GATT approach of 'shallow integration' by buying more time. GATT does not pursue harmonization of policies. We must try to avert *quid pro quo* approach for market access (agriculture for NAMA).

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- It would be interesting to know how other developing countries in other regions are strategizing and preparing for NAMA negotiations.
- SA must insist for a longer tariff phase-out periods, of up to 20 years, which would allow us to avoid acute adjustment shocks.
- DCs must open their markets well in advance for vulnerable developing countries, so that they adjust before opening their markets to import competition.

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- If DCs insist on coefficient of their choice then SA should insist on linking it with complete removal of NTBs in DCs.
- We need to agree on the conversion formula for specific duties into ad-valorem duties.
- LDCs suffering from erosion of preferences must call for adequate compensation.