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SMOKE AND MIRRORS: MAKING SENSE OF THE WTO INDUSTRIAL TARIFF NEGOTIATIONS

by

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ABSTRACT

Tariffs for industrial products are a key element of the ongoing WTO negotiations. However, rather than clarifying the issues, the framework text agreed on 1 August 2004 leaves considerable uncertainty about the future direction of the talks. According to one view, the negotiations are back at first base, with little progress in evidence since the Fifth WTO Ministerial Conference, held in Cancún. Others see the texts as the basis for an ambitious approach to tariff cutting. The more ambitious proposals imply increased imports, lower tariff revenues, some labour market adjustments and reduced output in some key sectors in some developing regions. Furthermore, the main proposals do not fully resolve problems of tariff escalation and peaks. Proposals that take greater account of the need for special and differential treatment for developing countries seem less threatening and more likely to satisfy the wishes of the growing number of WTO members from developing countries. A successful outcome requires that the main focus be on high tariffs and market entry conditions in respect of products of export interest to developing countries. In addition, some way needs be found to assist some developing countries in coping with the likely adjustment costs of liberalization.

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1. INTRODUCTION

The WTO negotiations on industrial tariffs raise a number of important development-related issues. A major issue is the extent to which they address barriers that face the key exports of developing countries as they try to expand and diversify their production and trade. This problem has been well documented in the past by the IMF, UNCTAD, the World Bank and the WTO, but much remains to be done to tackle high tariffs and tariff escalation, not to mention non-tariff and market entry barriers.

A second issue arising from the WTO negotiations is the extent to which commitments that are being sought from the developing countries contribute to their economic development. While economists generally agree that, at least in the longer term, trade liberalization is beneficial to economic development, there is considerable controversy about the relative importance of openness and institutions. There is also debate about whether certain forms of intervention may be justified on the basis of protection for infant industries or in the presence of externalities,[1] with Rodrik (2001) in particular noting that the developed countries used such intervention at earlier stages of their own industrialization. There is somewhat less debate - and comparatively little knowledge - regarding the process of adjustment, with citations of cases where rapid adjustment seems to have created few problems while in other cases there have been major disruptions.

From Doha to Hong Kong

WTO Ministers meeting in Doha in 2001 seemed to take these issues on board, declaring "international trade can play a major role in the promotion of economic development and the alleviation of poverty". Ministers also sought "to place...needs and interests [of the developing countries] at the heart of the Work Programme adopted in…[the Doha] Declaration". In relation to industrial tariffs, they agreed "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" (Doha Ministerial Declaration, para. 16). Full account was to be taken of 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".

The Hong Kong, China, Ministerial Conference in December 2005 confirmed an approach based on the so-called "July Package" adopted by the General Council of WTO in August 2004 (referred to as the "NAMA Framework" in the Hong Kong, China, Ministerial Declaration). In itself the "July Package" in its Annex B of Decision of 1 August 2004 by the WTO General Council (WT/L/579) provides the framework for

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[1] Externalities refer to beneficial or harmful effects occurring in production, distribution or consumption of a good or service that are not captured by the buyer or seller. Externalities exist because of high transaction costs or the absence of property rights. This implies that no market exists or that markets function poorly. Smoke from steel production is an example of a negative externality, whereas the building of a road has benefits that are difficult for the owner to capture. The appropriate policy is a tax (or subsidy in the case of positive externalities). However, because of the absence of a market, externalities are difficult to value and the appropriate tax or subsidy is difficult to determine.

future work in the NAMA negotiations that in many respects varies little from the Derbez text presented in Cancún. However, a key modification was the insertion of a new initial paragraph that states that the framework "contains the initial elements for future work on modalities" by the non-agricultural market access (NAMA) negotiating group. The framework also states that additional negotiations are required in order to reach agreement on the specifics of some of these elements, such as the treatment of unbound tariffs, flexibilities for developing countries, participation in the sectoral tariff component and preferences.

For some developing countries, the reference to "initial elements" is taken to mean that the modalities issue is wide open, and that all options are on the table. No doubt others will disagree, and negotiations will continue to be difficult as to the degree of ambition and flexibilities for developing countries.

Given the mandate of the Doha Declaration to reduce or eliminate tariffs, including tariff peaks, high tariffs and tariff escalation, in particular on products of export interest to developing countries, much attention has inevitably focused on harmonizing approaches that cut high rates more than proportionately (to be supplemented by request-and-offer and sectoral negotiations). However, some developing countries see harmonizing approaches as running counter to the Doha to the Doha Round negotiations, meeting the varied objectives of participants in the NAMA negotiations will not be easy. Among the key issues to be resolved are the following: (i) a formula has yet to be selected; (ii) consensus on participation in sectoral elimination still eludes the group; and (iii) the provisions for special and differential treatment for developing countries need to be clarified.

On the whole, a formula approach has certain advantages in simplifying negotiating procedures, and reducing the advantages that large countries have in bilateral request-and-offer negotiations. However, beyond the overall level of ambition the question remains as to the precise formula and its parameters. If these details are not worked out on a satisfactory basis, some countries may consider supporting alternative approaches, such as request-and-offer, using the phrase "initial elements" in the first paragraph as the basis for starting afresh.

Certain elements of the framework suggest that the aims are ambitious, but much depends on how these elements and the terms for developing countries are elaborated. The agreement provides for further work by the negotiating group on the reduction of tariffs by means of "a non-linear formula applied on a line by line basis". All of the pre-Hong Kong proposals on modalities would still be on the negotiating table. Even proposals such as the Indian one could be broadly described as non-linear since the core linear percentage