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Non-agricultural market access (NAMA) talks threaten development

Six reasons why a fundamentally different approach is needed

Summary

The WTO's current NAMA (non-agricultural market access) negotiations will not lead to a pro-development outcome. Developed countries are demanding excessive opening to imports which, if agreed, could destroy local businesses and jobs in developing countries without bringing compensating economic gains. Poor-country governments will face balance of payments problems, loss of tax revenue, and downward pressure on workers conditions and rights, and their future industrial development prospects will be undermined.

This paper sets out six key arguments against an agreement based on the NAMA text in the July 2004 Framework Agreement:

1. High and variable tariffs have always been a key tool in industrial policy and successful development.
2. Tariffs have become even more important, as other tools of industrial policy have become constrained by the WTO and other agreements.
3. The 'evidence' used by NAMA proponents is largely based on a flawed use of econometric modelling.
4. Premature tariff liberalisation has had disastrous effects on development in many countries.
5. The potential gains for developing countries in the NAMA agreement, in terms of market access to developed country markets, may not materialise.
6. Given their current direction, NAMA negotiations will have an extremely negative impact on the development prospects of developing countries, specifically through their treatment of unbound tariff lines, the tariff reduction formula, and the degree of flexibility to be allowed to developing countries.

For this reason, ActionAid, ICFTU, Oxfam International, Solidar, and Third World Network call for a fundamental revision of the NAMA framework, and the adoption of a development-friendly approach that places development needs and objectives at its centre.

1 Introduction

In July 2004, the trade ministers of the African Union, the African, Caribbean, and Pacific Group of States (ACP), and the Least Developed Countries (LDCs) called the non-agricultural market access (NAMA) negotiations taking place in the Doha Round of trade talks at the WTO a major threat to development. (NAMA covers tariffs on fish and forestry products, as well as manufactured goods.) The ACP ministers stressed that the text which forms the basis for negotiations was 'in contradiction to the principle of less than full reciprocity as enshrined in the Doha Mandate and as such would further deepen the crisis of de-industrialisation and accentuate the unemployment and poverty crisis in our countries'.[1] Unfortunately, the same draft that was criticised by these Ministers subsequently became the basis for the NAMA text adopted in the WTO's July 2004 Framework Agreement.

Even though NAMA has received less attention in the negotiations than agriculture, and movement in NAMA is considered by many to be dependent upon progress in the agricultural negotiations, in recent months the negotiations have accelerated and intensified. Members are currently on-call at all times to meet with Ambassador Stefan Johannesson, the Chair of the NAMA negotiating group, to seek out areas of possible convergence.

'Ambitious' proposals for far-reaching tariff liberalisation have been put forward by negotiators from developed countries, who have stated clearly that the Doha negotiations must provide real market access to developing country markets for their own industries. The grand bargain that will enable them to sell the agreement to their governments, they say, is market access in NAMA to offset any concessions made in agriculture.

Developing countries have consistently raised major concerns about the negotiating text of the NAMA talks — Annex B of the July 2004 Framework Agreement — and the direction in which negotations are moving.[2] They have warned that the demand by developed countries for excessive opening to imports would destroy local businesses and jobs, without bringing compensating economic gains. They also warn that governments will face balance of payments problems and loss of tax revenue, and that future industrial development prospects will be undermined. The predicted impacts of a NAMA deal based upon the current text and negotiating proposals conflict with the goal set out in the original 2001 Doha Round mandate, which recognised that 'the majority of WTO members are developing countries' and committed WTO members to placing 'their needs and interests at the heart of the Work Programme'.[3]

This paper by ActionAid, ICFTU, Oxfam International, Solidar, and Third World Network explains why the current NAMA negotiations will not lead to a pro-development outcome. Members should agree to replace the current negotiating text with a radically different approach that puts development at the centre of the talks. Members should agree to halt the current discussions based on Annex B and instead establish new elements for modalities that are likely to discharge the negotiating mandate of Paragraph 16 of the Doha Declaration and, more importantly, yield a result compatible with the development needs of poor countries.

2 High and variable tariffs have always been a key tool in industrial policy and successful development

History demonstrates that almost all successful countries have built up their industries through some form of selective sheltering of domestic producers. Protection of infant industries enables domestic companies to get established and to acquire the scale, knowledge, and technology to compete with already established international competitors.

When Britain was industrialising, it used a range of interventionist policies to promote its fledgling industries, including tariffs, export subsidies, import tariff rebates, and control of export quality by the state. As late as 1820, when its industrial revolution was well underway, Britain retained average tariffs of 45–55 per cent on manufactured products, only later entering the free-trade period that is more often cited.[4]

Following in Britain's footsteps and attempting to catch up with it, the USA became an equally ardent user of tariffs. Between 1816 and the end of the Second World War, it had one of the highest average tariff rates on manufacturing imports in the world, higher than the developing country average today. For most of this period its average tariffs were 35-50 per cent. It liberalised its trade regime only in 1950, once it had successfully established its industrial dominance.[5]

Developing-country tariffs today are already liberal, relative to this historical record. Compare, for instance, the USA at the end of the 19th century, when its per capita income[6] was at a similar level to that in developing countries today. At that time, the USA's weighted average applied to tariffs on manufactured imports was close to 50 per cent, compared with 8.1 per cent in developing countries and 13.6 per cent in LDCs today. Or, to cite a further comparison, when the USA had the same levels of per capita income as Brazil and China have today, its applied tariffs were four times higher.[7]

In the second half of the 20th century, Japan, followed by South Korea, Taiwan, and other East Asian newly industrialising countries (NICs), achieved rapid industrial development and economic growth through state-led development, in which tariffs played a key role. South Korea and Taiwan had average tariffs in the region of 30–40 per cent until the 1970s and were able to achieve remarkable successes in the automobile, electronics, and steel sectors. Selective protection of industries was key to their strategy, as was directing investment towards certain sectors. Had South Korea simply played to its comparative advantage it might still be exporting wigs made with human hair (one of its main exports in the 1950s), rather than cars and stereos.[8]

Mauritius, one of Africa's principal success stories, has increased its income per capita more than three-fold since independence in 1968,[9] and has increased the value of its exports by more than 20 times,[10] while maintaining relatively high levels of protection for domestic industries.

More recently, China's take-off in the 1990s was assisted by average tariffs of over 30 per cent, while Viet Nam has used state trading, import monopolies, import quotas, and high tariffs in generating annual growth rates of 8 per cent since the mid-1980s.[11]

Not only have tariffs been a vital instrument: equally important, in all these cases the use of tariffs changed over time. In the early stages of industrialisation, countries typically promote labour-intensive industries with high levels of protection, while maintaining much lower tariffs on essential inputs that cannot yet be produced domestically. When the labour-intensive industries have become sufficiently robust to compete in international markets, tariffs on these industries can be phased out, while tariffs may need to be raised on products in more advanced sectors, which the economy is now in a position to move into. In this way, over time countries move up into higher value-added, more technology-intensive sectors.[12]

Given that the appropriate level and structure of tariffs changes over time, developing countries need to retain the flexibility to raise or lower tariffs on particular sectors as their economies evolve, if they are to have any chance of industrialising successfully. Yet this 'policy space' is at risk from NAMA, which seeks to impose permanent ceilings on tariff levels.

3 Tariffs have become even more important, as other tools of industrial policy have become constrained by the WTO and other agreements

Orthodox free-trade economists often argue that while tariffs have been used in the past, they are no longer an appropriate instrument in today's globalised world. But for the majority of developing countries, the opposite is true. Since the 1980s, industrial tariffs have become more important for developing countries, as the availability and scope of other measures previously used to promote domestic industries have diminished.

Today's rich countries and later the East Asian newly industrialising countries (NICs) adopted tariffs as only one among a raft of policy instruments for industrial promotion when they were in their development phases. However, more recently, structural adjustment programmes (SAPs) have spelled the rapid decline of developing countries' scope for using subsidies. WTO agreements, as well as bilateral and regional trade agreements and bilateral investment treaties, have drastically reduced the availability of other policies. Most quotas have been translated into tariffs (i.e. tariffication); the use of subsidies has become further restricted; the Trade-Related Investment Measures (TRIMS) agreement at the WTO has made it much more difficult to regulate foreign investment through performance requirements; and the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement has made technology transfer more expensive.

In cases where subsidies are still permitted, free-trade economists often argue that subsidies should be used instead of tariffs, because they do not distort markets, raise prices, or hurt consumers. However, even in areas where subsidies are still allowed, many developing countries simply do not have the necessary revenue at their disposal to use them.

Thus it is vital that developing countries should be able to retain the use of tariffs as a key remaining instrument of industrial development.

Of course, not all the problems of development can be laid at the door of trade policy. Other factors, such as the accountability and effectiveness of the state, or the quality of education and infrastructure, are often more important. But an effective trade policy remains a necessary, if not a sufficient, condition for development.

Moreover, many economists argue, rightly, that protection is subject to capture by vested interests that are more interested in exploting consumers than developing the country. However the answers to such political challenges lie in domestic politics, not in using the WTO to deprive countries of policy sovereignty and in the process, of the chance to industrialise.

4 The 'evidence' used by NAMA proponents is largely based on a flawed use of econometric modelling

A large part of the pro-liberalisation arguments within NAMA is based on the use of econometric techniques, such as regression analysis and modelling. Regressions are used to establish a statistical link between openness of trade and growth, but they suffer from a number of flaws. For example, some studies find that openness leads to growth, while others find that it has no connection with growth, and still others find that it can even inhibit growth. Moreover, there is no agreed way to measure 'openness', and different measures yield different links with growth.

Models also make a number of simplifying assumptions, including the existence of perfect competition and the 'instant adjustment' of labour and capital markets. They tend to miss out dynamic effects and to assume stability in the surrounding environment when, in fact, national macroeconomic conditions and the state of the global economy are variable and have a major effect on outcomes.

Modelling is used to attach numbers to the welfare gains that might ensue from different levels of tariff reductions. According to Yilmaz Akyüz, former UNCTAD Chief Economist, the computable general equilibrium (CGE) trade models used by the World Bank and others suffer from major shortcomings:

> [They are] based on the neoclassical paradigm of competitive equilibrium where markets are always clear and resources are fully employed. These estimates do not provide a reliable guide to what might happen in reality…it is often the underlying theory and assumptions that determine what the numbers show. For this reason it is almost impossible to find any CGE model fashioned on traditional trade theory which does not predict gains from trade liberalisation.

Akyüz goes on to stress that modelling seldom quantifies adjustment costs caused by liberalisation, and concludes:

> Until adjustment paths are properly defined and out-of-equilibrium reactions and costs are better specified, the assumed one-off benefits of trade liberalisation in developing countries remains an act of faith, and estimates based on CGE models provide little guidance to the impact of liberalisation.[13]

Almost all serious economists would agree that CGE models are little more than 'theory with numbers', and do not provide serious predictions of the likely impact of particular changes in trade policy. The problems arise when the numbers generated by modelling are then taken and bandied about by policy makers, shorn of such caveats, and used as ammunition in the WTO talks.

In such cases, in a remarkably circular argument, models that *assume* that liberalisation enhances efficiency are then used to argue for further liberalisation, even though the historical record justifies extreme caution in liberalising at early stages of a country's industrialisation.

5 Premature tariff liberalisation can have disastrous effects on development

Real-life experiences from developing countries that have liberalised under structural adjustment programmes (SAPs) and regional trade agreements show that results are mixed at best.[14] Developing countries have faced a wide variety of problems, such as increased economic instability, trade deficits, loss of employment and de-industrialisation, worsening employment conditions (in export processing zones, often accompanied by violations of fundamental workers' rights), and widening inequalities of income.[15]

These experiences show that there is no automatic link between liberalisation and industrial growth or income growth. When conditions are not present for success, or when the liberalisation process is carried out incorrectly, there can be significant adverse effects, especially on local industries and industrial jobs. However, the issues of negative effects and of short- and long-term adjustment costs have been neglected in WTO negotiations.

In a study of the recent liberalisation experiences of eight developing countries, UNCTAD concluded:[16]

> Import liberalisation initially brought a more rapid growth of imports than exports, and, in the majority of cases in the study, this had severe negative effects on domestic production and employment in import-competing sectors. In some cases, these negative effects have persisted for a number of years. Most countries had difficulties in generating a supply response in terms of alternative production processes and exports.

A wide variety of factors determine the impact of liberalisation. These include a stable macroeconomic environment; the availability of safety nets and the creation of new jobs for those displaced; a functioning capital market; exchange rates; political stability; good institutions; labour supply; financial support; physical infrastructure; genuine options for diversification into new products; the need for complementary domestic policies, including industrial, educational, labour, and social policies; and the effects of preference erosion and non-trade barriers. In the absence of such factors, liberalisation is likely to exacerbate rather than resolve development problems, leading to the loss of local industries and jobs.

As a result of rapid liberalisation, largely due to structural adjustment in recent years, the applied tariffs of developing countries are already at historically low levels. In 2001, the average applied tariff of developing countries was only 8.1 per cent and that of LDCs was 13.6 per cent – much lower than the rates of today's developed countries when they were at equivalent stages of development. In many developing countries, de-industrialisation has already taken place.

Proponents of NAMA also often fail to recognise the importance of revenue lost by developing countries due to tariff liberalisation. While tariffs account for less than 1 per cent of government revenues in OECD countries, many developing countries have a much higher level of dependency, with revenues from import taxes constituting a large share of their total tax revenue. Examples include India (18.5 per cent), Madagascar

(51.9 per cent), the Dominican Republic (42.8 per cent), and the Philippines (17.2 per cent).[17]

This major concern of developing countries has been ‘addressed’ by urging them to turn to other means of tax revenue collection. While some of this lost revenue could be replaced by other types of taxes, such reforms take time to implement, and even then it is not certain that the income would be fully replaced. The IMF has found that, while high-income countries are able to recover almost all their lost tax revenues, middle-income countries ultimately lose 45–65 per cent of lost trade tax revenue, and low-income countries recover almost nothing.[18]

Moreover, in countries that have made fiscal adjustments as part of a structural adjustment programme, it might be difficult to find new sources of taxation. Losing tariff revenue is likely to affect the availability of funds for social development that are necessary to fulfil the Millennium Development Goals. To put this in a development context, the Philippines is already estimated to have a shortfall of $2.2bn in the government spending needed to meet the MDG targets — more than one-fifth of its annual government revenue.[19]

6 The potential gains for developing countries in the NAMA agreement, in terms of market access to developed country markets, may not materialise

In addition to the clear risks to developing countries of adopting the current NAMA proposal, their potential gains from NAMA in terms of market access to industrialised countries are questionable. Although, taking into account preferential rates, developing countries face on average a tariff of only 3.9 per cent[20] on industrial goods exported to developed countries, they face tariff peaks[21] and tariff escalation[22] on their key export products. These issues are included in the Doha talks.

However, even if they are resolved (if only partially), tariff peaks and escalation are just two of a range of obstacles faced by developing countries seeking to export to lucrative Northern markets. In addition, non-tariff barriers are often used to keep their products out. While Sanitary and Phyto-Sanitary (SPS) and Technical Barriers to Trade (TBT) measures often genuinely aim to protect public health or the environment, they can be applied in a way that undermines the ability of developing countries to take advantage of export opportunities. In some cases, this is because the rules are too onerous for small exporters to comply with and technical assistance is not available, or because they change too rapidly for countries to be able to respond. In other cases, they are simply imposed as barriers, with little rationale for their existence.

Beyond the scope of the WTO, the growing control of global supply chains by a handful of large western companies make it increasingly difficult for developing countries, and especially small producers, to break into export markets on beneficial terms.

Even though developing countries have flagged non-tariff barriers such as SPS and TBT measures as the most significant obstacles they face, industrialised countries have sidelined discussion of such barriers in the NAMA talks. Disciplining the use of non-tariff barriers, as well as that of other measures that could nullify market access gains, will be critical if developing countries are to see effective improvements in market access as a result of these talks.

Preference erosion[23] is a priority for many of the poorest countries, but has also failed to receive the attention it deserves, having been set aside for the moment as the Chair and members focus on the formula and treatment of unbound tariffs. But it is too important to be put off until the last minute. Proposals put forward by the ACP countries and the Africa Group, along with other approaches, deserve more consideration.

One important component of a solution, improving the uptake of existing preferences by simplifying ‘rules of origin’ restrictions in preference agreements, has been rejected by certain members as not being part of the negotiating mandate for this round. This is not true, as overly burdensome rules of origin can be considered a non-tarrif barrier.

Lesotho’s experience in the 1990s of different sets of rules of origin shows how much these rules matter. Lesotho’s exports of clothing to the USA took off under the Africa Growth and Opportunity Act (AGOA), which allowed for simpler rules of origin. In contrast, the need to comply with unduly complex EU rules in order to export on preferential terms in effect blocked Lesotho’s clothing exports to that market.[24]

Of course, changes to rules of origin can create winners as well as losers. In Bangladesh, for instance, the prevailing rules of origin have enabled the development of a thriving local cloth industry to supply exporters. They would be adversely affected by a change in rules of origin, and would need to be compensated.

For developing countries to gain real access to markets in developed countries, a variety of issues that go beyond the elimination of peak tariffs and tariff escalation will need to be dealt with. But discussion of other obstacles to developing countries' market access has been sidelined in the negotiations, as talks have been overly focused on the priority of rich countries: the tariff reduction formula. Developing countries must be able to weigh progress on disciplining the obstacles to their access to markets, before they are asked to agree to a tariff reduction approach. Without clear commitments on these issues, it will be impossible for them to assess whether or not they will get real improvements in market access.

7 Given their current direction, NAMA negotiations will have a negative impact on the development prospects of developing countries

Although there is still widespread disagreement among WTO members about the tariff reduction formula, the extent of tariff binding coverage, the treatment of unbound tariffs, flexibilities for developing countries, and how to address preference erosion, developing countries are right to be alarmed about the direction in which negotiations are heading.

Treatment of unbound lines

Present General Agreement on Tariffs and Trade (GATT) and WTO rules allow developing countries to decide how many tariff lines they 'bind' and which ones. This flexibility is important, and many developing countries have a high percentage of tariffs still unbound. Binding tariffs reduces a country's policy flexibility, as it cannot raise its tariffs above the bound ceiling to respond to import surges or to protect infant industries.[25]

Industrialised countries are pushing for 100 per cent binding by those countries that still have unbound tariffs. Even LDCs are being urged to 'significantly increase' their binding coverage.

Under Annex B, 'Paragraph 6' countries, which have less than 35 per cent of their lines bound,[26] will be required to bind close to 100 per cent of tariff lines at an average level 'that does not exceed the overall average of bound tariffs for all developing countries after full implementation of current concessions' (estimated at about 28 per cent by the WTO secretariat), although they will be exempt from making further cuts through the general tariff reduction formula. Going from a very low binding coverage to 100 per cent, as would be the case with Ghana which currently has a binding coverage of 1.2 per cent, entails a significant commitment even more so as they have to bind their tariffs to a certain specified level.

Those developing countries with more than 35 per cent bound tariff lines will be expected to bind them within a limit determined by their current applied rate. This approach would especially punish developing countries that already apply low tariffs, in many cases because of past structural adjustment programmes, but have not yet bound them at the WTO. These countries could end up with tariffs lower than their actual applied rates, rather than just reducing the gap between their bound and applied tariffs and thus preserving some flexibility for industrial and trade policy.

This extremely harsh approach is unprecedented in the history of the multilateral trading system. Previously, GATT and WTO members could choose their own rates at which to bind tariffs. Tariffs were not bound and cut in the same round of negotiations, as binding was already considered a concession. It is notable that the current binding proposals entail almost no cost for the rich countries, nearly all of which already have 100 per cent binding levels.

The tariff reduction formula

Despite longstanding objections from developing countries,[27] discussions remain focused on a line-by-line, non-linear approach. This type of formula would reduce high tariffs more drastically than lower tariffs, to create a so-called 'harmonising' effect. Because developing countries tend to have higher average tariffs, as befits their current stage of development, this approach would entail them making greater reductions than rich countries. This is in violation of the Doha mandate, which specifies that developing countries should adopt less than reciprocal commitments on tariffs. Harmonisation of tariffs is not part of the negotiating mandate.

Nonetheless, there has been a strong push for adoption of a 'Swiss formula' with different co-efficients to be used in the tariff-cutting formula for industrialised and developing countries. The USA is pushing for these co-efficients to be set close together — 'in sight of each other' — which would entail more than full reciprocity for developing countries through drastic tariff cuts.The EU proposal is even more burdensome on developing countries: that only one coefficient be used for all members. For this reason, developing countries have objected to this approach. For example, the informal proposal from the Caribbean countries, Antigua and Barbuda, Barbados, Jamaica, and Trinidad and Tobago, of July 2005, is prefaced with the following statement:

> We have over the course of the negotiations repeatedly underscored our developmental needs and interests. However, these concerns have not been adequately and appropriately assimilated into the various formula proposals we have before us, in particular the simple Swiss formula. We wish to reiterate that our preference would be for an overall average tariff-reduction approach along the lines used in the Uruguay Round.

The Swiss formula, with one co-efficient, or two co-efficients 'in sight of each other', should be rejected, especially since there are alternative formula proposals to choose from that would be more development-friendly. Brazil, Argentina, and India (ABI) have proposed a formula that softens tariff cuts for developing countries by linking reductions to a country's average bound tariff level, which is then taken into account in determining each country's coefficient in the formula. However this formula is still inadequate, as using the average bound tariff as the coefficient will still mean tariff cuts that are too steep for many developing countries, especially those that have low average bound tariffs. More appropriate would be the formula proposed by a group of Caribbean countries, which incorporates the average bound tariff (as the ABI formula does) but also includes 'credits' for developing countrues to be added to the coefficient to take account of development concerns such as loss of revenue, economic vulnerability, levels of industrialisation, and protection of existing and potential local industries.

While the 'development-oriented formula' of the Caribbean countries is preferable to the 'simple Swiss formula' approach proposed by the developed countries, it is more appropriate to examine and use the tariff reduction approaches used in the past. As recently as the Uruguay Round, the USA refused to accept the line-by-line application of a Swiss formula. Under the Uruguay Round formula, developing countries were obliged to cut their bound tariffs by an overall average target of 30 per cent, with developed countries having to cut theirs by 40 per cent. There was no obligation to cut every tariff line by the same rate. Moreover, there was no obligation on developing countries to increase their tariff binding, while countries that decided to bind more of their tariff lines could choose at which rates they did so.

This flexible Uruguay Round formula should be retained in the present Doha negotiations, instead of the new and inappropriate approach of the July Framework Agreement.

Flexibilities at risk

The Swiss formula would impose the most severe tariff cuts on developing countries, thus involving 'more than full reciprocity' commitments. In addition, developed countries are seeking to restrict further the already weak flexibilities for developing countries contained in the July Framework Agreement. Annex B, in keeping with the negotiating mandate, affirms the importance of 'less than full reciprocity' for developing countries in the tariff approach, *as well as* special and differential treatment (SDT), which is provided for in Paragraph 8.

The SDT outlined in the current text would allow developing and least developed countries to retain some unbound tariffs, or to apply smaller tariff cuts than required by the formula to a limited number of tariff lines. The EU and USA are now setting aside the mandate and are pressurising countries to choose between a slightly more flexible tariff approach, and the flexibilities contained in Paragraph 8. This kind of trade-off is unacceptable, as members have previously agreed that both concepts must be reflected in the NAMA agreement. The flexibilities in Paragraph 8 of Annex B are part of the special and differential treatment rights of developing countries and should be respected. They should not be used as a trade-off with other aspects such as the formula. In addition, the very narrow choice and scope of the flexibilities in Paragraph 8 should be re-examined and the number and scope of these flexibilities should be expanded.

8 Conclusion

The NAMA negotiations are on the wrong track. Currently, talks are clearly being driven by Northern self-interest, rather than by a concern for reforming trade rules in a manner that will promote development. A new approach is needed.

In keeping with the Doha mandate, the principles of special and differential treatment *and* less than full reciprocity must be reflected in the NAMA negotiations. Developing countries must be given the flexibility to determine for themselves the binding coverage and tariff levels that are appropriate to their level of economic development, along with a pace and scale of liberalisation that fits with their industrial and economic development strategies. Rich countries must stop pushing inappropriate definitions of 'less than full reciprocity', and any tariff approach that does not reflect this fundamental principle should be rejected.

Finally, there is a need to assess the implications of a new NAMA agreement, taking into account the impact that agreement based on the current text would have on economic development, poverty reduction, employment, gender equality, and the environment. Assessments were promised at the launch of the round and should have been delivered by now. Research and analysis must be provided, as promised, to delegations requesting it, especially LDCs.

There is a serious risk that any agreement based on the current negotiating text — the July 2004 Framework Agreement — will reduce the capacity of governments in developing countries to promote industrialisation, development, and poverty reduction. For this reason, we call for a fundamental revision of the NAMA framework and the adoption of a development-friendly approach that places development needs and objectives at its centre. In particular, the more development-friendly approach used in the Uruguay Round should be applied by developing countries in the present Doha negotiations.

Notes

[1] G90 Trade Ministers' Declaration, Grand Baie, Mauritius, on 13 July 2004. The text they refer to — known as the Derbez text — was first introduced in 2003, when it was rejected by many developing-country WTO members. It was then resurrected in July 2004 as Annex B of the July Framework Agreement, despite the continued objections of many developing countries, which only reluctantly accepted its inclusion in the Agreement on condition that it be prefaced with what became Paragraph 1. Paragraph 1 states that key elements of the agreement are yet to be agreed and remain to be negotiated. However, Annex B continues to be used as the basis for negotiations, forcing these developing countries to adopt a defensive position in relation to a text that has never reflected their views.

[2] In addition to the G90 statement above, there are a multitude of other statements on record, from different groups of developing countries, articulating serious concerns about various aspects of the Derbez text/Annex B. For example, in March 2004 the ACP countries cautioned that 'the various formulae that have been tabled and the Cancún draft text would remove some of the latitude for the use of tariffs for development purposes... Some of the proposals presented imply a more rapid or deeper reform in trade policy than others... Such an approach may mean going "too far, too fast" with reform, and could entail unacceptable adjustment costs' ('Communication from Trinidad and Tobago on behalf of the ACP group of states', WTO, TN/MA/W/47 30'). The Caribbean proposal put forward by Antigua and Barbuda, Barbados, Jamaica, and Trinidad and Tobago in July 2005 was prefaced with the statement that their preference is for an overall average tariff-reduction approach along the lines used in the Uruguay Round. On the question of binding, Malaysia argued in March 2005 that countries should not make a double concession of both cutting tariffs through the formula and binding tariffs in the same round (submission TN/MA/W/54 - their paper was supported by Thailand, the Philippines, and India). Zambia, representing the LDCs, argued in the March 2005 meetings of the NAMA negotiating group that developing countries should retain full discretion as to whether to bind tariff lines and — if they did decide to bind them — at what level to do so (noted in M. Khor, 2005, TWN Info Service on WTO and Trade Issues, 23 March 2005).

[3] Doha Ministerial Declaration, 14 November 2001.

[4] This history has been recently documented by Ha-Joon Chang (2005 forthcoming) *Why Developing Countries Need Tariffs*, South Centre, and Yilmaz Akyüz (2005) *The WTO Negotiations on Industrial Tariffs: What is at Stake for Developing Countries*, TWN. Earlier accounts of the historical evolution of industrial tariffs include Paul Bairoch (1993) *Economics of World History: Myths and Paradoxes*, University of Chicago Press; and Kevin O'Rourke and Jeffrey Williamson *Globalization and History: The Evolution of a Nineteenth Century Atlantic Economy*, MIT Press.

[5] Chang, *ibid*.

[6] Measured in purchasing power parity.

[7] These comparisons calculated by Akyüz *op.cit.*, pp.11–12, using the following sources: per capita income from A. Maddison (2001) *The World Economy. A Millennial Perspective*, Paris: OECD, at 1990 dollars based on multilateral PPP. The latest available figures (1998/99) are adjusted for subsequent growth to arrive at estimates for 2001. Tariffs for developed countries from P. Bairoch (1993) *Economics and World History. Myths and Paradoxes*, Chicago: The University of Chicago Press, Table 3.3, p.40; and for developing countries from S.F. Fernandez de Cordoba, Sam Laird, and David Vanzetti (2004) 'Blend it like Beckham – trying to read the ball in the WTO negotiations on industrial tariffs', Geneva: UNCTAD, Appendix.

[8] See, for example, World Bank (2003) *The East Asian Miracle: Economic Growth and Public Policy*, Oxford: Oxford University Press, which says: 'Even by 1983, when Korea's success had become an established fact, most sectors were still protected by some combination of tariffs and non-tariff barriers',

p.297. See also Robert Wade (2003) *Governing the Market*, 2nd Edition, Princeton: Princeton University Press; Akyüz, *op. cit.*; and Chang, *op. cit.*.

[9] D. Roy and A. Subramanian (2003) 'Who can explain the Mauritian miracle?', in D. Rodrik (ed.) *In Search of Prosperity: Analytic Narratives on Economic Growth*, Princeton: Princeton University Press.

[10] UN Comtrade: http://unstats.un.org/unsd/comtrade.

[11] Chang, *op. cit.*.

[12] See Akyüz, *op. cit.*, for a more detailed explanation.

[13] Yilmaz Akyüz, *op.cit.*, p.31.

[14] See, for instance, UNDP (2003) *Making Global Trade Work for People*, London: Earthscan; SAPRIN (2004) *Structural Adjustment: The Policy Roots of Economic Crisis, Poverty and Inequality,* London: Zed Books; E. Buffie (2001) *Trade Policy in Developing Countries*, Cambridge: Cambridge University Press; R.L. Clarate (2005) 'Trade gains and transaction costs: Making trade work for the poor', paper presented at the UNCTAD conference Adjusting to Trade Reforms: What are the Major Challenges for Developing Countries?, 18–19 January 2005.

[15] According to the World Bank's *World Development Report 2006*, p.15, 'In many countries, opening to trade (often coinciding with opening to foreign direct investment) has been associated with rising inequality in earnings in the past two decades. This is especially so for middle-income countries, notably in Latin America. Opening to trade often boosts the premium on skills as firms modernise their production processes (skill-biased technical change, in the jargon of economists). This is bad for equity if the institutional context restricts the capacity of workers to shift into new work — or limits future cohorts' access to education.'

[16] Sam Laird and Santiago Fernandez de Cordoba (2005) 'Coping with Trade Reforms: A Developing Country Perspective on the WTO Industrial Tariff Negotiation', overview, UNCTAD.

[17] Figures are from Santiago Fernandez de Córdoba, Sam Laird, and David Vanzetti (March 2004) 'Trick or Treat? Development Opportunities and Challenges in the WTO Negotiations on Industrial Tariffs', research paper, University of Nottingham.

[18] T. Baunsgaard and M. Keen (2004), 'Tax Revenue and (or?)Trade Liberalisation', IMF working paper, draft version, 20 September 2004, at: www.imf.org.

[19] A. Seth and B. Singh, 'Methodologies Used to Estimate Financing Requirements of the MDGs,' paper prepared for UNDP South & West Asia Sub Regional Resource Facility. Available at: http://mdgr.undp.sk/PAPERS/Methodologies_Used_to_Estimate_Financing_Requirements_of_the_MDGs.doc and www.unmilleniumproject.org.

[20] Santiago Fernandez de Córdoba, Sam Laird, and David Vanzetti, *op. cit*.

[21] Relatively high tariffs, usually on 'sensitive' products, amidst generally low tariff levels. For industrialised countries, tariffs of 15 per cent and above are generally recognised as 'tariff peaks'.

[22] Higher import duties on semi-processed products than on raw materials, and higher still on finished products. This practice protects domestic processing industries and discourages the development of processing activity in the countries where raw materials originate.

[23] The loss of the competitive advantage provided by preferential access agreements, due to the multilateral reduction of tariffs in the importing country.

[24] Christopher Stevens and Jane Kennan (April 2004) 'Comparative Study of G8 Preferential Access Schemes for Africa', report on a DFID-commissioned study, Institute of Development Studies.

[25] That binding tariffs is in itself a concession is recognised in GATT Article XXVIIIbis 2(a), which states that the binding of duties at low levels 'shall, in principle, be recognised as a concession equivalent in value to reduction of high duties'.

[26] This would mean that Kenya, for example, would leap from a current tariff binding coverage of 1.6 per cent to 100 per cent, and Nigeria from 6.9 per cent to 100 per cent.

[27] See, for example, 'Communication from Trinidad and Tobago on behalf of the ACP group of states', WTO, TN/MA/W/47 30 (quoted in footnote 2); Caribbean proposal (referenced in footnote 2).

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