Chapter 3

Non-Agriculture Market Access

Priorities for South Asia

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Ejaz Ghani
1. Introduction

Despite the fact that the World Trade Organisation (WTO) has helped to remove quota restrictions and reduce the overall level of tariffs with increased transparency, a majority of the developing countries with the capacity to increase exports of labour intensive manufactures continue to face significant barriers in accessing foreign markets. Tariff rates administered by the developed countries on textile and clothing (T&C) and leather for instance, are much higher than those on other manufacturing products such as electronics, computers and telecom equipment, thus indicating a clear discrimination against the developing countries exports. Moreover, tariff peaks, tariff escalation, tariff rate quotas and other non-tariff measures, including antidumping duties, countervailing duties, and safeguard measures to protect against serious injury from import surges, allowed under the WTO, have become major impediments to market access for developing countries exports.

A key element of the Doha Round of trade negotiations is the liberalisation of trade in industrial products, commonly known as non-agricultural market access (NAMA). Negotiations under NAMA focus on market access for all products that are not covered under the negotiations on agriculture or services and aim to reduce, if not possible to completely eliminate, tariff and non-tariff barriers (NTBs) that restrict trade in these products. The framework adopted for modalities for negotiations under NAMA, known as the ‘July Package’, envisages reduction of industrial tariffs in both developed and developing countries, according to a formula that is yet to be agreed. These negotiations are important for developing countries, as these will determine the market access opportunities available to developing countries through which they can improve their growth prospects.

This paper examines the key issues of NAMA from the South Asian perspective in general and Pakistan’s perspective in particular, and attempts to identify major concerns of various stakeholders regarding market access. Section two provides the background on NAMA, whereas section three spells out key issues in market access. Section four presents the results of a survey conducted in Pakistan to ascertain the perceptions of various stakeholders, including chambers of commerce, civil society organisations (CSOs), trade unions and private businesses. Section five explains perspectives of Bangladesh, India, Nepal, Pakistan and Sri Lanka on various NAMA issues. Section six highlights key elements of the proposed negotiating strategy for developing countries. Finally, section seven summarises the discussion and lists some of the policy implications.
2. NAMA Background

The ongoing NAMA negotiations are based on the mandate that was given for the Doha Round at the 4th WTO Ministerial Conference. The aim of the negotiations is to reduce both tariffs and non-tariff barriers to trade that impede the market access to industrial products. The negotiations relate to all the goods not covered under the agreement on agriculture. Even though such negotiations essentially relate to industrial products, it also considers products such as natural resources including fisheries, forests, gems and minerals.

The Doha mandate stresses the need for comprehensive product coverage, without full reciprocity, i.e. developing countries be allowed to decrease tariffs to a lesser extent than industrialised countries and over a longer period of time. It also stresses the need to address tariff peaks, tariff escalation and non-tariff barriers such as import quotas and technical standards.

The first proposal for modalities on NAMA negotiations was prepared in 2003 by the Swiss chairman of the NAMA negotiating group, Pierre-Louis Girard. The key elements of the proposal were a ‘Swiss formula’ for tariff reduction (cutting higher tariff by a larger percentage than lower tariffs), a sectoral initiative for the full elimination of tariffs in seven sectors¹, and Special & Differential Treatment (S&DT) for developing countries.

During the Cancun Ministerial in 2003, a second proposal on NAMA was drafted, the so-called ‘Derbez text’. This proposal included a non-linear formula similar to the Swiss formula along with a sectoral initiative for tariff reductions but without the identification of the sectors. This second proposal was strongly opposed by the developing countries, in particular by the G-90 countries, and hence, was not adopted in Cancun. During the July 2004 General Council meeting at the WTO, a number of developing countries opposed the inclusion of the ‘Derbez text’ on NAMA in the ‘July Package’. In particular, the developing countries pressed for the inclusion of several further proposals and demanded abolition of the non-linear formula, wanted the sectoral tariff component to be voluntary; and asked for more flexibility in tariff cuts and tariff bindings.

The July text on NAMA, drafted keeping in view the concerns of the developing countries, includes the following elements:

- A formula approach for tariff reduction and for reduction or elimination of tariff peaks, tariff escalation and high tariffs. Key features of this approach are:
  - No a priori exclusion of products;
  - Reductions in tariffs from bound rates, or from twice the applied most favoured nation (MFN) rate in the case of unbound tariffs;
Credit for autonomous liberalisation (trade liberalisation on an MFN basis undertaken independently from the WTO negotiations);

- Conversion of specific duties into ad-valorem duties and their binding;
  - Countries that had bound less than 35 percent of their tariffs would be exempted from tariff reductions through the formula, but have to bind 100 percent of their tariff lines; and
  - A sectoral approach aiming at eliminating or harmonising tariffs in a specific sector. Seven sectors had been identified previously (in the Girard proposal) for this sectoral approach.

Presently, the NAMA negotiations are focused on a number of issues, including product coverage, the formula for tariff cuts, tariff bindings, conversion of specific duties into ad-valorem duties, the sectoral approach to tariff cuts, flexibilities for developing countries, non-tariff barriers, and preference erosion. The negotiators aim at completing draft modalities in the above areas by July/August 2005, and an agreement on full modalities by the Hong Kong Ministerial in December 2005.
3. Issues In Non-agricultural Market Access

3.1 Tariff Issues
Reduction and elimination of tariffs and non-tariff barriers (NTBs) have been at the centre of trade negotiations since the inception of the General Agreement on Tariffs and Trade (GATT), and continue to be an important subject in the subsequent multilateral trade negotiations. During the Uruguay Round, tariff negotiations constituted a central issue and these were held on the basis of MFN principles. These MFN rates were bound and could be increased only through negotiations under Article XXVIII of GATT and therefore, provide a secure and stable market access.

However, considering that the bound rates are significantly higher than the applied rates, the market access remains somewhat uncertain. Besides, there are significant tariff peaks on products such as textiles, clothing and leather and leather products. Moreover, there has been tariff escalation resulting in heavy effective protection to value-added activities. Furthermore, contingent protection instruments, particularly anti-dumping measures and countervailing duties, are currently being used more frequently. The number of anti-dumping investigations has increased sharply since the Uruguay Round agreements were signed: they have more than doubled from 156 in 1995 to 340 in 1999 [Bacchetta and Bora (2001)]. High tariff bounds, tariff escalation and safeguard measures indicate the heavy odds against exports of developing countries. Therefore, just reduction in the average rates of import duties would not be sufficient for the growth of exports from the developing economies.

The comparison of average applied and bound rates in pre-Uruguay round outlined in Table 1 is quite revealing. Firstly, both the bound and applied rates of the developing economies are higher than those in the developed economies. Second, whereas on average, there was not much difference between the bound and the applied rates in case of developing countries, the bound rates were 40 percent higher than the applied rates in case of the developed world. Third, both the bound and applied rates have been the maximum for agriculture based products, textiles and leather in developed economies thus discriminating against the developing economies.
Table 1: Pre–Uruguay Round Applied and Bound Rates of Industrial and Developing Economies by Major Product Group

<table>
<thead>
<tr>
<th>Product group</th>
<th>Industrial economies</th>
<th></th>
<th>Developing economies</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Applied</td>
<td>Bound</td>
<td>Applied</td>
<td>Bound</td>
</tr>
<tr>
<td>1. Agriculture, excluding fish</td>
<td>5.2</td>
<td>7.2</td>
<td>18.6</td>
<td>19.9</td>
</tr>
<tr>
<td>2. Fish and fish products</td>
<td>4.2</td>
<td>4.9</td>
<td>8.6</td>
<td>25.9</td>
</tr>
<tr>
<td>3. Petroleum</td>
<td>0.7</td>
<td>0.9</td>
<td>7.9</td>
<td>8.4</td>
</tr>
<tr>
<td>4. Wood, pulp, paper, and furniture</td>
<td>0.5</td>
<td>0.9</td>
<td>8.9</td>
<td>10.3</td>
</tr>
<tr>
<td>5. Textiles and clothing</td>
<td>8.4</td>
<td>11.0</td>
<td>21.2</td>
<td>25.5</td>
</tr>
<tr>
<td>6. Leather, rubber, and footwear</td>
<td>5.5</td>
<td>6.5</td>
<td>14.9</td>
<td>15.4</td>
</tr>
<tr>
<td>7. Metals</td>
<td>0.9</td>
<td>1.6</td>
<td>10.8</td>
<td>10.4</td>
</tr>
<tr>
<td>8. Chemical and photographic supplies</td>
<td>2.2</td>
<td>3.6</td>
<td>12.4</td>
<td>16.8</td>
</tr>
<tr>
<td>9. Transport equipment</td>
<td>4.2</td>
<td>5.6</td>
<td>19.9</td>
<td>13.2</td>
</tr>
<tr>
<td>10. Non-electrical machinery</td>
<td>1.1</td>
<td>1.9</td>
<td>13.5</td>
<td>14.5</td>
</tr>
<tr>
<td>11. Electrical machinery</td>
<td>2.3</td>
<td>3.7</td>
<td>14.6</td>
<td>17.2</td>
</tr>
<tr>
<td>12. Mineral products; precious stones</td>
<td>0.7</td>
<td>1.0</td>
<td>7.8</td>
<td>8.1</td>
</tr>
<tr>
<td>and metals</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Manufactures, not elsewhere specified</td>
<td>1.4</td>
<td>2.0</td>
<td>12.1</td>
<td>9.2</td>
</tr>
<tr>
<td>All Industrial goods</td>
<td>2.5</td>
<td>3.5</td>
<td>13.3</td>
<td>13.3</td>
</tr>
<tr>
<td>All merchandise trade</td>
<td>2.6</td>
<td>3.7</td>
<td>13.3</td>
<td>13.0</td>
</tr>
</tbody>
</table>

*Source: Finger, Ingco, and Reincke (1996).*

In the post Uruguay Round, applied tariff rates of the industrial countries has increased from 2.6 to 4.0 percent whereas the bound rate from 3.7 to 4.7 percent (Tables 1 and 2). That liberalisation attempts, instead of reducing the tariff rates have resulted in higher tariff rates is quite disturbing. The increase in tariff rates seems to be the result of tariffing of the NTBs, i.e. after removal of the NTBs, the tax rates on such products have been enhanced. Whereas in the developing economies the applied rates have declined though there has been an increase in the bound rates.

The Doha Ministerial Declaration 8 follows almost the same formulation as in the declaration to launch the Uruguay Round in 1986. It envisions reduction or elimination of industrial tariffs as well as an attack on tariff peaks, tariff escalations and NTBs in particular on products of interest to developing countries. These are expected to help in the growth of trade, which provides opportunities to the developing countries to remove poverty through trade liberalisation. While they must reduce the level of tariffs to expose their economic activities to international competition, they need market access; currently, their products face many obstacles in entering the markets of rich countries. Rich countries need to do more to reduce trade distorting subsidies and dismantle their
existing barriers on competitive exports from developing countries. The important issues in this regard are:

- **Textiles and clothing** – It is the largest export earner for many developing countries and the rate of tariffs is the maximum for these products. The effective protection rate to the higher stages of production in the textiles sector in the developed world is rather high.

- **Tariff peaks** – Negotiations on this have to be high on the agenda. Despite low average non-agricultural tariffs, the products in which developing countries are globally competitive continue to attract relatively high tariffs.

- **Tariff escalation** – It tilts the incentives against the development of indigenous processing/transformation and movement up to the value-added chain. For diversification of economies and trade, such escalation must be eliminated.

- **Specific Taxes** – They have been generally quite high when converted into ad-valorem rates. While specific taxes need to be converted into ad-valorem rate, the incidence must not rise. With a view to ensuring that, to start with each member state should provide information on the ad-valorem incidence of the specific taxes.

- **Anti-dumping duties, countervailing duties, technical standards and sanitary and phytosanitary (SPS)** – All these requirements restrict trade and the possibility that the contingent protection measures may be justified on the grounds of environmental protection and labour standards is of great concern to developing world. Since developing countries generally have lower labour and environmental standards than those in the developed countries, these would be detrimental to export and development interests of developing economies [Krueger (1999)].

The post-Doha industrial tariff negotiations are prompted by two main considerations: firstly, the increasing trend towards regionalism results in preferential trade amongst a few countries resulting in discriminatory trade treatment for the countries that are not parties to the regional arrangements. Tariff negotiations on multilateral basis resulting in an MFN-based tariff cuts would reduce chances of such discrimination; and secondly, the industrial tariff negotiations have the potential to boost intra-regional trade among

<table>
<thead>
<tr>
<th>Country group or region</th>
<th>Applied tariff rate</th>
<th>Bound tariff rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial economies</td>
<td>4.0</td>
<td>4.7</td>
</tr>
<tr>
<td>Developing economies</td>
<td>13.1</td>
<td>20.8</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>10.1</td>
<td>18.6</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>9.8</td>
<td>16.6</td>
</tr>
<tr>
<td>South Asia</td>
<td>27.7</td>
<td>56.1</td>
</tr>
<tr>
<td>Other Europe and Central Asia</td>
<td>9.6</td>
<td>14.9</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>14.4</td>
<td>26.8</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>16.5</td>
<td>19.8</td>
</tr>
</tbody>
</table>

developing countries. The main tariff issues in the post-Doha scenario are examined in the following:

**(i) Tariff Peaks and Escalation**

The problems of high tariffs and tariff escalation remain widespread for developing countries even after the Uruguay Round. A significant proportion of the tariff of Quad countries (USA, EU, Canada and Japan) continues to exceed the level of 12 percent ad-valorem tax even after full implementation of the Uruguay Round and Generalised System of Preferences (GSP) rates are taken into account (Table 3). One fifth of the tariff peaks of the United States, about 30 percent of those of Japan and the EU and about one seventh of those of Canada exceed 30 percent. Peak tariffs affect both agricultural and industrial products.9 The main problems of the industrial sector occur in food industry products; textiles and clothing; footwear, leather and travel goods; automotive products; consumer electronics and watches. In addition to extremely high tariffs and other protection measures, tariff escalation remains an important obstacle for developing countries to enter into the industrial exports. This is particularly pronounced in the sectors which are of direct export interest to developing countries including the South Asian countries.

<table>
<thead>
<tr>
<th>Product Group</th>
<th>United States</th>
<th>Canada</th>
<th>European Union</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leather &amp; leather products</td>
<td>12</td>
<td>4</td>
<td>0</td>
<td>22</td>
</tr>
<tr>
<td>Textiles</td>
<td>21</td>
<td>45</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Clothing</td>
<td>44</td>
<td>93</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Footwear</td>
<td>42</td>
<td>67</td>
<td>0</td>
<td>71</td>
</tr>
<tr>
<td>Glass products</td>
<td>10</td>
<td>5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Vehicles</td>
<td>4</td>
<td>1</td>
<td>8</td>
<td>0</td>
</tr>
</tbody>
</table>


The problem of peak tariffs in the industrial sector10 occurs in four sectors: (a) food industry; (b) textile and clothing; (c) footwear, leather and travel goods; and (d) high technology goods including automotive sector.

(a) **Food Industry:** The food industry is a major area where tariff protection is widespread and high in the major developed countries’ markets even after the implementation of the Uruguay Round concessions. Tariff peaks and a range of additional measures extend far beyond the initial processing stages in a large variety of industries. The food industry accounts for an average of about 30 percent of all tariff peaks ranging (with some exceptions) from 12 percent to 100 percent in the EU. There are several
cases of additional duties to compensate processing industries for higher prices of agricultural inputs. Examples of products subject to particularly high rates include cereals and sugar based products, fruit preparation and canned fruit juices. Similarly, the food industry accounts for one sixth of all tariff peaks in the US and these also fall mainly in the 12 percent to 100 percent range. The US also applies a wide system of combined MFN tariff quota rates in this area particularly with additional safeguard duties.

(b) Textile and Clothing: In the major textile importing countries like the US, EU and Canada, large proportions of clothing and textile (T&C) imports are subject to high tariffs. Most tariff peaks are in the 12-32 percent range.

(c) Footwear, Leather and Travel goods: Footwear of various types is still protected by high tariffs in most developed countries. Post Uruguay Round MFN rates are close to 160 percent in Japan, 37.5-58 percent in the US and 18 percent in Canada. MFN duties remain relevant, as GSP benefits are limited in this sector.11

(d) Automotive Sector, Transport Equipment and Electronics: With the exception of Japan and the Republic of Korea, level of protection for one or the other branch of the transport industry is rather high. In the developed countries, the MFN tariff protection is more selectively applied to the automotive and transport sector. In addition, various developed countries apply high tariffs on TV receivers, TV picture tubes and some other high technology products.

(ii) Tariff Reduction Formula12

The July Framework includes a formula approach for tariff reduction and for reduction or elimination of tariff peaks, tariff escalation and high tariffs. The following proposals are being advocated by various countries:

- Swiss formula with a single coefficient having conditional flexibilities for developing countries (EU);
- Swiss formula with conditional flexibility of applying two coefficients (Norway and the US) or four coefficients (Chile, Columbia, and Mexico); and
- A Swiss-type formula with multiple coefficients based on tariff averages and with flexibilities and a credit system for developing countries (Argentina, Brazil, and India).

The simple Swiss formula is transparent and easier to implement, albeit it places a disproportionate burden on developing countries that shall have to make major cuts in tariffs as compared to that on the developed countries. The modified Swiss formula allows the use of more than one coefficient for developing countries. However, no criterion is indicated as to how these coefficients would be determined.

The Argentina-Brazil-India (ABI) formula (proposed by Argentina, Brazil, and India) aims to address the concerns of developing countries vis-à-vis the Swiss formula for tariff reductions. As opposed to the simple Swiss formula, which cuts high tariffs and tariff peaks down to the level of the coefficient regardless of the national tariff structure, the ABI formula takes into account the existing tariff structure of each country. Moreover, the ABI formula is considered as more equitable because it incorporates the present tariff commitments of the members, and envisages an overall reduction commitment that is proportional between the developed and the developing countries.
Since the ABI formula is based on the objective criterion of current tariff profiles of members providing an effective mechanism to deal with high tariff and tariff peaks, it does not seem acceptable to many developed countries that consider it tilted in favor of countries that have high tariffs.

Pakistan is of the view that since none of the proposals on tariff reduction formula seem to attract consensus, there is a need to bridge the gap between the two proposals while at the same time ensuring that the objectives of the Doha Round are not compromised. More specifically, Pakistan has proposed the adoption of a simple Swiss Formula with two distinct coefficients for developed and developing countries. These two coefficients should be based on an objective criterion i.e. taking the overall average of the bound tariff lines for developed and developing countries as their respective coefficients. Some of the advantages of this proposal include: it is simple, transparent and easy to comprehend; it results in significant reduction of tariff peaks and tariff escalation; it would cut higher tariffs much more than lower tariffs; it would make every member contribute; it would make every member gain from increased market access; and it is based on objective criterion.

(iii) Negotiations amongst Developing Countries

Negotiations under the various Rounds of GATT have been carried out either amongst the developed countries or between the developing and the developed countries but hardly any negotiations have taken place amongst the developing countries\(^1\). Whereas trade amongst developing countries has increased significantly, it would have been much higher if tariffs were cut on the products, which they export. Negotiations on industrial tariffs amongst developing countries would go a long way in promoting trade in goods and services. It would help in increasing significantly the share of trade amongst developing countries as a proportion of their total trade.

The market access negotiations among developing countries will have particular significance in the context of the objective of promoting intra-trade among developing countries. The South Asia Free Trade Agreement (SAFTA) would help in increasing trade amongst South Asian countries and negotiations with other developing countries on industrial tariffs would go a long way towards liberalisation of trade and improvement in the welfare levels. These countries may take a joint stand relating to anti-dumping, countervailing, environments, labour standards and other safeguard measures to protect their export interest.

(iv) Scope for Negotiations: Bound and Applied Rates

An important issue in the industrial tariff negotiations is whether such negotiations should cover bound rate only or it should cover both the bound and the applied rates. In case of developed countries, major proportion of tariffs are bound but their bound rates and applied rates differ substantially. Reduction in bound rates, therefore, would not automatically result in reductions in the applied rates and hence the market access. Even though the average bound and applied tariffs for the developing countries, as noted earlier were similar, bound tariffs are significantly higher than the applied rates for most of the products across the developing countries.
Whereas reduction in the bound rates by both the developed and developing economies would improve predictability of market access in the sense that the exporting firms are reassured that the existing applied rates would not be increased beyond the bound rates, reduction in bound rates would not constitute any improvement of market access unless applied rates are reduced simultaneously. Therefore, it may be argued that market access negotiations would have to provide for possibilities of reductions in both the bound as well as applied rates.

(v) Credit for Autonomous liberalisation
While developed countries have generally reduced their tariffs in the context of multilateral trade negotiations, most of the developing countries have been taking measures to liberalise trade unilaterally outside the WTO framework. As the lower rates resulting from such reductions benefit the exports of developed countries, the credit should be given to the unilateral tariff reduction. It may be done by providing greater flexibility in the choice of ‘base tariffs’ that are to be used as the basis for reductions. Countries are generally given choice to use the tariff rates applicable in the preceding 2-3 years as basis for negotiations.

(vi) Relative Reciprocity in Negotiations between Developed and Developing Countries
Another significant aspect of tariff negotiations is to ensure that the rules relating to relative ‘reciprocity’ as embodied in part IV of GATT and the ‘General Enabling Clause’ are fully respected in the negotiations between developed and developing countries. In particular, the ground rules adopted for conducting negotiations need to be such that the extent of liberalising the developing economies should be in accordance with their level of development, trade, economic situation, and national policy objectives. The ground rules should further recognise that the developing countries may have the option to reduce duties on selected tariff headings and, if necessary, exclude certain sectors and sub-sectors from the liberalisation process. It should also be open to them to offer tariff bindings at rates, which are higher than the reduced rates.

(vii) Staging of Tariff Reductions
The reductions agreed in the multilateral trade negotiations in the past have been implemented over a period of time. For example, tariff cuts agreed in the Uruguay Round were implemented in equal stages from January 1, 1995 to January 1, 2000. For some of the products, which were considered import sensitive, longer implementation period of 8-10 years were negotiated. The ground rules for the current tariff negotiations may allow developing countries longer period than those provided to developed countries either on overall basis or in respect to particular products.

(viii) Sectoral Approach
The developing countries have strongly resisted the proposal of sectoral elimination of tariffs in NAMA negotiations. While LDCs are exempted from sectoral approach, all other member countries would be expected to eliminate or substantially reduce tariffs on specific products. The developing countries feel that such liberalisation of their import regimes would not only entail far greater tariff cuts from them than from developed countries, but would also expose their industries to strong competition. As a result, the
developing countries have consistently maintained that they should participate in any sectoral NAMA negotiations on a voluntary basis only.

(ix) Preference Erosion

Trade preferences are a central issue in the ongoing efforts to negotiate further multilateral trade liberalisation. While most countries recognise the benefits of dismantling the remaining barriers to trade, some, notably the LDCs, are apprehensive as they are faced with an erosion of their preferential access owing to across-the-board tariff reductions under NAMA. Preferences erosion is of particular concern to the South Asian region, as four out of seven SAARC countries have traditionally enjoyed trade preferences due to their LDC status.

Preferences granted to LDCs as well as universal trade preferences for imports from all developing countries, as extended under the GSP, are consistent with the GATT under the Enabling Clause. However, the developed countries are not legally committed to providing such preferences. They can, therefore, decide unilaterally on preference margins or even withdraw preferences without violating WTO commitments. The G-90 members have increasingly drawn attention to their plight in the context of market access negotiations that threaten their margins of preferential access. The G-90 has also called for remedies, including compensatory and other mechanisms, such as measures to promote exports; technical and financial assistance for improving infrastructure, productivity, and diversification, and for development of systems to achieve compliance with technical standards; and a lenient application of those standards to developing countries.

Several options may be considered for trade preferences in the Doha Round. First, rather than working towards an expansion of marginal preferences for all developing countries, it may be useful to aim at substantial preferences for the least developed and other vulnerable countries. Second, the Enabling Clause may be amended by including small and other vulnerable countries in addition to the LDCs. Third, existing preferences under the GSP should be maintained and legally bound in WTO. Fourth, preferential tariffs should not be defined in absolute terms, but should be set relative to MFN tariffs. Finally, where very specific and deep preferences for individual developing countries and commodities are concerned, a relatively strong case can be made for compensation if preference margins are eroded as a result of multilaterally agreed MFN tariff reduction or because of domestic policy changes in the developed countries.

3.2. Non-Tariff Measures

The Doha Ministerial Conference rightly called for removal of all the non-tariff barriers on industrial products as they are the least transparent and have major distortionary impact. Whereas the quotas and bans for protective measures are almost non-existent for industrial products except in a very few countries the imports are subject to the following NTBs:

- Technical regulations applicable;
- Hygienic Sanitary and Phytosanitary (SPS) measures;
- Labour standards and environmental protection;
- Quality standards; and
• Contingency protection measures such as safeguards and anti-dumping and countervailing measures.

3.3. Dispute Resolution Understanding
With the adoption of various WTO agreements if a country considers that measures taken by another country are inconsistent with the provisions of the relevant agreements, the matter could be challenged. This makes it a little difficult for larger countries to bully smaller countries into giving up their legal complaints. However, most of the clauses in the Dispute Settlement Understanding (DSU) regarding developing countries have proved to be ineffective. For example, Article 21.7 mandates that when a matter is raised by a developing country, the Dispute Settlement Body (DSB) is to consider what further action might be appropriate. However, this provision has not been used by any developing country for various reasons but particularly due to lack of expertise and resources.14 Besides, even though Article 22 calls for financial compensation to the complaining party by the country, which has been found to be in violation of the rules, it has rarely been done.

Even if a developing country obtains a clear legal ruling that an industrial country has violated its legal obligations, the developing country has no effective way to enforce the ruling. The only enforcement sanction provided by the WTO dispute settlement procedure is trade retaliation — the imposition of discriminatory trade sanctions by the complaining country against the trade of the defendant country. And trade retaliation by smaller developing countries simply does not inflict any significant harm on larger industrial countries. In this regard, the proposal by Pauwelyn (2000) that ‘coupled’ with countermeasures, a broad scheme of compensation — additional market access offered by the losing party to WTO members — would provide genuine leverage to induce compliance, a move beneficial to all WTO members, and not just ‘compensation’ to the one or few that brought the case’ should be seriously considered.
4. Perception Survey

The rules based trading system under the WTO offers opportunities as well as challenges for developing economies. In order to compete effectively in the new system, the WTO member countries must involve their stakeholders in the process of policy making to enable them to maximise benefits from enhanced competition. The extent to which various stakeholders, including exporters, civil society and general public of Pakistan is aware of the challenges of the WTO agreements, and the government and other agencies are making efforts to create awareness about their implications and challenges are examined in this section. In this regard, a survey on the perception of stakeholders (business groups, trade union, women groups etc.) about NAMA WTO was undertaken by the Pakistan Institute of Development Economics (PIDE).

4.1. Survey Methodology
To ascertain the perception and awareness about WTO related issues among the stakeholders i.e. exporters, trade associations, non-governmental organizations (NGOs) and other bodies dealing with such issues, the survey was conducted in five major cities of the country: Karachi, Faisalabad, Lahore, Peshawar and Sialkot.

Development of the Questionnaire
Most of the questions in the questionnaire were designed with five different numerical codes ranging from strongly agree to strongly disagree on various issues i.e.

Strongly Agree 1 2 3 4 5  Strongly Disagree

In addition, some questions sought comments from the respondents on market access issues, including tariff peaks and tariff escalation, NTBs, binding coverage, and sector-specific concerns in food, textiles, and footwear and leather. The questionnaire was prepared by the PIDE team and was first pre-tested in Rawalpindi/Islamabad industrial area and was refined and eliminated of ambiguities through discussions and pre-testing.

Identification of the stakeholders
For identification of the stakeholders, the Export Promotion Bureau (EPB) exporters database could not be used, as it was old and outdated due to the fact that some of the firms had closed down while the some others had shifted the office locations. However, the updated information was gathered from EPB head office, Textile Ministry, various associations and chambers of the selected cities in Pakistan. A team of three programme coordinators conducted the survey in five major cities of the country. Secretaries and presidents of the associations and chambers, the directors/chief executive officers (CEOs)
and export/marketing managers in the export offices and industrial units were contacted and interviewed. Not surprisingly, most of the businessmen contacted were found to be dealing with the textile sector, as this sector accounts for two-thirds of Pakistan’s exports. The stakeholders also included leading NGOs and trade union leaders.

### 4.2 Duration of the Survey

The survey was conducted in the selected cities according to the following schedule:

<table>
<thead>
<tr>
<th>City</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Karachi</td>
<td>June 06, 2005</td>
<td>June 11, 2005</td>
</tr>
<tr>
<td>Faisalabad</td>
<td>June 04, 2005</td>
<td>June 11, 2005</td>
</tr>
<tr>
<td>Sialkot</td>
<td>June 13, 2005</td>
<td>June 18, 2005</td>
</tr>
<tr>
<td>Lahore</td>
<td>June 13, 2005</td>
<td>June 18, 2005</td>
</tr>
<tr>
<td>Peshawar</td>
<td>June 13, 2005</td>
<td>June 18, 2005</td>
</tr>
</tbody>
</table>

### 4.3 Findings of the Survey

Under the survey, exporters and industrial units dealing with T&C, carpet industry, marbles and gems, pharmaceuticals, leather products, surgical instruments, sports goods and people from trade associations and chamber of commerce were interviewed. In this section, we analyse the perceptions of exporters, trade associations, and CSOs relating to different issues faced by the producers, exporters and the public at large.

The exporters and business community of Pakistan are in favour of an open trading regime and consider that participation of Pakistan in WTO is beneficial to the society. As many as 76 percent of the exporters, 88 percent of trade associations and 60 percent of CSOs regard free trade beneficial to Pakistan. The responding percentage that WTO is favourable to Pakistan, in the case of exporters, trade associations and CSOs have been 75, 63, and 40 respectively. The respondents pointed out that Pakistan’s participation in WTO and trade liberalisation would not only promote competition but the consumers would be able to access quality products at competitive prices. They further informed that trade policy should be aligned with the overall growth strategy and the major objective of trade policy should be the accomplishment of improved market access for exporters.
Free trade with other Countries

Exporters
- Very Good: 76
- Indifferent: 8
- Very Bad: 16

Trade Associations
- Indifferent: 10
- Very Good: 80

Civil Society Organisations
- Very Bad: 20
- Indifferent: 20
- Very Good: 60

Pakistan’s Participation in WTO

Exporters
- Very Good: 75
- Indifferent: 9
- Very Bad: 16

Trade Associations
- Indifferent: 30
- Very Good: 63

Civil Society Organisations
- Very Bad: 20
- Indifferent: 40
- Very Good: 40
The respondents believe that the awareness level regarding WTO issues is quite inadequate to allow stakeholders to deal effectively with the WTO rules and their implementation. It is disturbing to note that only four percent of the general public; 46 percent of the exporters; and 38 percent of the members of the business community are aware of the WTO issues. However, the businessmen feel in general that government is cognizant of the WTO challenges. Nevertheless, entrepreneurs have suggested that:

- Efforts initiated by the government to create awareness started very late and coincided almost with the implementation stage of the WTO agreements; and even now its capacity to create awareness is inadequate;
- For creating awareness, seminars should be arranged to provide up-to-date information about WTO clauses to the business community;
- There is lack of coordination between government and civil society; and
- Government is not doing enough to protect the country’s interests at various WTO forums.

Newspapers and Internet are considered as the main sources of information for the business community. As many as 33 percent exporters, 17 percent trade associations and 31 percent CSOs reported that newspapers and journals have been the major source, while 13 percent of the exporters, 17 percent of the trade associations and 31 percent of CSOs primarily rely on the Internet for WTO information. That the formal channels such as Ministries/Departments export promotion bureau and chambers of commerce and industries have not been the major sources of information relating to WTO issues underlines the need to strengthen such institutions, as they can disseminate more relevant information than those general information accessed through Internet, seminars and newspapers, journals etc.

The exporters and industrial groups feel that Pakistani products will be competitive in the international market provided the inputs are made available at competitive prices, market access is provided, trade is facilitated, and quality of Pakistani products is improved further. However, some businessmen have shown apprehensions about the political handling of the WTO issues by the developed countries and stress a level playing field for the developing countries in the negotiation process of WTO.

Textile exporters of Pakistan are well aware of WTO agreements and seem to have prepared themselves with modern machinery, capacity building, international standard certifications, and skilled labour. However, garments sector is still striving to build its capacity to compete with the liberal trading system. On the other hand, leather, surgical instruments, and sports goods exporters are not much aware of the WTO challenges and are not equipped to compete in the open market. Textile exporters seem quite confident to compete in the world market while the exporters of leather, surgical, and sports goods fear that they may not be able to compete with Chinese exports.
Source of Information on WTO Issues

Exporters

Internet, 13
Export Promotion Bureau, 8
Government Department/Ministry,
Chamber of Commerce, 13
Seminars/workshops/meetings, 16
News Paper/Journals, 33
Other, 15

Trade Associations

Internet, 17
Export Promotion Bureau, 17
Government department/Ministry, 6
Chamber of Commerce, 11
Seminars/Workshop/Meetings, 22
News paper / Journals, 17
Other, 11

Civil Society Organisations

Internet, 31
Export Promotion Bureau, 8
Chamber of Commerce, 8
Seminars/Workshop/Meetings, 15
News paper / Journals, 31
Other, 8
About 49 percent of the exporters and 44 percent of trade associations believe that Pakistan would be able to increase its share in the world market as against the 11 percent of the exporters who thought that Pakistan would not be able to do so. Interestingly, 80 percent of feel that Pakistan will be able to increase its share as a result of WTO. Not only that Pakistan’s share in the world trade is perceived to rise, both the exporters and trade associations feel that the share of industries in GDP would not fall.

Whereas 37 percent of the exporters and 38 percent of trade associations feel that share of manufacturing sector in Pakistan’s GDP would fall but 25 percent of exporters and 38 percent belonging to trade associations did not agree to the suggestion that there will be decline in the share of manufacturing in GDP. A large majority of CSOs disagree to the suggestion that the share of industrial sector in GDP will fall in the post-WTO scenario.
Better Market Share in the International Trade Because of WTO

Post-WTO Scenario, Pakistan’s Share of Industrial Sector in GDP will fall
Contrary to the general perceptions that the small scale enterprises would be the major losers because of the WTO, the proportion of the respondents amongst the exporters, trade associations and CSOs who believe that micro enterprises would be the major sufferers, is just 8, 14 and 6 percent respectively. This may be due to the fact that small businesses are generally labour intensive and they may not be affected by a reduction in protection. They may in fact get a larger slice in the export markets. It is the large scale manufacturing sector that is believed to be affected by the WTO. Almost one-fourth of the exporters, one-half of trade associations, and two-third of CSOs felt that WTO would result in loss of jobs.

### Most Affected Sectors as a Result of the Implementation of the WTO

**Exporters**

- **Agriculture**: 20
- **Textile**: 17
- **Sports**: 8
- **Automobile**: 8
- **Whole sale and retail trade**: 1
- **Others**: 10

**Trade Associations**

- **Agriculture**: 29
- **Manufacturing**: 21
- **Textile**: 7
- **Automobile Industry**: 21
- **Micro Enterprise**: 14
- **Others**: 7

**Civil Society Organisations**

- **Agriculture**: 18
- **Manufacturing**: 24
- **Automobile Industry**: 12
- **Micro Enterprise**: 5
- **Others**: 12
- **Services**: 6
- **Textile**: 2
There will be Job Loss in post-WTO Scenario in Pakistan

Even though awareness about the legal aspects of WTO is rather important, legal expertise in the country is not adequate to pursue the individual cases of the exporters/industrialists. Such expert services are so expensive that they are out of the reach from commercial exporters. Only big players can afford legal services and hence can fight for their survival in the market. To some extent, this lack of legal expertise is also hindering the effective trade policy making in the country.

There is Lack of Legal Expertise on WTO Laws in Pakistan
A majority of the respondents view the opening of trade with India favourably because they believe that it will provide access to Pakistani exporters to a market of one billion people. At the same time, it is felt that quantitative restrictions and para-tariffs imposed by India should be removed before according MFN status to India. They also believe that free trade with India will affect some of the Pakistani industries because of cheap Indian products against which there must be some protection.

**Positive Effect on Pakistan’s Economy in Case of Free Trade with India**

- **Exporters**
  - Strongly agree: 35
  - Agree: 30
  - Indifferent: 17
  - Disagree: 10
  - Strongly disagree: 8

- **Trade Associations**
  - Strongly agree: 25
  - Agree: 50
  - Disagree: 25

- **Civil Society Organisations**
  - Strongly agree: 60.0
  - Agree: 20.0
  - Strongly disagree: 20.0
Pakistan Still Has Trade Deficit with India Due to Heavy Import Restrictions by India

Pakistani exporters are not facing any major difficulties in the export market; and very few are concerned with the weaknesses in trade facilitation. However, respondents felt that poor infrastructure, tax system, loaning facility, and trade policy are creating hindrance to the export development. The stakeholders want an improvement in the country’s tax system and consider the rate on bank loans too high. Poor law and order situation, lengthy and cumbersome regulatory procedures, aided and abetted with corruption have also been highlighted as the major constraints to export development. The image of the country in the international market has also been indicated as one of the constraining factors.
Pakistan’s Trade Policy Should Focus on Increasing Market Access

Exporters

1st priority, 40
2nd priority, 40
3rd priority, 16
4th priority, 4

Trade Associations

1st Priority, 43
2nd Priority, 43
3rd Priority, 14

Civil Society Organisations

1st Priority, 20
2nd Priority, 40
3rd Priority, 20
4th Priority, 20

Difficulties in Market Access

Exporters

Difficulties in shipping, 36.5
Difficulties in Trade Facilitation, 48.1
Difficulties in quality standards, 5.8
Other Difficulties, 9.6
Difficulties Faced by Exporters in Pakistan

Only a few of the exporters and trade associations knew about the dispute resolution system; and those who were aware pointed out that the dispute resolution system needs to be improved, as the present system is ineffective and does not provide compensation to the developing economies. Similarly, there has been little awareness about tariff escalation but a majority of those who possessed a clear conception felt that the manufacturing industries are suffering from the tariff escalation. Moreover, a majority of the respondents who shared their opinion felt that the binding of tariffs would, at a later stage, result in lowering the applied tariff rates.

WTO Dispute Settlement Understanding

Exporters

Trade Associations
A majority of respondents from amongst exporters and trade associations were found to have no knowledge of the protection on women’s rights under WTO vis-à-vis Pakistan’s trade policy. However, they were of the opinion that female empowerment will increase with the greater integration of Pakistan to the world economy because of the increased opportunities. A large majority of CSOs felt that gender disparity is protected under WTO negotiations, whereas only 40 percent felt that concerns of women’s groups are taken into consideration in trade policy making by the government of Pakistan.

**Gender Concerns are protected during Negotiations in WTO**
Concerns of Women’s Groups Taken into Consideration in Trade Policy

Female Empowerment will Increase with Free Trade in post-WTO Scenario in Pakistan
There is Enough Coordination between Civil Society and Government of Pakistan in Formulating WTO Trade Policy

Respondents suggested that the government should do more to create awareness about the WTO, including the earnest efforts for enhanced market access. They suggested that a team of legal experts be given task of deriving implications of WTO clauses for various sectors of the economy while formulating the trade policy. The government of Pakistan should ensure the elimination of tariff and non-tariff barriers, especially in the developed countries in sectors of interest to the country. In addition, the developing countries should work in unison as a group for market access and settlement of various issues. The group needs to fight for its rights at sectoral levels and there should be complete coordination governments and their business community. Effectiveness of negotiations with the developed countries must be ensured through the capacity building at sectoral level among the member countries. High tariffs on the specific products should be addressed as a separate subject. Moreover, there should be neither hidden nor open discrimination during the negotiation process under the WTO. Any sort of political handling and lobbying should be strongly discouraged.
5. South Asian Perspective on Nama Issues\textsuperscript{15}

This section contains views from Bangladesh, Nepal, Pakistan, India, and Sri Lanka on various NAMA issues.

**BANGLADESH**
Bangladesh aspires for deeper trade preferences enjoyed by the LDCs, simplified rules of origin, and concessions against the coverage for tariff reductions. The July Framework incorporates a provision for developed and developing countries that are in a position to do so, should provide duty-free and quota-free access to all goods originating from LDCs within specified time period. However, this is a weak provision and needs to be strengthened to make it binding, which would realise a commitment made in the Doha Ministerial Declaration to grant improved trade terms to the LDCs. Readymade garment (RMG) industry in Bangladesh, that has so far enjoyed preferential access to developed country markets, is not only important for the poor but also has created a social space for women in Bangladesh, and hence the industry must be sustained.

The proposal for accelerated elimination of tariffs on industrial goods may have a negative impact on Bangladesh exports of textiles and clothing (T&C), fish and fish products, and leather and leather goods. As these are labour intensive and female intensive products, they can be treated as ‘sensitive products’ by the developed countries. When LDCs were provided with GSP, these ‘sensitive products’ were usually excluded and Bangladesh was allowed duty-free and quota-free access to export these products. However, selective reduction in tariffs in labour intensive products would lead to lower erosion of LDCs’ preferences.

**INDIA**
India has outlined the following objectives for NAMA negotiations:
- Leveraging autonomous tariff reduction to enhance market access to developed countries;
- Retaining some policy space for the domestic industry;
- Ensuring reduction of tariff peaks and escalation in developed countries;
- Obtaining adequate flexibilities for developing countries to address developmental sensitivities;
- Securing classification, identification and reduction/elimination of NBTs; and
- Applying the formulas on sectors on a voluntary basis, after finalisation of formula.

India wants to gain greater access to developed country markets not so much through reduction of their tariffs, which are already relatively low, but through the dismantling of NTBs to trade and GSP, provided unilaterally by importing countries to a selected range
of beneficiary countries on selected products and sectors. For example, the proposed EU GSP provisions relating to T&C.

India also would like to resist sharp reduction in tariffs forced on the developing countries by the developed ones. Moreover, India would reduce tariffs autonomously albeit, at a pace it judges suitable for the Indian industries. India is of the view that any tariff reduction formula negotiated under the aegis of the WTO would have to be based only on bound rates and not on applied rates. For application of a tariff reduction formula, India is determined to counter any attempt in using applied rates as the base. However, India does not wish that autonomous tariff reduction exercise to be used against Indian industries.

India aspires for an equitable tariff reduction formula in the negotiations on NAMA under the WTO keeping in view the concerns and interests of the developing countries. The Swiss type tariff cut formula, put forward by EU for entailing reduction of high tariffs by very excessive percentage, is not supported by India. Instead, India endorses the suggestion put forward by US for using two different coefficients for tariff reduction - one for developed and one for the developing countries— but with a lot of fine-tuning. Domestic industry has urged the government to strongly counter the ‘simple Swiss’ formula under the NAMA pillar of the ongoing WTO talks at the mini-ministerial meeting at Dalian, China.

India is also against the proposal of a mandatory ‘zero-for zero’ reduction on seven specific products by 2015. These are in such sectors as automotives, textiles, gems and jewelry, leather products, electric and electronic products, which constitute bulk of India’s export basket and are also products reserved for the small scale sector. A ‘zero-for-zero’ regime would spell their doom by granting unmitigated access to large foreign firms in the same market.

India has highlighted the need to link adoption of tariff reduction formula with concrete, time-bound progress on eliminating Indian small and marginal enterprises (SMEs) are looking at other developing countries for market access. Surely, SMEs would benefit from the NAMA negotiations, if there were a uniform harmonised tariff all over the world. A modality to reduce the bound duties to a common level could also reduce transaction costs and other uncertainties related to complex tariff regimes.

NEPAL

Nepal, as an LDC with low level of industrialisation, has a significant stake in the ongoing NAMA negotiations under the WTO. Though Nepal has secured 99.3 percent of its tariff lines during its accession to the WTO in 2004 and is not required to make any tariff reduction commitment, the outcome of the negotiations will have far reaching impact on Nepalese manufacturing sector in terms of loss of policy flexibility, export competitiveness and preference erosion.

Tariff escalation also hinders value addition and industrialisation in Nepal. The proposed non-linear line-by-line formula for tariff reduction is likely to address the problems of tariff escalation and tariff peaks. But an LDC like Nepal should be careful to ensure that the final formula has appropriate coefficients to ensure this. Even in cases where Nepal’s
exports have duty free access, non-tariff measures, both legal and illegal under the WTO, hinder the conversion of market access into market entry. Annex B of the July framework is weak on tackling NTBs, as it only encouraged all participants to make notifications by October 31, 2004 and to precede with identification, examination, categorisation, and ultimately negotiations on NTBs. In this sense, negotiations on NTBs are yet to start in the WTO. Nepal as well as most other LDCs also face resource constraints to set up the human and institutional infrastructure to address legal NTBs like those permissible under the WTO Agreement on Sanitary and Phytosanitary Measures (SPS) and Agreement on Technical Barriers to Trade (TBT).

Nepal’s objectives in NAMA negotiations are the following:

- Resist sectoral initiative and zero for zero approach.
- Ask developed and developing countries to expand market access for products of export interest to preference depending countries i.e., LDCs. Bilateral assistance could be one way of doing this.
- Ask the developed countries to use a corrections coefficient to improve the preference margins for the products that are enjoying preferential access. (Suggested by The African group)
- Advocate the establishment of a ‘Competitiveness Fund’ with contribution from developed and advanced developing countries to enhance the supply side capabilities of LDCs and weak developing countries. (Suggested by Mauritius)
- Support other LDCs for low tariff bindings.
- Ensure that the tariff reduction formula has appropriate coefficients to address the problems of tariff peaks and tariff escalation.
- Ensure that the tariff reduction formula results in improved market access in developing countries, including India.
- Demand effective Technical Assistance from developed and developing members to enhance institutional and human resources necessary to implement WTO agreements such as SPS and TBT.
- Lobby for temporary waiver on SPS and TBT requirements on non-agricultural exports from LDCs.
- Lobby for immediate and effective mechanism to address NTBs being faced by LDC non-agricultural exports.

PAKISTAN

As far as Pakistan’s stance is concerned it believes that tariff peaks be removed, the tariff escalation minimised and the developing economies be provided free market access. In this regard it is useful to quote from a statement of Pakistan in the NAMA meeting held on October 4, 2004.16 Pakistan stated that whereas “there are hardly any tariffs on goods of exports interest of developed countries and tariffs only applied to goods of developing countries. The current ratio is 1:4, i.e. the goods of exports interest to developing country’s tariff is four times higher than that of the developed countries. This is not only creating market access problems in developed countries markets but also for South-South trade”. The statement further called for “reduction or as appropriate elimination of tariffs including tariff peaks, high tariffs and non-tariff barriers. Special consideration has to be given for products of exports interest to developing countries and there should be less than full reciprocity for developing countries”.
The July Framework includes a formula approach for tariff reduction and for reduction or elimination of tariff peaks, tariff escalation and high tariffs. A number of proposals are being advocated by different countries albeit, Pakistan is of the view that none of these seem to attract consensus. There is, therefore, a need to bridge the gap among the present proposals while at the same time ensuring that the objectives of the Doha Round are not compromised. With this in view, Pakistan has proposed the adoption of a simple Swiss Formula with two distinct coefficients for developed and developing countries. These coefficients should be based on an objective criterion i.e. taking the overall average of the bound tariff lines for developed and developing countries as their respective coefficients.

The treatment of unbound tariffs is an important issue in the market access negotiations. So far, five proposals have been tabled: (i) multiplying the MFN applied rate of 2001 by two; (ii) marking-up unbound lines by a factor to be negotiated, and binding tariff lines at an average level after the application of the formula (the ABI proposal); (iii) capping the new bound tariffs at a ceiling of 40 percent with target average of 25 percent and no tariff reductions in this round for new tariff bindings (Malaysia); (iv) the ‘Rational Formula’ approach of a non-linear mark-up derived through a mathematical formula using two coefficients (Mexico); and (v) non-linear mark-up adding five percentage points (absolute) to each unbound rate (the CHNN proposal by Canada, Hong Kong, China, New Zealand, and Norway).

Countries that have lower unbound tariffs view proposals (i) and (ii) as unduly favouring countries with higher unbound tariffs. Whereas the Malaysian proposal may suit many developing countries, it is viewed by many countries to be in conflict with the July Framework, which requires that tariff reduction has to be comprehensive without ‘a priori exclusion’. The Mexican proposal appears to address the concerns of countries with low unbound tariffs, but it is complicated and thus difficult to negotiate. The CHNN proposal for a mark-up of five percentage points in absolute terms may not be acceptable to a majority of developing countries, as it seems to favour those countries, which have low bound tariffs. Against this backdrop, Pakistan has proposed that instead of a non-linear mark-up of five percentage points in absolute terms (as in CHNN proposal), a mark-up of 30 percentage points should be added to the base rate (applied rate of 2001) for each unbound line before the application of the formula for tariff reduction.

**SRI LANKA**

Sri Lanka’s negotiating position on NAMA puts emphasis on the fact that the developed countries should eliminate barriers to free market conditions and ensure effective, duty-free and quota-free market access for non agricultural products originating from developing and LDCs. As in many other developing countries, Sri Lanka also focuses on the same issues highlighted in the framework agreement such as the formula approach for tariff cuts, tariff bindings, sectoral approach and NTBs.

Sri Lanka’s position supports a formula approach for tariff reduction, reduction or elimination of tariff peaks and tariff escalation and asks for more flexibility for developing countries in this regard. However, it has been critical of the proposed Girard formula, depending on the co-efficient adopted, tariff reduction could have adverse implications for the country’s industrial sector.
For countries such as Sri Lanka where bound coverage is low but the applied rate is also low, the proposed tariff reduction formula penalises the country in terms of the extent of tariff reduction. In order to avoid such pitfalls, Sri Lanka spearheaded moves to include a paragraph (paragraph 6) in the framework text that allows a small number of developing countries not to undertake tariff reductions through the formula if their bound coverage is less than 35 percent. However, these countries will be required to bind their tariffs at the average of bound tariff rates for all developing countries.

While preference erosion is also an issue of concern for Sri Lanka, the general view is that it should not be addressed in isolation, in particular, given the fact that the core work of the WTO is on an MFN basis. Sri Lanka’s concern is more on gaining access to markets through tariff reductions on an MFN basis rather than directly addressing issues of preference erosion. Sri Lanka is yet to make a clear stand on carrying forward negotiations on a sectoral basis given the complexities in arriving at common ground.

Techniques and modalities that are adopted in industrial tariff negotiations have significant bearing on the outcome of negotiations. A variety of techniques and modalities evolved during the eight rounds of trade negotiations, which took place under the auspices of GATT, as has been enumerated above. The South Asian countries have to adopt an approach that results in securing maximum reductions on products, which they export. As regards their commitment to reduce the import duties, they may use product by product approach. Such products that relate to industries in which the country does not have the long run comparative advantage, they may agree on steep cuts while the other industries where long run comparative advantage exists but producers have become lethargic due to heavy protection, they may reduce the duties to ensure exposure to competition without jeopardising the industrial growth. With a view to ensuring the maximum advantage, following elements may be kept in view:

- The South Asian countries must adopt an approach that results in securing maximum reductions on products, which they export. Preceding the industrial tariff negotiations it is necessary to agree on the ground rules that would be followed in the conduct of tariff negotiations. Such ground rules would need to ensure that different needs and objectives of the participating countries are adequately taken into account. In other words, ground rules must accommodate the special needs and interests of developing and the LDCs participants as ordained in Article XVIII and part IV of GATT;
- Developing countries determine the extent to which they are willing to liberalise their own economies to win tariff reductions and removal of other barriers with a view to having access to the markets of their trading partners;
- The developing countries may agree to reduce the bound rates and where they do not have comparative advantage to steep fall in tariff cuts both in bound and applied rates;
- The developing countries should ask for conversion of all specific tariffs into ad-valorem tariffs;
- The developing countries should strive to seek substantial reductions in peak MFN tariffs which apply to products of export interest to them e.g. textiles, leather products, footwear, etc and, if feasible, aim at elimination of all other MFN rates of tariffs and tariff escalations in sectors where they exist;
- The developing countries ought to seek due allowance for the autonomous liberalisation these countries may have undertaken. One way of ensuring credit for the autonomous liberalisation is to have 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;
- The developing countries must seek flexibility in ‘staging’ of tariff reductions. The ground rules for the negotiations should provide the developing countries longer period than that provided to developed countries for staging of tariff reductions; and
• The developing countries may press for international financing for training public officials, screening industrial countries’ trade policies, and building a network with other developing countries with the aim of jointly presenting cases could help address some of these problems.
7. Conclusion

Since the South Asian countries are labour surplus, heavily dependent on the agriculture sector and have limited domestic markets, liberalisation efforts would go a long way towards realisation of their growth potential. However, they must watch out their interests rather carefully in view of the misuse of the safeguard measures, incorporation of environment and labor standards, and non-implementation of special provisions for developing countries and LDCs.

While the South Asian countries must reduce the level of tariffs to expose their economic activities to international competition, they need market access; their products face many obstacles in entering the markets of rich countries. In addition to extremely high tariff and other protection measures, tariff escalation remains an important obstacle for developing countries to enter into the industrial exports. Rich countries need to do more to reduce trade-distorting subsidies and dismantle their existing barriers on competitive exports from developing countries. Since most of the developing economies including the South Asian countries have been taking measures to liberalise trade unilaterally outside the WTO framework, they need to be given credit for the unilateral tariff reduction. The ground rules for the current tariff negotiations may allow the developing countries longer period than provided to developed countries either on overall basis or in respect of particular products.

In South Asia, only the bigger economies like India and Pakistan will be required to reduce tariffs under the formula approach. The smaller economies like Bangladesh and Nepal are exempted owing to their LDC status. Sri Lanka may also get an exemption in the event that the countries, which have less than 35 percent of binding coverage are exempted from undertaking tariff reductions. Both India and Pakistan should press for an implementation period of 10 years for tariff reductions and for a four-year implementation period for developed countries. In the sectoral initiative, the South Asian countries should oppose ‘zero for zero’ approach and ask for 10-year implementation period with back loading. The South Asian countries amongst themselves or with other developing economies may negotiate industrial tariffs on an MFN basis on trade between them. This would go a long way towards liberalisation of trade and improvement in their welfare levels. At the same time, they may take a joint stand relating to anti-dumping, environment, labor standards and other safeguard measures.

The reduction of industrial tariffs under NAMA is likely to have far-reaching effects on market access in products of export interest to South Asian countries. The South Asian countries have a strong interest in further liberalisation and tariff harmonisation approach because their principal concern is market access. Similarly, the tariff peaks, another major issue for exporters in developing countries, and a formula of tariff cuts that facilitates...
a degree of tariff harmonisation is necessary. It is also imperative for South Asian countries to strengthen their options to use support measures in the future, through the negotiation of greater flexibility for themselves. A level-playing field is necessary not only with respect to reducing the current bias of the trading system, but also one that addresses the structural disadvantages that developing countries face in the international trading environment. The South Asian countries may support proposals for a substantial reduction in applied tariffs using a harmonisation formula that would reduce tariff peaks. In addition any tariff reduction formula should incorporate a mechanism for reducing tariff escalation by linking tariff levels in primary commodities to those affecting their processed form.

The rules based trading system under the WTO offers opportunities as well as challenges for developing economies. In order to compete effectively in the new system, the WTO member countries must involve their stakeholders in the process of policy making to enable them to maximise benefits from enhanced competition. In this regard, a survey on the perception of stakeholders (business groups, trade union, women groups etc.) about NAMA WTO was undertaken.

The exporters and business community of Pakistan are in favour of an open trading regime and consider that participation of Pakistan in WTO is beneficial to the society. The respondents pointed out that Pakistan’s participation in WTO and trade liberalisation would not only promote competition but the consumers would be able to access quality products at competitive prices. They further pointed out that trade policy should be aligned with the overall growth strategy and the major objective of trade policy should be improved market access for exporters. The exporters and industrial groups feel that Pakistani products will be competitive in the international market provided the inputs are made available at competitive prices, market access is provided, trade is facilitated, and quality of Pakistani products is improved further. However, some businessmen have apprehensions about the political handling in the WTO issues by the developed countries and stress a level playing field for the developing countries in the negotiation process of WTO.

The respondents believe that the awareness level regarding WTO issues is quite inadequate to allow stakeholders to deal effectively with the WTO rules and their implementation. Newspapers and Internet are considered as the main sources of information by the business community. That the formal channels such as Ministries/Departments, export promotion bureau and chambers of commerce and industries have not been the major sources of information relating to WTO issues underlines the need to strengthen such institutions as they can provide more relevant information than the general information through Internet, seminars and newspapers, journals etc.

Textile exporters of Pakistan are well aware of WTO challenges and seem to have prepared themselves with modern machinery, capacity building, international standard certifications, and skilled labour. However, garments sector is still striving to build its capacity to compete in the liberal trading system. On the other hand, leather, surgical instruments, and sports goods exporters are not much aware of the WTO challenges and are not equipped to compete in the open market. Textile exporters seem quite confident to compete in the world market while the exporters of leather, surgical, and sports goods fear that they may not be able to compete with Chinese exports.
The respondents were of the view that developing countries should work jointly as a group for market access and settlement of issues. The group should fight for its interests at sectoral levels and there should be complete coordination among the governments and their business community. Effectiveness of negotiations with the developed countries must be ensured along with the capacity building at sectoral level among the member countries. Moreover, there should neither be hidden nor open discrimination in the negotiation process in the WTO, and any sort of political handling and lobbying should be strongly discouraged.
Endnotes

1 These sectors include fish and fish products, textiles and clothing, leather, footwear, stones, gems and precious metals, electronic goods, and motor vehicle parts and components.

2 The non-tariff barriers in the form of quota and bans have been removed by most of the countries but the barriers in terms of quality, labour standards, environment etc. have been imposed.

3 MFN requires that tariff rates negotiated between particular trading partners are available to all members of the WTO.

4 High tariffs and tariff peaks are generally in the areas that are of export interest to developing countries and it includes textiles and clothing, footwear, and agriculture. The impact of tariffication of agricultural non-tariff barriers (NTBs) in the Uruguay Round in some cases has resulted in even more restrictive trade regimes.

5 Tariff escalation is quite harmful to the industrialization process of the developing economies. Reduction in tariffs on raw materials by the developed countries results in higher levels of effective protection on exports of manufactured products to industrial countries and thus makes it even more difficult for developing economies to export the manufactured products to industrial countries.

6 In recent years, however, the number of anti-dumping investigations has fallen (just over 200 in 2004).

7 However, the differential in bound and applied rates for different products and across countries may be high.

8 This is referred in para 16 of the declaration.

9 Out of the total LDC exports of US$22.7bn in 1999, US$17bn went to the Quad economies. For example, more than 25 percent of their total exports are potentially affected by tariff peaks in Canada and 14 percent in the United States.

10 The most hit from the tariff peaks are the major agricultural staple food products and fruit, vegetable, fish etc.

11 In the US and Canada most footwear and leather products are excluded from coverage under the scheme so that MFN tariffs apply fully to developing countries.


13 By negotiating reduction in tariffs on the products of their export interests, developed countries under GATT have gained significantly.

14 The expertise required is in the fields of checking arguments, issues, and possibilities and comparing experiences and results; exploring new legal as well as economic arguments; and, domestically, building up an efficient and transparent liaison between the state and industry in order to obtain up-to-date information on trade problems in which developing countries have a stake.

15 This section draws on the inputs provided by the respective project partners in Bangladesh, India, Nepal, and Sri Lanka.

**Bibliography**


Santiago Fernandez de Cordoba and David Vanzetti. *Searching for a Solution to the WTO Industrial Tariff Negotiations, Draft*, 24/03/05. To be published in forthcoming book “Coping with Trade Reforms.”


Questionnaire
Stakeholder Perception Survey on Non-Agricultural Market Access (NAMA) Negotiation in Doha Round

Name of Respondent: ____________________________________________

Position/Designation: ___________________________________________

Name of Enterprise/Company: ____________________________________

Description of Enterprise: Exporter / Importer / Industrial Unit / Trade Union / Trade Association / NGO / Other ________________

Address: ______________________________________________________

Postal Code/City: _______________________________________________

Telephone No: _________________________________________________

E-mail Address: _________________________________________________

Date: _________________________________________________________

Part I: GENERAL
(To be completed by all respondents)

1. For Pakistan, free trade with other country is

   Very Good   1  2  3   Very Bad

   Comment ____________________________________________________

2. Pakistan’s participation in WTO is

   Very Good   1  2  3   Very Bad

   Comment ____________________________________________________
3. In your opinion, is there enough awareness about WTO in Pakistan

A. General Public
   Yes [1 2 3] No

B. Exporters/Importers
   Yes [1 2 3] No

C. Government of Pakistan
   Yes [1 2 3] No

Comment ____________________________________________________________

4. Government is effectively creating the awareness about WTO in Pakistan

Strongly Agree [1 2 3 4 5] Strongly Disagree

Comment ____________________________________________________________

5. Up to date information on WTO related issues and international trading system in business circles are available to business community in Pakistan

Strongly Agree [1 2 3 4 5] Strongly Disagree

Comment ____________________________________________________________

6. What is the source of information on WTO related issues?

- Internet
- Export Promotion Bureau
- Chamber of Commerce
- Government Department / Ministry
- News Paper / Journals
- Seminars / Workshop / Meetings
- Other
7. There are laws or regulations in Pakistan that prevent competition in the market, for example restrictions on business licensing etc.

Strongly Agree 1 2 3 4 5 Strongly Disagree

Please specify?

8. There is lack of legal expertise on WTO laws in Pakistan

Strongly Agree 1 2 3 4 5 Strongly Disagree

If Yes, move to question 9; If No, move to question 10.

9. Lack of legal expertise on WTO laws is obstructing Pakistan’s trade policy

Strongly Agree 1 2 3 4 5 Strongly Disagree

Comment

10. Through WTO Pakistan can have better market share in international trade

Strongly Agree 1 2 3 4 5 Strongly Disagree

Comment

11. From the following list please select the three (3) most affected sectors as a result of the implementation of WTO agreements in Pakistan

☐ Agriculture
☐ Manufacturing
☐ Electricity, Gas, and Water Supply
☐ Services
☐ Tourism
☐ Textile
☐ Sports
☐ Construction
☐ Wholesale and Retail Trade
☐ Automobile Industry
☐ Hotels and Restaurants
☐ Financial Intermediations / Banks
☐ Education, Health, and Social Work
Micro Enterprise
☐ Other

12. Quality of Pakistan’s export products will improve with free trade

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>1 2 3 4 5</th>
<th>Strongly Disagree</th>
</tr>
</thead>
</table>

Comment ________________________________________________________________

13. In post-WTO scenario, Pakistani products will be able to compete in international market

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>1 2 3 4 5</th>
<th>Strongly Disagree</th>
</tr>
</thead>
</table>

Comment ________________________________________________________________

14. Pakistani products can compete in international market given the level of protection

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>1 2 3 4 5</th>
<th>Strongly Disagree</th>
</tr>
</thead>
</table>

Comment ________________________________________________________________

15. In post-WTO scenario, share of industrial sector in GDP will go down in Pakistan

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>1 2 3 4 5</th>
<th>Strongly Disagree</th>
</tr>
</thead>
</table>

Comment

16. There will be job loss in post WTO scenario in Pakistan

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>1 2 3 4 5</th>
<th>Strongly Disagree</th>
</tr>
</thead>
</table>

Comment ________________________________________________________________
17. Women’s issues/ gender concerns are protected during negotiations in WTO

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Strongly Disagree</th>
</tr>
</thead>
</table>

Comment

18. Concerns of women’s groups are taken into consideration in trade policy making by Government of Pakistan

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Strongly Disagree</th>
</tr>
</thead>
</table>

Comment

19. Female empowerment will increase with free trade in post WTO scenario in Pakistan

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Strongly Disagree</th>
</tr>
</thead>
</table>

Comment

20. There is enough coordination between civil society (business groups, trade union, and women group especially working on trade and gender linkages) and Government of Pakistan in formulating Pakistan’s trade policy regarding WTO

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Strongly Disagree</th>
</tr>
</thead>
</table>

Comment

21. There will be a positive effect on Pakistan’s economy by having free trade with India

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Strongly Disagree</th>
</tr>
</thead>
</table>

Comment
22. India has granted the Most Favoured Nation (MFN) status to Pakistan under WTO, should Pakistan grant MFN status to India?

Yes 1 2 3 No

Comment

23. Pakistan still has trade deficit with India due to very heavy import restrictions by India.

Strongly Agree 1 2 3 4 5 Strongly Disagree

Comment

24. Pakistan is focusing on its own capacity building to overcome the new non-tariff barriers imposed by developed countries.

Strongly Agree 1 2 3 4 5 Strongly Disagree

Comment

25. From the list, please rank the following factors from 1 (high priority) to 4 (low priority).

In your opinion Pakistan’s trade policy should focus on

☐ Protecting the jobs of Pakistani workers
☐ Keeping the Pakistan’s economy growing
☐ Capacity Building
☐ Increasing market access
Part II: QUESTIONNAIRE FOR BUSINESS ENTERPRISE
(Business Groups/Chambers/Trade Associations etc.)

Name of Respondent: __________________________________________

Enterprise/Company: __________________________________________

Address: ____________________________________________________

Postal Code/City: ______________________________________________

Telephone No: _________________________________________________

E-mail Address: ________________________________________________

1. Type of ownership:
   A. ✔ Proprietorship
   A. ✔ Partnership
   A. ✔ Private Limited
   A. ✔ Public Limited

   B. ✔ Pakistani
   B. ✔ Joint Venture
   B. ✔ Multinational

2. Approximate number of employees in Pakistan:
   [ ] <50  [ ] 101-500  [ ] 1,000-5,000  [ ] 20,000-100,000
   [ ] 51-100  [ ] 501-1,000  [ ] 5,001-20,000  [ ] >100,000

3. General description of the enterprise:
   [ ] Import Office / Company
   [ ] Export Office / Company
   [ ] Industrial / Production Unit

4. Where are your enterprise’s products marketed?
   [ ] National / Within Pakistan
   [ ] International
   [ ] SAARC  [ ] Asia  [ ] N/S America  [ ] Europe
   [ ] Australia  [ ] Africa  [ ] Middle East  [ ] Other

5. What is the total output / marketed share of your product?
   Exports: ____________%
   Domestic / Local Market ____________%
6. What kind of difficulties you / your enterprise face in market access with other trading countries?
   - Trade Facilitation
   - Shipping
   - Air Transport
   - Quality Standards
   - Other ____________________________

7. What kind of difficulties you / your enterprise face in Pakistan?
   - Poor Information and Communication Technologies (ICT)
   - Poor Infrastructure
   - Technology adoption
   - Poor Trade facilities
   - Poor R&D activities
   - Country’s Tax system
   - Import and Export permit
   - Bank Loans
   - Monopoly of explicit group
   - Trade Policy
   - Other ____________________________

8. What is the stage of the your commodity / product for export?
   - Raw Material
   - Primary Good
   - Semi Processed Good
   - Final / Processed Good

9. Do you know about the World Trade Organisation’s procedure for resolving trade quarrels between Governments, called the Dispute Settlement Understanding?
   - Yes
   - No
   Comment ________________________________

10. What do you usually do when facing a market barrier while trading in a market outside the Pakistan? (Tick where appropriate).
    Contact…
    - The Embassy in the country where you face the barriers
    - Your local Chamber of Commerce at home
    - Your national Chamber of Commerce in the country where you face barriers
    - Chamber of Commerce of other Trading countries where you face barriers
    - Sectoral trade association at home
    - Export Promotion Organisation at home
    - The SAARC Chamber at home
    - Administration/Government of the country where you face barriers
11. The food industry is a major area where tariff peaks are wide spread and high in major developed countries. 
   **In your opinion what should be the mechanism under NAMA negotiations to have better access of the food industry to the developed world? Please comment.**

12. In the major textile importing countries like the US, EU and Canada, large proportion of clothing and textile imports are subject to high tariff. 
   **In your opinion what should be the mechanism under NAMA negotiations for the better access of textiles sector to the developed world? Please comment.**

13. Footwear, leather and travel goods of various types is still protected by high tariffs in most developed countries. Post Uruguay Round MFN rates are closed to 160% in Japan, 37.5% to 58% in the US and 18% in Canada. 
   **In your opinion what should be the mechanism under NAMA negotiations for the better access of footwear and leather products to the developed world? Please comment.**

14. With the exception of Japan and the Republic of South Korea, levels of protection within some key industries are rather high. For example, various developed countries apply high tariffs on Auto parts, TV receivers, TV picture tubes etc. 
   **In your opinion do you think that tariff reduction approach under NAMA negotiations should not only address the average tariff rates but also tariff peaks on key sectors of export interest to them? Please comment.**
15. Tariff escalation occurs when tariff levels increase with the degree of processing. Do you think that tariff escalation in developed countries may prevent the development of value-added industries in developing countries?

Strongly Agree [ ] [ ] [ ] [ ] [ ] Strongly Disagree

Comment

16. Non-tariff barriers are the set of trade distorting measures and policies other than tariffs. These include: quantitative restrictions, administrative procedures and market structure etc.

What measures do you recommend to reduce these non-tariff barriers? Please comment.

Comment

17. Bound tariff lines are lines on which there is a commitment not to increase tariffs above a specified level.

Do you think that increasing binding coverage can lead to less flexibility and higher level of obligations in future round of tariff reductions?

Strongly Agree [ ] [ ] [ ] [ ] [ ] Strongly Disagree

Comment