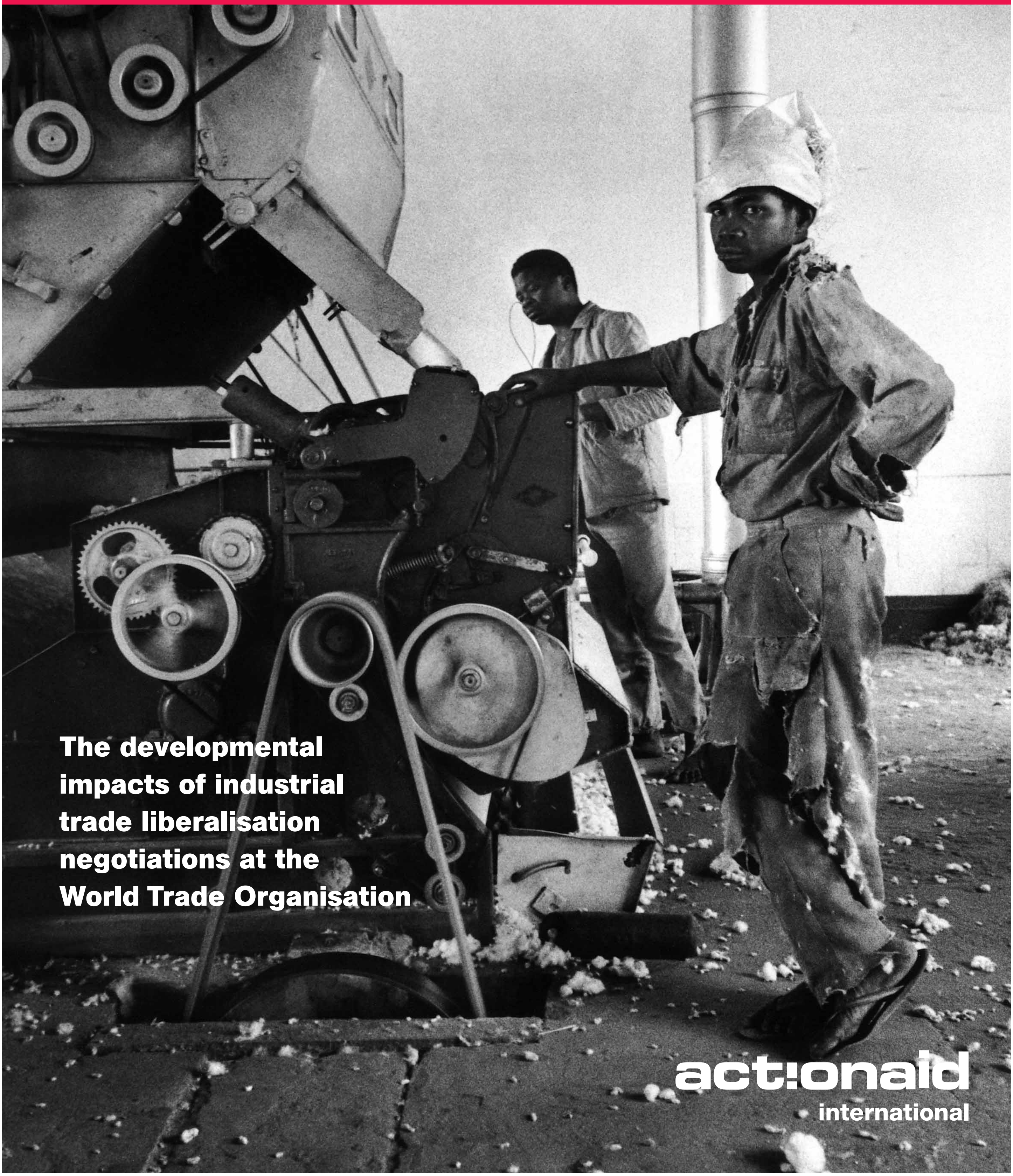
Bound and tied



The developmental impacts of industrial trade liberalisation negotiations at the World Trade Organisation

actionaid international

Contents

Executive summary

As the December 2005 World Trade Organisation (WTO) Hong Kong Ministerial looms, non-agricultural market access (NAMA) has taken centre stage of global trade negotiations in the Doha Round – alongside agriculture and services. ActionAid believes that there will be practically nothing in these negotiations that will benefit developing countries, including least developed countries. Not only is the process fundamentally flawed but rich nations are pushing a highly ambitious, but developmentally devastating agenda to open up developing countries' manufacturing markets on behalf of their industrial exporters.*

Gideon Mendel/Corbis/ActionAid

What history tells us

Such an agenda by rich countries flies in the face of historical facts. Developed nations first developed behind protective barriers and only liberalised when their industries were competitive. This is exactly the opposite of what is being proposed for developing countries in the NAMA talks. History also tells us that rapid industrial liberalisation – for example, as part of Structural Adjustment Programmes (SAPs) – has often had a devastating impact on development and poverty. Many poor countries have been brought into direct competition with more advanced developed nations and their industrial exporters before they were competitive. This has led to de-industrialisation (i.e. the closure of factories and falling output), increasing commodity dependence, balance of payments difficulties and massive job losses.

Assessments of the impact of trade liberalisation on local manufacturing capacity in Zimbabwe, Bangladesh, Ecuador, Hungary, the Philippines and Ghana show that de-industrialisation is evident in all countries as the share of manufacturing in Gross Domestic Product (GDP) has either fallen or stagnated following liberalisation. In all countries, sudden exposure to the strong force of foreign competition led many firms into bankruptcy. Small and medium-sized companies were hit the hardest. In Ecuador, industrial trade liberalisation contributed to increasing levels of poverty between 1995 and 1999.

The United Nations Conference on Trade and Development (UNCTAD) provides further evidence of this trend. In a sample of 40 countries, half have experienced de-industrialisation in the aftermath of trade liberalisation. Most of these are countries at low levels of development, such as Ghana, Zimbabwe, Paraguay, Barbados and Haiti. But a large number of other countries that actually experienced an increase in exports following liberalisation – notably in Latin America – have also seen their industrial base shrink as their barriers to trade have come down. These include Chile, the Philippines, Brazil and Venezuela.

That is not to say that there haven't been examples of increased trade openness contributing to development and helping to reduce poverty. However, evidence shows that in these cases, liberalisation has been gradual and targeted and has been undertaken as part of a well-developed strategy for industrial development, such as in East Asia. Even India, which is often held up as a country that proves the 'neo-liberals' right, has liberalised partially and gradually, maintaining policy flexibility on tariffs to nurture and promote the development of its manufacturing base.

The evidence also suggests that even in those countries where industrial liberalisation has contributed to economic growth, the process has favoured skilled labour over unskilled. This is a significant problem as the real poverty test for any liberalisation programme must be its ability to create new employment opportunities for unskilled workers. The sale of unskilled labour is the single most important source of income for poor people. Without new jobs for the unskilled, trade liberalisation can hardly claim to be pro-poor.

** Unless specified otherwise, the term developing countries in this report is taken to include least developed countries.*

At the WTO

Ever since the first attempts to come forward with a NAMA negotiating proposal back in 2003, the process has remained heavily biased towards the commercial interests of industrialised nations. What is now being proposed in the NAMA negotiations – or more accurately, what is being pushed aggressively by developed countries – will not only erode developing countries' policy flexibility significantly but accentuate the process of de-industrialisation in developing countries. It will also lock-in developing countries to commitments that they cannot reverse, in this or any future Round.

One of the central demands of the negotiations is that all developing countries, including least developed countries, substantially increase the number of tariff lines that are bound – i.e. they have to apply a maximum 'bound' level to currently unbound tariffs. If a specific tariff line was bound at say 50 percent, a country can choose to apply the tariff at lower levels – the 'applied' level – but it cannot go above the bound level.

Many developing countries have kept a significant number of tariff lines unbound. An increase in the number of bound tariff lines (often termed the binding coverage) will deny developing countries the flexibility to adopt strategies to promote development; different sectors of the economy require changing levels of protection depending on the country's level of industrial development. The existence of this 'pattern of optimal tariffs' is a key reason why developing countries need to maintain a high degree of policy autonomy in the NAMA negotiations. Without the possibility of increasing and decreasing tariffs to the level they want, when they want it, developing countries may very well be deprived of the very prospect of industrialisation.

The developed world is also calling for an ambitious tariff reduction (Swiss) formula as well as a sectoral initiative in an attempt to harmonise, or even eliminate tariffs in certain sectors. Many developing countries will have to make dramatic cuts to their import tariffs, exacerbating de-industrialisation and job losses and reducing government revenues. Since developing countries have higher tariffs than developed nations, this would entail a greater commitment on their part, thus demanding 'more than full reciprocity' from developing countries. This is in contravention of the 2001 Doha Mandate that called for 'less than full reciprocity in reduction commitments' from developing nations. Meanwhile, developed WTO members are dragging their feet when it comes to addressing key issues of concern to developing countries such as their widespread use of highly protective non-tariff barriers on key products of export interest to developing countries.

This aggressive market opening agenda is being pushed by developed nations on behalf of their transnational corporations (TNCs). Industry groups representing mainly Northern-based companies share this aggressive liberalising agenda and have lobbied forcefully for wider access to the industrial markets of developing countries. Ironically, many of these same companies have benefited from protectionism in the North – i.e. tariff escalation – on products in which developing countries are competitive, such as textiles and leather and footwear products.

Prominent amongst these industry groups have been the National Foreign Trade Council, the National Association of Manufacturers and the retailers group EuroCommerce. Some governments in the North – for example the UK – have responded to NGO and civil society campaigns by stating publicly that they will not force developing countries to open their markets against their wishes. But these same governments are pushing this ambitious agenda and have done little, if anything, to change their negotiating positions. Their 'developmental' rhetoric is not being delivered. Their public position remains a smokescreen to hide their real intentions as amply demonstrated in the UK government's pro-liberalisation language to business.

ActionAid believes that such an aggressive NAMA agenda will be harmful to industrial development and poverty reduction in developing countries. ActionAid therefore demands that:

- the current NAMA negotiations are halted;
- the current NAMA negotiating text of July 2004 is rejected;
- and a full, independent assessment of potential developmental and environmental impacts of the NAMA negotiations must be carried out.

1. Introduction

"We are concerned that the proposals contained in the Derbez Text and its annex on NAMA are 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] The African Union

Trade policy, particularly in agriculture and manufacturing, is a key component in promoting development and eradicating poverty in developing countries. Industrial tariffs play an important role in protecting infant industries or tackling balance of payments problems. For this reason, many developing countries have maintained flexibility in industrial trade policy to ensure successful development of their manufacturing base. But this development and this flexibility (often termed 'policy space') are now being directly threatened by an aggressive push by developed WTO members to open up Southern markets in manufacturing sectors as part of WTO negotiations on non-agricultural market access (NAMA).

Previous industrial liberalisation in developing countries, for instance through Structural Adjustment Programmes (SAPs) in the 1980s, often contributed to an increase in poverty through de-industrialisation. Contrary to promises of rapid industrial development and export led growth, many developing countries have seen large numbers of factories close down, falling levels of industrial output and rising levels of unemployment. As tariffs have fallen, developing countries' economies have been brought into direct competition with more advanced developed nations and their transnational corporations. The outcome has been increased livelihood insecurity for large numbers of people. As they currently stand, the NAMA negotiations in the WTO Doha Round will not only accelerate the process of de-industrialisation but also lock-in developing countries to commitments that they cannot reverse, significantly reducing their policy space.

To date, the NAMA negotiations in the Doha Round have largely taken a back seat as agriculture and the 'new issues' (i.e. investment) took centre stage. In part this has been due to the divergent positions on NAMA, split largely on North/South lines. At Cancún, negotiations on NAMA reached stalemate because of the stark difference of opinion between developing and developed nations. Yet the eventual collapse of the Ministerial prevented a showdown in the NAMA talks. But it is also true to say that ever since the first attempts to come forward with a NAMA negotiating proposal back in 2003, the process has remained heavily biased towards the commercial interests of rich nations and their industrial exporters.

The NAMA talks have now taken on greater momentum. As the December 2005 WTO Hong Kong Ministerial looms, NAMA has taken a prominent position alongside agriculture and services. These three sectors will 'make-or-break' the Doha Round. Yet the developed nations, sensing this new urgency, have responded by increasing their level of ambition in NAMA.

Whilst ActionAid accepts that there are cases where gradual and partial tariff liberalisation has contributed to development and helped reduce poverty, we believe that such an aggressive and ambitious NAMA agenda will be to the detriment of industrial development and poverty reduction in developing countries. This report sets out the reasons why. The evidence comes essentially in two parts:

- The report looks at the historical legacy and impacts of past industrial liberalisation in developing countries, but also examines how the current industrialised nations first developed behind protective barriers and only liberalised when their industries were competitive (exactly the opposite of what is being proposed for developing countries in the NAMA talks).
- The report then analyses in detail how the current proposal before WTO members on NAMA will impact on specific WTO developing countries, including least developed countries. It will also assess who is driving this ambitious agenda and analyse how the process is fundamentally flawed and unbalanced.

[1] *African Union (2004)*

2. EU and US development rhetoric – delivering development through market access

Developed WTO members, led by the EU, the US and Canada, are pursuing an aggressive policy of market opening in the WTO negotiations on NAMA. In a joint proposal for NAMA modalities sent to the WTO in August 2003 they reveal their intention to achieve: *"commercially significant market access improvements through ambitious reductions of tariffs on non-agricultural products across the board and the complete elimination of tariffs in specific sectors"*.[2] And ambitions remain high despite the slow progress of the NAMA negotiations. In a leaked document setting out the EU's trade policy priorities for 2005, the European Commission states that: *"the EU will continue to lead negotiations in 2005 to achieve an ambitious formula for tariff dismantling, but will also pursue additional trade liberalisation through sectoral approaches"*.[3]

Developed WTO members are clearly being 'bold' and 'ambitious' to serve the interests of their own multinational corporations, which have lobbied long and hard for the adoption of an 'aggressive' strategy of market liberalisation in the negotiations. For example, it is no coincidence that demands for a reduction of all non-agricultural tariffs to a maximum of 15 percent by the end of the Doha Round made by UNICE, the European employers' association, now represents the official position of the European Commission.[4] We return to the issue of industry influencing in Section 5. For now, it suffices to say that developed WTO members obviously do not acknowledge that their NAMA strategy is a carbon copy of a wish list formulated by their export-oriented industries. According to them developing countries need to agree to ambitious tariff reductions in this round of negotiations because it is in their own self-interest to do so. Market opening by developing countries, the argument goes, is good for South-South trade, from which of course developing countries themselves will be the major beneficiaries. As EU Trade Commissioner Peter Mandelson puts it: *"Bringing down these South-South barriers is where the Doha Round offers the greatest opportunity for the Indias and Brazils to promote their own development"*.[5]

No doubt there are benefits to be reaped from increasing South-South trade, but rich country trade negotiators should stop using this as a smoke-screen to cover up their own commercial interests and also divert attention away from Northern protectionism. Unsurprisingly, some developing country delegates in Geneva are finding the whole argument rather patronising. As they rightly argue South-South trade is already growing quickly (some 11 percent per annum) without the assistance of further trade liberalisation in the Doha Round. This is mainly because of regional integration. Further liberalisation could be undertaken within the framework of the United Nation's General System of Trade Preferences (GSTP).

The real issue then is not what benefits the Northern driven agenda will bring to developing countries, but how much harm it will do. Contrary to the view of Brussels and Washington, there is practically nothing within the aggressive agenda currently being pushed by the developed WTO members that developing countries find to be in their self-interest. As we will see in Section 6 of this report, various groupings of developing nations have repeatedly voiced their opposition to the offensive market opening strategy put forward, arguing that significant reductions in industrial tariffs across the board, as well as sectoral initiatives, will spell disaster for their economies.[6] Nevertheless, the two most powerful men in the world of trade negotiations maintain that the liberalisation of global markets will bring clear benefits to poor people across the globe:

"It is uncontested that the market opening results in NAMA, services and agriculture will, in and of themselves, have a strong developmental impact. In fact the growth and development impacts of these negotiations will far outweigh anything that can be achieved through the SDT work programme."

EU Trade Commissioner Peter Mandelson[7]

[2] *Contribution by Canada, European Communities and the USA: 'Non-agricultural Market Access: Modalities', 20 August 2003, Job(03)/163*

[3] *European Commission, 'EU Trade Policy: Main Issues for the 133 Committee in 2005', Brussels, 6 December 2004, Ref. 472/04*

[4] *Hilary. J. (2005)*

[5] *Lecture by Peter Mandelson, 'Trade at the Service of Development: An action plan for 2005 for the EU trade commissioner' at the London School of Economics, London, 4 February 2005*

[6] *Communication from Nigeria (African Group Coordinator), Tanzania (LDC Group Coordinator) and Trinidad and Tobago (ACP Group Coordinator), 'Elements of a G90 platform on the Doha work programme', 19 July 2004, WT/L/577*

[7] *Statement by Trade Commissioner Peter Mandelson in Mombasa, Kenya, 4 March 2005, available at: http://europa.eu.int/comm/commission_barroso/mandelson/speeches*

"Reducing remaining global trade barriers has the potential to help lift hundreds of millions of people out of poverty. There may be no other single action we could collectively take over the next couple of years that would deliver such broad and long-term benefits as bringing the current round of trade talks, known as the Doha Round, to a successful conclusion."

US Trade Representative Rob Portman[8]

Again the difference in perspective between developed and developing countries could not be greater. But to free market enthusiasts like Peter Mandelson and Rob Portman, liberalised markets and liberal import regimes in particular are crucial if countries are to lift themselves out of poverty. The logic is that import liberalisation increases competition, which in turn leads to specialisation and efficiency in the allocation of productive resources within the economy. The expected outcome is an increase in exports, economic diversification into non-traditional exports and economic growth.[9] The benefits to poor people will come indirectly through the general increase in the nation's economic wealth and directly through a reduction in the cost of imported goods and increased employment opportunities.[10] An added benefit, according to some of the proponents of global free trade, is that trade liberalisation can be expected to create jobs and increase wages in sectors dominated by women, often the poorest of the poor.[11]

Too good to be true? Well, unfortunately it is – and developing countries know this. The belief that ambitious market opening will foster economic diversification and growth and lead to poverty reduction is based on a series of unrealistic assumptions about the nature of markets, assumptions which include the existence of perfect competition and full employment of resources. In the real world of global capitalism, some firms are much more powerful than others (and this power is increasing) and reserve armies of surplus labour are now found everywhere, particularly in the developing world.

Stuart Freedman/ActionAid

In this imperfect environment the benefits of trade liberalisation are neither guaranteed nor automatic. Without a well-managed reform process and close co-ordination with well thought through development strategies, incorporating everything from infrastructure development and credit facilities to education, health care and asset redistribution, liberalisation as currently envisaged by the rich club of super traders is likely to prove a virtual nightmare for developing countries.

In fact, the evidence shows that contrary to the promises of export growth, industrialisation, economic growth and poverty reduction being made by Peter Mandelson and Rob Portman, there is a real danger that developing countries will see their industrial base crumble and poverty levels soar if their barriers to trade are forced down through ambitious NAMA negotiations that are being pushed at the WTO. Changes are clearly needed on the part of developed WTO members if their actions are to match their development rhetoric (see Box 1).

[8] *Op-Ed by US Trade Representative Rob Portman, International Herald Tribune, 2 May 2005, available at http://www.ustr.gov/Document_Library/Op-eds/2005/Kick-starting_global_trade_talks*

[9] *See Shafaeddin, M. (2005) for an overview of the economic benefits attributed to trade liberalisation by neo-liberal trade theory*

[10] *See McCulloch et al. (2001) for a detailed discussion of the links between trade liberalisation and poverty*

[11] *For more on the alleged positive relationship between trade liberalisation and female employment see Wood, A. (1991) and Nordas, H. (2003)*

Box 1: 'No forced liberalisation' – rhetoric against delivery

The UK Government and the Commission for Africa have stated that poor countries should have the flexibility to decide when to open their markets, and at their own pace; developed countries should not force liberalisation upon developing countries, for example at the WTO.[12]

However, officials of the UK Government, for example, have not been able to inform NGOs what they are doing to actually deliver on this public message on NAMA, through their representations to the European Commission or in Geneva. This is because many of the G8 countries, including the UK, Japan, the US and Canada, are at the forefront of this drive to open developing country industrial markets. Again in the case of the UK, despite the government's public pronouncements, their stance in negotiations remains the same – an ambitious outcome on market opening.

This is hardly surprising when the government's manifesto to business directly contradicts their manifesto to the public: *"At both a European and international level, we also want to take down economic barriers between countries, ensuring that trade can be both fair as well as free. We will use our 2005 leadership of the G8 and EU Presidency to promote reform, liberalisation and free trade. Barriers to trade impose significant costs and their removal will bring significant benefits."*[13]

To compound this, the EU is making every effort to trade-off its defensive concerns in agriculture against its offensive interests in NAMA. Peter Mandelson said that the EU stands ready to phase out its export subsidies but only in exchange for cuts in industrial tariffs by developing countries.[14]

[12] *See 'Our Common Interest', report of the Commission for Africa, 2005 and the Labour Party manifesto 2005*

[13] *Labour Party, 'A Manifesto for Enterprise, Skills and Science'. May 2005 http://www.labour.org.uk/uploads/tx_netefflplatestnews/businessmanifesto2005.pdf*

[14] *Speech by Peter Mandelson at the EPC - KBF Conference entitled Trade and Development: the Road Ahead. 16th July 2005*

3. Industrial trade liberalisation and development – what history tells us

"The World Bank and the IMF model is likely to de-industrialise the existing manufacturing base without encouraging any significant replacement"[15]

3.1 Ambitious market opening: the road to de-industrialisation

A large number of developing countries liberalised their import regimes in the 1980s as part of Structural Adjustment Programmes (SAPs) designed by the World Bank and the International Monetary Fund (IMF). Then, as now, they were told this would put them firmly on the road to industrialisation and development. Two decades later, however, few of the countries that followed the advice of the Bretton Woods institutions have much to show for their diligence.

A participatory assessment of the impact of trade liberalisation on local manufacturing capacity in Zimbabwe, Bangladesh, Ecuador, Hungary, the Philippines and Ghana shows that de-industrialisation is evident in all countries as the share of manufacturing in GDP has either fallen or stagnated following liberalisation. In all countries, sudden exposure to the strong winds of foreign competition led many firms into bankruptcy. Small and medium-sized companies were hit the hardest. While the level of exports did increase in all countries as a consequence of liberalisation, as predicted by free trade enthusiasts, this failed to provide the promised diversification and increased growth of the economy, for example into non-traditional exports and higher-value goods.[16]

In Zimbabwe, for example, the relaxation of import controls in 1991 dealt a near fatal blow to the local manufacturing sector. Textiles, clothing, footwear, wood and furniture, printing and publishing as well as transport and equipment struggled to compete in the new environment leading to a 20 percent contraction of manufacturing output in the period 1990-99.[17] In the Philippines a comprehensive reform programme, which decreased the average tariff level from 22.4 percent in 1988 to 2.6 percent in 2004, brought with it substantial output declines in several industries. This included textiles, footwear, clothing, rubber products and wood and cork products. Currently manufacturing growth is close to zero.[18]

Mehdi Shafaeddin, senior economist at UNCTAD, provides further evidence that the relationship between trade liberalisation and the development of manufacturing capacity in developing countries is problematic, to say the least. In a sample of 40 countries, he finds that half have experienced de-industrialisation in the aftermath of trade liberalisation.[19] Most of these are countries at low levels of development, such as Ghana, Zimbabwe, Paraguay, Barbados and Haiti. But a large number of other countries, notably in Latin America, have also seen their industrial base shrink as their barriers to trade have come down. These include Chile, the Philippines, Brazil and Venezuela, all of which experienced high or moderate increases in export levels following liberalisation.

The relatively few countries that managed to increase manufacturing exports and output in the aftermath of liberalisation were predominantly concentrated in East Asia. These countries all had a substantial industrial base and well developed export capabilities before liberalisation. And most importantly, these countries initiated and designed their own liberalisation programmes as part of a longer term industrial strategy and not in response to pressure from international finance institutions.[20]

It is clear that the actual experience of many developing countries with trade liberalisation is miles away from the rosy predictions of the developed WTO members. Their argument is that increased competition from the North will lead to efficiency gains in the South and thereby contribute positively to industrial development. However, the evidence shows that in countries which have liberalised in response to external pressure and not in accordance with home grown-strategies for industrial development, industry after industry has been crushed by the enormous market power of Northern based multinational corporations.

15 *Stein, H. (1992) quoted in Shafaeddin (2005), page 46*

16 *SAPRIN (2004), chapter 2*

17 *Tekere, M. (2001)*

18 *Clarate, R.L. (2005) and Intal, P.S. (2002)*

19 *De-industrialisation is here defined as a decline in the share of manufacturing value added in a country's GDP*

20 *Shafaeddin, M. (2005)*

3.2 Ambitious market opening: reinforced commodity dependence

The consequence of inappropriate liberalisation of domestic markets for industrial and manufactured goods and subsequent de-industrialisation in many developing and least developed countries has been a reinforcement of their commodity dependence.[21] At a time when it is widely accepted that these countries desperately need to diversify their economies away from primary products towards higher value-added manufacturing, this is little less than a tragedy. This is especially so in the case of Africa. Following liberalisation, for example, Benin increased its export specialisation in cotton – and thus the country's dependency on one product – four times. A similar process also took place in Mozambique.[22] The case of Ghana is another example of increased primary commodity dependence as a consequence of trade liberalisation (see Box 2).

Box 2: Trade liberalisation, de-industrialisation and increased commodity dependence – the case of Ghana[23]

Tim Rice/ActionAid

Over the period 1983-91, Ghana implemented an extensive liberalisation programme. Almost all trade restrictions were removed during the period, resulting in both increased exports and imports. The average export/GDP ratio increased from 8.1% during 1979-81 to 38.3% for 1998-2000 while the import/GDP ratio had reached, on average, 55.2% in the period 1998-2000.

The liberalisation programme had positive effects on industrial output and employment in the early years of reform. Between 1984-87 annual average growth rates of GDP and manufacturing value added stood at more than 5.9% and 14.5% respectively. However, when liberalisation was extended to consumer imports in the latter part of the reform period, the GDP growth rate slowed down to 4.6% and that of manufacturing value added fell as low as 3.2%. Local press reports have estimated that the increased competition from foreign consumer imports forced at least 120 local factories to close down. The garment, leather, electronics and pharmaceuticals sectors were particularly hard hit.[24]

Despite the very open nature of its economy following the liberalisation programme, the closure of local import competing industry was not followed by any noticeable increase in Ghana's share of the international market for manufactured goods. Table 1 provides data on Ghana's 20 main export items, which together accounted for 90% of total exports in 1981, 1992 and 2000. Seventeen years after the onset of trade liberalisation, few manufactured goods appear in the list, such as aluminium, processed wood, plastic articles and cotton fabrics. The vast majority are primary commodities, which for the most part fetch low prices in international markets. Economic diversification remains a distant dream.

[21] UNCTAD (2004)

[22] UNCTAD (2004)

[23] Where nothing else is indicated this case study, including all statistics, is taken from Shafaeddin, M. (2005)

[24] Mongabay, 'Ghana – the Economy', available at: http://www.mongabay.com/reference/country_studies/ghana/ECONOMY.html

Table 1: Export items of Ghana at 3 digit level ranked according to their value for the year 2000 (thousands of US$)

Products	SITC Code	1981 Value	1981 %	1992 Value	1992 %	2000 Value	2000 %	Rank in 1981
Gold	971	318	0.0	525199	42.5	612702	36.7	35
Cocoa	072	409057	46.9	300564	24.3	305357	18.3	1
Aluminium	684	253109	29.0	45050	3.6	152016	9.1	2
Wood, semiprocessed	248	26336	3.0	70983	5.8	82298	4.9	4
Petroleum products	334	47414	5.4	23210	1.9	605009	3.6	3
Fish n.e.s	037	4911	0.6	1315	0.1	57195	3.4	12
Veneer, plywood etc.	634	6840	0.8	17958	1.5	51299	3.1	10
Fruits, preserved and preparations	058	3902	0.4	1	nil	46187	2.8	15
Fresh and dried fruits	057	1572	0.2	8891	0.7	32622	2.0	22
Ores and concentrations of metal n.e.s	287	21553	2.5	51084	4.1	30012	1.8	5
Plastic articles n.e.s.	893	11	0.0	38	0.0	25122	1.5	111
Electricity	351	4826	0.6	42977	3.5	19745	1.2	13
Tobacco	122	4	0.0	0	0.0	12633	0.8	140
Fresh and frozen fish	034	15352	1.8	13651	1.1	11202	0.7	7
Diamonds	277	5910	0.7	24272	2.0	11195	0.7	11
Other wood	247	12819	1.5	28534	2.3	11026	0.7	8
Furniture and parts	821	1911	0.2	2923	0.2	9055	0.5	17
Oil seeds	223	1284	0.1	1877	0.2	8157	0.5	24
Cotton fabrics	652	224	0.0	40	nil	8150	0.5	40
Petroleum	333	21223	2.0	0	0.0	0	0.0	6
Total above		**838574**	**95.6**	**1158567**	**93.9**	**1546482**	**92.6**	
All exports		**872937**	**100.0**	**1234427**	**100.0**	**1670906**	**100.0**	

3.3 Ambitious market opening: the road to macro-economic instability

Ambitious cuts in developing countries' tariff barriers in the NAMA negotiations also pose a real threat to their macro-economic stability. In many countries in Africa, Asia and Latin America, imports have grown at a much faster pace than exports putting real pressure on foreign exchange reserves. This refutes the argument that free trade transforms unemployed resources into much needed foreign exchange. In the Philippines, for example, imports increased from 28 percent to 64 percent of GDP between 1982 and 1997, resulting in a current account deficit close to 7 percent in 1997. Where trade liberalisation has had a positive effect on income growth, the negative impact on the balance of payments may well have reduced growth below what might otherwise have been achieved if the growth of exports had been on par with that of imports.[26] The unwelcome effect of increasing trade deficits in developing countries is further aid dependence.

It only makes matters worse that the increase in imports following trade liberalisation tends to be made up of finished goods and consumer products rather than intermediate inputs and capital goods. While this may be good for consumption, it is unlikely to bring about sustainable economic growth as it undermines the development of local manufacturing firms capable of competing in international markets. In Ecuador, for example, the value of consumer goods imports increased from US$229 million in 1990 to US$1.3 billion in 1998, contributing to high levels of bankruptcies among small and medium-scale companies that were unable to successfully compete with foreign multinationals.[27]

3.4 Ambitious market opening: just not in the North

The reasons for the failure of trade liberalisation to bring about sustained industrial development in many developing countries of today are admittedly many and complex. The pace of reforms, tackling supply-side constraints and capacity, ensuring well functioning infrastructure and effective mechanisms for redistribution are all essential for success in international markets. But so, to some extent, is market access, particularly to developed country markets, which account for about three quarters of the global economy.

Despite the confident assertion by former US Trade Representative Robert Zoellick that: *"frankly, after 50 years of tariff negotiations, the tariffs on goods in the United States and the European Union pose few barriers to trade",*[28] tariff barriers in developed countries remain the single most important international constraint faced by developing country exporters.[29] While both the United States and the European Union have an average bound tariff rate for all industrial products close to 4 percent, tariff peaks, tariff escalation and a variety of non-tariff barriers continue to act as an effective bulwark against developing country exports in products of particular interest to them.

Tariff peaks, which are tariffs three times the national average tariff, are a particular problem for developing countries. In all major developed markets, tariff peaks are concentrated on developing countries' key export products – including textiles and clothing, leather, rubber and footwear and fish products – making it harder for them to break into these markets.[30] In the EU, for example, the average bound tariff for all industrial products is 4.1 percent but it jumps to 14.1 percent for finished fish products. The average bound tariff level on industrial products is equally low in the US and Japan – 3.9 percent and 3.5 percent respectively. However, when it comes to leather, rubber and footwear, the average bound tariff increases to 11.7 percent in the US and an astronomical 20.7 percent in Japan.[31]

Two-thirds of all products that are subject to tariff peaks in developed nations come from developing countries.[32] The very un-developmental effect of all of this is that exports

[25] *SAPRIN (2004), chapter 2, pages 52-53*

[26] *Santos-Paulino, A., and Thirlwall, A.P. (2004) quoted in UNCTAD (2004)*

[27] *National committee for the SAPRI Ecuador project (2001), page 6*

[28] *Speech by United States Trade Representative, 2004, 'A Strategic Opportunity for Trade', available at: http://www.ustr.gov/Document_Library/USTR_Speeches/2004/A_Strategic_Opportunity_for_Trade.html*

[29] *UNCTAD (2004)*

[30] *ILEAP (2004)*

[31] *WTO (2002), pages 42-44*

[32] *Oxfam (2005)*

from developing countries and least developed countries face higher average tariffs when entering into developed country markets (3.9 percent and 3.1 percent respectively) than those that arrive from other developed markets (2.1 percent).[33] In practical terms this means that developing countries in many instances end up contributing more to rich country treasuries than do their developed counter parts. One case in point is Bangladesh. In 2001 the value of Bangladeshi exports to the US stood at US$2.3billion, while that of France was US$30billion. However, while France paid US$330million in trade taxes to the US treasury, Bangladesh had to pay almost the same amount – US$331million.[34]

Tariff escalation is another brick in the wall surrounding developed country markets. Escalation implies that tariffs increase with the level of processing of the imported good. This is particularly anti-development as it prevents developing countries from doing exactly what supporters of market liberalisation claim it will do, i.e. diversify their economies into the production of higher value added goods. As a group, developed countries apply average tariffs of 0.4 percent on raw material imports, 3.0 percent on semi-finished goods and 3.4 percent on finished products.[35] And while tariff escalation is present in almost all products of export interest to developing countries, these aggregates mask great differences in escalation across product groups and between countries.

In the EU, for example, the average bound tariff on leather and rubber is 0.1 percent while it climbs to 2.4 percent for semi-manufactures produced in these materials and to 7 percent for final goods. The same approach is used to deter imports of textile products into the EU. Here the average bound tariff for the raw material is 2.6 percent while that of semi-processed and finished textiles are 6.6 percent and 9.7 percent respectively (Figure 1).

Figure 1 EU tariff escalation on industrial goods (average bound tariffs)

Source: WTO (2002)

The Doha Mandate calls for the reduction or elimination of tariff peaks and tariff escalation within the NAMA negotiations. Even if this did happen, developing countries' exports would still be subject to a wide array of non-tariff barriers (NTBs), including: Sanitary and Phyto-Sanitary (SPS) measures aimed at protecting public health in importing countries; Technical Barriers to Trade (TBS) such as product standards and labelling regimes; stringent rules of origin, and antidumping measures. Compared to tariff peaks and tariff escalation NTBs are much harder to identify and measure. And while some are arguably legitimate on health, safety and environmental grounds, others are clearly not. Past studies of NTBs with clear protective effects have shown that these are widespread in major developed markets. For example, in 1996, 16.7 percent of US tariff lines were affected by protective NTBs. The corresponding figures for the EU and Japan were 13 percent and 9.9 percent.[36] Once again protection is concentrated on key products of export interest to developing countries, particularly agricultural products, but also fish, textiles and clothing.[37]

[33] *Fernandez de Córdoba, S., et al. (2004), page 5. Tariffs quoted are import-weighted average applied tariffs including preferences.*
[34] *Oxfam (2004), page 12*
[35] *Fernandez de Córdoba, S., et al. (2004), page 6. Tariffs quoted are trade-weighted applied tariffs calculated as the ratio of total tariff revenue to total value of imports*
[36] *ILEAP (2004)*
[37] *Ibid*

4. Industrial trade liberalisation and poverty – what history tells us

"There is no basis for the assertion that these [liberalisation] policies will qualitatively improve the plight of the poor in developing countries. In fact, the research provides substantial evidence that these policies may actually cause a net loss particularly for low and middle-income countries as a group"[38]

4.1 Ambitious market opening: not a one-way ticket out of poverty

Developed WTO members argue that significant reductions in developing countries' barriers to trade in manufactured goods, as currently proposed in the NAMA negotiations, is going to translate into poverty reduction as a consequence of its positive impact on economic growth, prices and employment opportunities. For example, the UK Government argues that poverty levels have decreased significantly in specific countries – namely, China, Indonesia and Viet Nam – as they have moved to more open economies.[39]

However, the link and the causality relationship between liberalisation and poverty reduction is often difficult to establish and in fact one could argue convincingly that poverty decreased in the above-mentioned countries, not because of trade liberalisation, but because of protection. According to the IMF's Trade Restrictiveness Index (TRI), Viet Nam has one of the most closed economies in the world (a ranking of nine out of 10). China has a ranking of five, i.e. moderately open/closed, but importantly much of this 'openness' has occurred very recently, whilst reductions in poverty levels commenced well before this period. While ActionAid would accept that there are cases, such as Mauritius, where selective and gradual trade liberalisation has contributed to a decline in overall poverty levels, examples of countries that have experienced rising levels of poverty following deep and fast trade liberalisation, like the kind currently advocated by developed WTO members, are clearly in the majority. Using the IMF's TRI, UNCTAD recently concluded from a study of the relationship between trade liberalisation and poverty in the world's poorest countries that: *"the incidence of poverty increased unambiguously in those economies that adopted the most open trade regimes (...)".*[40]

This importance of selective and gradual trade liberalisation, and thus policy space, for successful industrial development and poverty reduction is considered in more detail in Section 5. The rest of this section outlines why ActionAid believes that big bang industrial liberalisation poses a real threat to poverty reduction in developing countries.

4.2 The growth effect

Economic growth can contribute to poverty reduction, but the promise that ambitious market opening will bring about growth is misleading. It is based on academic studies linking increased openness to trade with increased growth rates. However, these studies have been heavily criticised for failing to prove the existence of a causal link between the two.[41] As Professor Alan Winters puts it: *"Overall, the fairest assessment of the evidence is that, despite the clear plausibility of such a link, open trade alone has not yet been unambiguously and universally linked to subsequent economic growth".*[42]

This is not surprising as cases abound of developing countries that have implemented comprehensive trade liberalisation programmes and seen little economic growth in return. In Mexico, the mean rate of yearly GDP growth from 1980 to 1997 was only 1.3 percent. During the same period Mexico's population grew by 2 percent.[43] Similarly, Haiti, one of the world's poorest countries, has seen its economy stagnate and its social indicators decline following a reduction in import tariffs to a maximum of 15 percent and the removal of all quantitative restrictions between 1994-95.[44] Even Bangladesh, which has seen

[38] *Weisbrot and Baker (2002), p. 2-3, quoted in Shafaeddin, M. (2005), page 22*
[39] *DTI (2004)*
[40] *UNCTAD (2004), page 188*
[41] *Rodríguez, F., and Rodrik, D. (1999)*
[42] *Winters, L.A. (2000)*
[43] *SAPRIN (2004), page 92*
[44] *Rodrik, D. (2001)*

some improvement in its growth rate following liberalisation, has not managed to get even close to the 7 percent target deemed necessary to achieve an accelerated and substantial reduction in poverty.[45]

4.3 The price effect

The liberalisation of imports may be beneficial to poor people in developing countries as it is expected to lead to a reduction in the price of imported goods that they consume. However, if you happen to be a poor self-employed entrepreneur producing products that compete with imports, then a reduction in the price of imports is not so beneficial to you. A large proportion of the poor, particularly women, are engaged in production for the domestic market within the informal sector. To them, sudden exposure to foreign competition is likely to prove disastrous.

Another case in point is the Kenyan Kionda weavers whose ability to sell profitably in local markets has been undermined by the reduction of import duties on competing, cheap, mass-produced goods (see Box 3).

4.4 The (un)employment effect

The most frequently cited pro-poor effect of trade liberalisation is its impact on employment opportunities in developing countries. However, the magnitude of employment opportunities in a given country is a function of the structure and the performance of its economy. And as many developing countries have seen their domestic manufacturing capacity wither away when faced with the enormous market power of multinational companies, millions of workers have lost their livelihoods.

In Chile net employment in manufacturing fell by about 8 percent following trade liberalisation, and in Uruguay it has been shown that a reduction in the rate of protection for a given sector by one percent led to a drop in employment within that sector of between 0.4 and 0.5 percent in the same year.[47] In Africa the impact of trade liberalisation on manufacturing employment has also been devastating. Following a two-stage liberalisation programme in the 1980s, Senegal lost one-third of all manufacturing jobs while import competition also led to sharp contractions in manufacturing employment in countries such as Cameroon, Kenya, Nigeria, Uganda and Zambia.[48]

Box 3: Kenyan Kionda weavers – priced out of the market [46]

Kiondo bags are woven by indigenous women from ethnic groups from the Eastern and Central regions of Kenya. Popular both at home and abroad Kiondo bags have for years provided a substantial part of Kenya's export revenue as well as a critical source of income for poor women. This income has helped these women receive healthcare and send their children to school. Unfortunately, both local and export markets for Kenyan Kiondo bags have declined substantially.

Following Kenya's comprehensive trade liberalisation program initiated in 1993 cheap, mass-produced replicas produced in Southeast Asia have flooded both the domestic and the international market. The sad outcome is a significant reduction in the income of the Kiondo weavers. To make matters worse, trade liberalisation has failed to produce alternative income opportunities for these women.

45 *'Policy Reforms and Trade Liberalisation in Bangladesh', document prepared for UNCTAD conference 'Adjusting to trade reform: What are the major challenges for developing countries?',18-19 January 2005, available at: http://192.91.247.38/tab/namameeting/nama.asp#NAMADocs*

46 *Smith, N., and White, M. (2000)*

47 *Rama, M. (2003)*

48 *Buffie, E.F. (2001)*

Workers lucky enough to still hold a job in the manufacturing sector after the liberalisation wave has washed over their country have in many instances seen their real wages cut and the conditions of their employment deteriorate as firms struggle to compete with cheap imports. For many developing countries, trade liberalisation has not only been associated with de-industrialisation, it has also brought with it a decline in manufacturing wages, as well as a shift to less secure employment arrangements. In Mexico, for example, an average tariff reduction of 20 percent led to an implied wage reduction of more than 5 percent. While in Morocco, the share of temporary employment in manufacturing rose by nearly 20 percent between 1984 and 1990.[49] The casualisation of labour has also been widespread in India as a consequence of its reform process.[50]

In some developing countries new jobs have been created in export-oriented manufacturing as predicted by neo-liberal trade theory. The majority of these are located within export processing zones and tend to have been taken up by women (see Box 4). However, job losses have typically occurred at a faster rate than job creation. And to make matters worse, the jobs that have been created have rarely been of a kind similar to the ones lost, making it difficult for retrenched workers to regain formal employment. The evidence suggests that in many developing countries trade liberalisation has favoured skilled labour over unskilled.[51] This is a significant problem as the real poverty test for any trade liberalisation programme must be its ability to create new employment opportunities for unskilled workers. This is because, according to the World Bank, the sale of unskilled labour is the single most important source of income for poor people.[52] Without new jobs for the unskilled, trade liberalisation can hardly claim to be pro-poor.

[49] *Rama, M. (2003)*

[50] *'Trade Adjustment Study: India', document prepared for UNCTAD conference 'Adjusting to trade reform: What are the major challenges for developing countries?', 18-19 January 2005, available at: http://192.91.247.38/tab/namameeting/nama.asp#NAMADocs*

[51] *Rama, M. (2003)*

[52] *World Bank (2004)*

Box 4: Trade liberalisation – feminisation of the labour force

Where developing countries have managed to fire up their export-oriented manufacturing sector as a consequence of trade liberalisation, this has often happened on the back of a combination of ‘export processing zones’ (EPZs) – which are typically exempt from labour regulations – and the use of women labourers. In almost all regions of the developing world, increased manufactured exports from the South have been very strongly associated with the feminisation of both formal and informal labour markets.[53] Outside EPZs, women are being pulled into global production networks as home workers. However, the phenomenon is most clearly present in the more successful globalisers, such as Mauritius, Tunisia, Malaysia, Sri Lanka and the four East Asian 'tigers'.

Women's entry into the global value chain has often provided them with levels of economic and social power and autonomy that they could not dream of obtaining in other occupations available to them.[54] But the benefits all come at a price. The feminisation of labour does not only indicate an increase in women's employment within industry. It also refers to the diffusion of particular conditions of work. Most women involved in manufacturing for export hold poor quality jobs. Flexible contracts, long hours, low wages and gender based discrimination tend to be the norm regardless of whether women work in or outside export processing zones. In Mexico, for example, women workers are required to produce a certificate of non-pregnancy and sign away their legal right to maternity leave in order to obtain employment.[55]

Even if having a job is deemed better than having no job by many women in developing countries, it is highly likely that their entrance onto the global factory floor is going to be short lived. Whilst trade liberalisation draws women into the industrial work force they are likely to become locked into unskilled, low paying jobs and find themselves increasingly discriminated against as export production is diversified and upgraded.[56] Mexico is again a case in point. Whereas overall employment in the maquiladora industries grew consistently throughout the 1980s, the proportion of female workers declined considerably as new technologies were introduced and the organisation of production changed.[57]

53 *ILO (1998)*
54 *See Kabeer, N. (2000) for an example of this from the Bangladeshi context*
55 *SAPRIN (2004), page 96.*
56 *Fontana, M., et al. (1998)*
57 *Pearson, R. (1995)*

The result has been persistent high levels of unemployment and under-employment in many developing countries following trade liberalisation. This is the case even in so-called success stories like Mauritius, Poland, Sri Lanka and Chile, which have been able to combine some degree of trade liberalisation with poverty reduction. Despite their many differences, these countries all experienced very long periods of high unemployment following trade liberalisation.[58] While transitional un- or underemployment is unlikely to be too big a problem for the better-off segments of society with enough resources to keep up a respectable living standard throughout the period of adjustment, it can be fatal for poor people without the ability to put money in the bank. This is especially problematic since most developing countries are unable to provide safety nets capable of taking the brunt of the adjustment shock among the poorest parts of society. As the evidence presented above suggests, the combined result is more poverty, not less. Box 5 provides a further example – a detailed case study of Ecuador.

Box 5: Trade liberalisation, employment and poverty – the case of Ecuador[59]

In Ecuador the liberalisation of imports meant that several thousand workers were made redundant by the country's largest manufacturing companies between 1992-98. A massive number of bankruptcies among small and medium-sized enterprises, which provide employment for the majority of the workforce, sent thousands of other workers into the ranks of the unemployed during the same period. Between 1990 and 1999, urban unemployment went from 6 percent to 14.4 percent. Most of the people who lost their jobs as a consequence of Ecuador's trade liberalisation programme were already among society's poorest. While the unemployment rate of the top quintile of the population remained below 5 percent throughout the 1990s, that of the bottom quintile increased from 10 percent in 1989 to 24 percent in 1999.

For people who have managed to stay employed, conditions have deteriorated quite significantly. Practices such as temporary hiring and hourly wages are used by 72 percent of medium and large-scale enterprises. In other words, a large proportion of the workers hired by these companies are now deprived of social security, union rights and job stability. Average hourly wages fell for all income groups in the latter part of the 1990s to the extent that hourly wages in 2000 were just one third of those in 1998. The reduction affected the poorer parts of the population more than the better off. To compensate for the drop in real earnings brought about by the decline in hourly wages, poor Ecuadorians increased the number of hours they worked in a week from 51 in March 1998 to 59 in July 2000. In addition, more people within the family, both adults and children, entered the labour force. People at the top end of the income distribution cut their working week by fourteen hours in the same period.

It is clear from modelling of the relationship between the development in poverty levels in Ecuador during the 1990s and the loss of employment and deteriorating employment conditions that these factors have contributed to an increase in poverty within the country. While jobs in the manufacturing sector disappeared towards the end of the 1990s and real incomes dropped significantly, data from the Social Indicators Programme shows that the incidence of poverty within Ecuador increased by 13 percent. The heaviest impact has been felt within urban environments. Here poverty increased by 17 percent between 1995-99.

58 *Rama, M. (2003)*

59 *National committee for the SAPRI Ecuador project (2001) 'Country Report: Ecuador' available at: http://www.saprin.org/ecuador/research/ecu_sapri_rpt.pdf*

4.5 The fiscal effect

The envisaged dismantling of developing countries' import regimes within the NAMA negotiations also threatens to have a detrimental impact on poor people via its impact on government revenues. Trade taxes still make up a large proportion of public revenue in many developing countries. In sub-Saharan Africa, for example, international trade taxes make up 27 percent of total government revenue. The corresponding figure for South Asia is 37 percent, making it the region most dependent on tariff revenues.[60] This compares with 0.8 percent for high income OECD countries, 18.42 percent for lower-medium income countries and 22.5 percent for all low-income countries.[61]

Clearly, tariff cuts of the magnitude being proposed by developed countries in the NAMA negotiations are likely to lead to a significant reduction in state revenue in several developing countries. According to simulations undertaken by UNCTAD, some sub-Saharan African countries could, for example, see their tariff revenue cut by anything between 33 percent and 7 percent depending on the tariff reduction formula adopted.[62] In the case of South Asia the loss is estimated to range between 26 percent and 5 percent.

It is often argued that revenue losses from tariff liberalisation constitute short term adjustment costs, which developing countries can overcome by restructuring their tax systems. Generally a diversification of the tax system away from trade taxes towards consumption taxes, such as Value Added Tax (VAT) has been recommended. However, while this might be attractive in theory, it is administratively very difficult to implement. The fact that low income countries so far have been able to recover practically none of the trade tax revenue lost from liberalisation undertaken between 1975 and 2000, and middle income countries have been able to recover only 35-55 percent of lost revenue, may serve as an indication of just how difficult it is.[63]

Significant losses of public revenue in developing countries as a consequence of the NAMA negotiations will undoubtedly lead to reductions in much-needed public investment in social services. The outcome will be anti-developmental and anti-poor. Just imagine what will happen to any sub-Saharan African country if they lose 25 percent or even 10 percent of its tariff income at a time when the continent is struggling to combat HIV/AIDS, food insecurity and other life threatening problems. When developing countries across the world were faced with decreasing public revenue and cost-saving demands as part of SAPs during the 1980s, spending on social sectors such as health and education was cut back almost across the board. In Mexico, for example, federal spending on education decreased by 40.8 percent in real terms between 1982 and 1983, and by the end of the 1980s public spending on both health and education was the lowest in 20 years.[64] In many developing countries, spending cuts in social services were followed by the introduction of user fees in both education and health. The result was, in many instances, an increase in school drop out rates and an increased tendency to self-medication and home-care, especially among the poorest segments of society. Both outcomes have translated into a greater burden on women in their traditional roles as primary care givers.[65]

[60] *Fernandez de Córdoba, S., et al. (2004a)*
[61] *UNECA (2004)*
[62] *Fernandez de Córdoba, S., et al. (2004a)*
[63] *Baunsgaard, T., and Keen, M. (2004)*
[64] *SAPRIN (2004), pages 179-80.*
[65] *SAPRIN (2004), chapter 8*
[66] *Rodrik, D. (2001), page 27*

5. Policy space, development and poverty reduction – what history tells us

"The exchange of reduced policy autonomy in the South for improved market access in the North is a bad bargain where development is concerned."[66]

Developing countries cannot build prosperous societies with their hands tied behind their backs. Sustained development and poverty reduction require policy space large enough for developing country governments to craft and implement home-grown strategies for industrial development. However, if rich countries continue to push their own short term commercial interests in the NAMA negotiations, there is a real possibility that developing countries will see their economic policy toolbox emptied out once and for all. Even if developed WTO members decide to throw in a little extra market access to ease the pain, this will be a very bad bargain indeed.

5.1 The case for policy space

As we have seen above, big bang liberalisation is not the magic touch that sets in motion the industrial development train. As long as all countries are not at equal levels of development, the development of industrial capacity in developing countries will require temporary protection from foreign competition. According to Dr. Yilmaz Akyuz, former director of UNCTAD's Division on Globalisation and Development Strategies, different sectors of the economy will in fact require changing levels of protection depending on the country's level of industrial development.

Developing countries without much of an industrial base may, for example, want to nurture the establishment of labour intensive industries by providing these with high levels of tariff protection while they maintain much lower tariffs on goods they cannot yet produce. When their labour intensive industries have reached the scale and level of competitiveness required to compete in international markets it may make sense to lower tariffs on these goods while increasing them on higher value-added products in order to provide incentives for the production of these goods domestically.[67] The existence of this 'pattern of optimal tariffs' is a key reason why developing countries need to maintain a high degree of policy autonomy in the NAMA negotiations. Without the possibility of increasing and decreasing tariffs to the level they want, when they want it, they may very well be deprived of the very prospect of industrialisation.

Safeguarding the right to lower and raise different tariffs at different times may also be important to developing countries for reasons of macro-economic stability. As noted earlier, across the board trade liberalisation often brings with it dramatic increases in imports which far outweigh any growth in exports, putting real strain on foreign exchange reserves. In many situations the balance of payment difficulties that materialised as a result of such import surges could possibly have been avoided if governments had been free to liberalise their import regimes in a gradual manner, keeping a balance between exports and imports. Flexibility in tariff policy could also help developing countries avoid the situation where scarce foreign exchange reserves are used to import finished consumer goods rather than raw materials and intermediate inputs critical for industrial development.

Successful industrial development does not, however, only require flexibility in the determination of tariff levels. Developing country governments must be in a position to put in place incentives which promote investment in the sectors most likely to succeed. This could include, among other things, direct subsidies, tax rebates, access to duty free imports and technical assistance. Moreover, real advancement up the ladder of industrial development requires public investment in institutions, education and infrastructure.

While it is true that no country in the world has successfully industrialised and achieved sustained poverty reduction by barricading itself from the outside world, it is equally true that no country has developed simply by opening the floodgates and letting the icy water of foreign competition wash over itself. In fact, evidence shows that, with the exception of Hong Kong, no country has successfully developed its industrial base and improved the living standards of large numbers of people without resorting to some kind of infant industry protection.[68]

[66] *Rodrik, D. (2001), page 27*
[67] *Third World Network (2005)*
[68] *Shaefaddin, M. (2005).*

According to Harvard University economist Dani Rodrik: *"the trick [of successful development] has been to combine the opportunities offered by world markets with a domestic investment and institution-building strategy to stimulate the animal spirits of domestic entrepreneurs".*[69] The exact combination will, of course, differ across countries. Circumstances vary and there is no 'one size fits all' strategy of successful economic development. However, government intervention, not exclusion, and a gradual approach to import liberalisation seem to be core elements of strategies that have worked in the past.

5.2 Successful economic development: history revisited

Contrary to conventional wisdom, East Asian tigers such as South Korea and Taiwan did not achieve economic diversification and impressive growth records as a consequence of laissez faire liberalisation. Both countries actively supported the development of domestic manufacturing capacity through a variety of policy interventions, including subsidies, tax incentives, duty-free access to inputs and tariff protection. Most barriers to trade only came down during the 1980s when growth was already firmly established.[70]

Other countries, like Mauritius, Viet Nam and China, which have been successful at combining industrial development with poverty reduction also protected their domestic markets until growth was well under way. In Mauritius, for example, real GDP grew on average by 5.9 percent per year between 1973 and 1999, but trade liberalisation was not initiated until the late 1980s and even then substantive barriers to trade remained in place.[71] According to the IMF, Mauritius was still one of the most protected economies in the early 1990s, eliciting a rating of 10, the highest possible category of policy restrictiveness, in its measure of trade policy openness.[72]

Even India, which is often held up as the country that proves the neo-liberals right, is an example of partial and gradual liberalisation. It is true that real GDP growth rates have increased substantially and poverty levels (in percentage terms) have decreased in recent decades. However, the onset of economic growth does not coincide with the timing of extensive trade liberalisation. While growth increased in the early 1980s, serious trade reform was not undertaken until ten years later.[73] Tariffs in India were actually higher during the 1980s when economic growth took off compared to the low growth period of the 1970s. Only tariffs on capital goods and components for manufacturing were lowered in the early 1980s onwards and it was this partial liberalisation of the import regime, along with an increase in government spending, that kick-started India's economic recovery and not broad-based liberalisation, as is often suggested.[74]

Also, the now developed countries protected domestic industries in the early stages of their development. High tariff barriers, export subsidies, duty free access to inputs for exports, public investment programmes and state sponsored industrial espionage were all part and parcel of successful development strategies a few hundred years ago. Only when the necessary scale and level of competitiveness was achieved did these countries gradually expose their industries to foreign competition. Great Britain, for example, did not become the industrial super-power of the world in the 18th century due to its pursuit of free trade, as is often said. In fact, when Britain first began to liberalise its trade regime in the first half of the 19th century it did so after more than two centuries of protection, and even then, it took almost 30 years before the economy could rightly be classified as open. Moreover, free trade did not become a permanent feature in Great Britain. By 1932 tariffs were re-introduced.[75] The history of the US, now the most ardent promoter of free trade, is equally one of interventionist industrial policy and protectionism (see Box 6).

[69] *Rodrik, D. (2001), page 24*
[70] *Ibid*
[71] *Subramanian A., and Roy, D. (2001)*
[72] *Ibid*
[73] *Ghosh, J. (2005)*
[74] *Ibid*
[75] *Shaefaddin, M. (2005)*

Box 6: The US – 'the mother country and bastion of modern protectionism' [76]

In his *Reports of the Secretary of the Treasury on the Subject of Manufactures* in 1791, Alexander Hamilton argued that international trade at the time was characterised by 'unequal exchange', given Europe's greater level of industrialisation, and that this would lead to the destruction of new industries in less developed countries like the USA unless protective barriers were erected. Such barriers, he argued, should include both import duties and prohibition, except on inputs needed by domestic industries, and they should be combined with government intervention in other areas, particularly invention and institution building.

With his reports Hamilton managed to win political support for protection and other forms of government intervention as a means of industrialising the USA. The first tariff law, subjecting almost all manufactures to tariffs at around 36 percent, was enacted in 1816. Tariffs remained high for the remainder of the 19th century, and for most of the first part of the 20th century, as: *"the USA remained the most ardent practitioner of infant industry protection until the First World War, and even until the Second World War – with the notable exception of Russia in the early 20th century"* (see Table 2).

Despite being the most protective economy in the world, or indeed maybe because of it, the USA was the world's fastest growing economy throughout the 19th century and up until the 1920s. "*It was only after the Second World War that the USA – with its industrial supremacy unchallenged –finally liberalised its trade and started championing the case of free trade"*. However, tariffs never reached zero as they did in Britain in the early 20th century and hidden protectionist measures such as voluntary export constraints (VERs), quotas, protection and subsidies for agriculture and unilateral trade sanctions through the use of anti-dumping duties have been used aggressively by the USA since the Second World War. The US Government has also had a substantial impact on industrial development in the USA in the post-war era through its defence procurements and spending on research and development.

Table 2: Average tariff rates of manufactured products in the USA (1816-1990)[77]

Year	1816	1820	1824/ 1832	1866	1875	1913	1914	1925	1931	1950	1980	1990
Tariff rate (%)	35	35-45	40	25-60	40-50	44	25	37	48	14	7	4.8

[76] Bairoch, P. (1993), page 30, quoted in Chang, H.J. (2002), page 24. Where nothing else is indicated this case study, including statistics and quotes, is taken from Chang, H.J. (2002), pages 24-32.

[77] This data is reproduced from Shaefaddin, M. (2005), page 169

5.3 Do as we say – not as we did!

Developed WTO members' aggressive agenda for the NAMA negotiations, and the argument that it will be beneficial to developing countries, flies in the face of historical facts. Ambitious and permanent tariff reductions across the board, if achieved, will significantly reduce developing countries' policy space and deprive them of flexibility in tariff determination which as we have seen, was such an important element of successful industrial development in the past. Developing countries' freedom to implement other policies linked to successful industrial development is already significantly restricted by other WTO agreements, such as the Agreement on Subsidies. Removing the freedom to lower and raise tariffs as industrialisation progresses might very well prove to be the act that permanently shatters many developing countries' dreams of development. As Cambridge University economist Ha-Joon Chang has demonstrated, the 'do as we say, not as we did' strategy of rich WTO members amounts to nothing less than 'kicking away the ladder' of development from today's poor countries.[78]

Rich countries' behaviour appears only more hypocritical when their average tariff rates on industrial goods during their process of industrialisation are compared to current levels of industrial tariffs in developing countries. As Table 3 clearly shows, the USA and Great Britain both maintained higher tariffs on industrial goods in 1950 than the average tariff applied by all developing countries and Least Developed Countries (LDCs) today. This is despite the fact that in 1950 the USA was close to three times richer, and Great Britain more than twice as rich, as developing countries as a group today. Even large developing countries like Brazil and China, which are under pressure to drastically lower their tariffs ostensibly in the name of increased South-South trade, already have lower average tariffs on industrial products than the USA and Great Britain had at higher levels of economic development.

Table 3: Average industrial tariffs in developed and developing countries during development phase

Country	Year	GDP per capita (US$)	Average tariff on industrial products (%)
USA	1950	9561	14
Great Britain	1950	6907	23
Brazil	2001	5508	10.4
China	2001	3728	12.3
All developing countries	2001	3260	8.1
All LDCs	2001	898	13.6

Source: Third World Network (2005)

[78] *See Chang, H.J. (2002)*

At this stage it is also worth recalling that the ambitious liberalisation agenda put forward by developed WTO members not only denies their own experience of industrial development, it also ignores the history of General Agreement on Tariffs and Trade (GATT) negotiations on industrial products. In contrast to what is currently being proposed in the NAMA negotiations in the Doha Round, WTO members, up to and including the Uruguay Round, had considerable flexibility to choose the number of products to be bound, the level at which that binding should take place and the rate of tariff reduction on each product line.

In the earliest WTO rounds, flexibility was provided through the use of a request/offer approach. No targets were given and no tariff reductions formulas were applied. While a so-called linear formula for tariff reductions was used in the Tokyo and Kennedy Rounds there were exceptions to its application and it was only used by developed countries. In the Uruguay Round, the first attempts were made to introduce a more exacting non-linear (Swiss) formula, of the type now being pushed by developed WTO members in the Doha Round. Interestingly, at the time, the US objected to the use of a non-linear formula because it still had high industrial tariffs in place. The result was an agreement that developing and developed countries should reduce their average tariffs by 27 percent and 40 percent respectively, using a formula of their own choice, or as in the case of the USA, the request/offer approach.

Against this backdrop, developed WTO members' insistence that an ambitious Swiss formula should be used to reduce industrial tariffs in the Doha Round is nothing more than another example of 'do as we say, not as we did' hypocrisy. While they take any opportunity offered to talk the talk of development, rich countries are clearly using the NAMA negotiations to walk the talk of big business, pursuing the short term commercial interests of their powerful multinational companies at the expense of poor people everywhere.

5.4 NAMA: The Doha Business Agenda

A narrow set of vested corporate interests has helped shape the developed countries' NAMA negotiating positions. Industry groups representing mainly Northern-based companies share an aggressive liberalising agenda and have lobbied forcefully for wider access to developing countries' industrial markets. The International Chamber of Commerce has lent its weight to the business call for deep NAMA liberalisation, urging WTO members to apply an ambitious formula approach to eliminate or substantially reduce tariffs for all non-agricultural products, and to bind all tariffs at the levels negotiated during the current round of talks.[79] Meanwhile, US corporate lobby group the National Foreign Trade Council (NFTC) has produced a study that singles out Brazil, Egypt, India, Malaysia and South Africa as targets for NAMA tariff reductions, and claims that the tariff-reducing formula needs to cut at least 75 percent off bound rates if it is to have any benefits for US companies.[80]

Industry representatives have been able to promote these positions at the highest levels in trade policy-making circles, including through privileged access to WTO negotiations in Geneva. Armed with its report, NFTC members arrived at the WTO Secretariat in March 2005 to make the case for ambitious NAMA tariff reductions. The following month, US lobby group the National Association of Manufacturers (NAM) led a 'fly-in' lobby mission to the Geneva Secretariat, which was headed by a Ford Company Vice-Chairman. High on the group's list of targets was Iceland's WTO Ambassador Stefan Johannesson, the NAMA Negotiations Chair.[81] NAM is asking for deep and comprehensive reductions on industrial tariffs in 'as broad a manner as possible', and advocates a sharp tariff-cutting formula coupled with a sectoral tariff elimination process. A NAM spokesperson recently commented that the adoption of a Swiss formula is *"the only way to deal with the fact that developing nation tariffs on manufactured goods are quite high while comparable industrial nation's tariffs are very low."*[82]

79 *'World business and the multilateral trading system', International Chamber of Commerce policy statement, 5 April 2005: http://www.iccwbo.org/home/statements_rules/statements/2005/Policy_rec_Hong_Kong_ministerial.pdf*

80 *'Making the case for ambitious tariff cuts in the WTO's non-agricultural market access negotiations', National Foreign Trade Council, March 2005: http://www.nftc.org/default/trade/wto/Final%20NFTC-WTO%20Tariff%20Analysis.pdf*

81 *'NAM leads manufacturers' fly-in to Geneva seeking reduction of tariff barriers to trade', National Association of Manufacturers, 11 April 2005: http://www.nam.org/s_nam/doc1.asp?CID=202217&DID=233755*

82 *''Vargo says agreement will boost Doha Round's industrial trade negotiations', National Association of Manufacturers, 3 June 2005: http://www.nam.org/s_nam/doc1.asp?CID=67&DID=234308*

Hot on the heels of NAM came US lobby group the National Retail Federation, which joined with the EU retailers' association EuroCommerce to lead a combined delegation of retail companies to the WTO Secretariat in April 2005. Comprising executives from Wal-Mart, Gap Inc. and Metro Group, the group met with senior officials from the WTO Secretariat, as well as key member country delegations including the US, the EU, Canada, Japan, Brazil, China and Taiwan.[83] EuroCommerce, which attended the previous WTO Ministerial meeting in 2003 as part of the official EU delegation, and whose affiliates include McDonalds, Tesco and Carrefour, is pressing for a substantial reduction and eventual elimination of all tariffs and tariff-rate quotas on industrial goods, including textiles, apparel, cotton and footwear.[84]

Industry lobby groups arrive in Geneva on a regular basis, during key negotiation periods when WTO member country delegations discuss issues of relevance to a particular industry group. The government of the industry group will book space in the WTO for the group to conduct their lobbying activities. In many instances, industry lobby groups even become members of the official government delegation during negotiating weeks in Geneva. In general, only government officials sit on country delegations to the WTO, yet observers confirm that corporate lobbyists are frequently invited to join these teams and take part in the on-going trade negotiations at the Geneva Secretariat.

Meanwhile the public and many civil society groups working on trade, including labour, development and environmental organisations are excluded from the negotiations and are not even permitted to enter the WTO building. Carin Smaller, an analyst with the Institute for Trade and Agricultural Policy, notes that: *"WTO members and the WTO Secretariat have institutionalised a practice of inviting corporate lobby groups either to attend the WTO negotiations or to hold lobby sessions in the WTO, pressuring members to liberalise trade in sectors of interest to the particular industry. On the other hand, civil society and the public at large, who are the people that will experience the impact of any further agreements at the WTO, are completely excluded from negotiations".*[85]

83 *'High-level EU-US commerce group in Geneva', EuroCommerce, 28 April 2005 http://www.eurocommerce.be/index.jsp?ptp=tDetail.jsp&MenuID=null&pci=1593&pti=91&psk=040709*

84 *Ibid*

85 *Carin Smaller, personal communication, June 2005*

6. The current impasse in WTO NAMA negotiations

6.1 A flawed process

Negotiations on tariff reductions in goods (NAMA) are a central part of a new WTO Round. The 2001 Doha Mandate states that (Article 16):

> *We agree to* [NAMA] *negotiations which shall aim, by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries. Product coverage shall be comprehensive and without a priori exclusions. The negotiations shall take fully into account the special needs and interests of developing and least-developed country participants, including through less than full reciprocity in reduction commitments, in accordance with the relevant provisions of Article XXVIII bis of GATT 1994 and the provisions cited in paragraph 50 below. To this end, the modalities to be agreed will include appropriate studies and capacity-building measures to assist least-developed countries to participate effectively in the negotiations."*

Members adopted a Work Programme of meetings on the negotiations on NAMA in July 2002. However, despite the principles established in Article 16 of the Doha Mandate – that the negotiations shall take account of the special needs of all developing countries including through less than full reciprocity – developed countries have consistently pushed an aggressive position on NAMA. Not surprisingly, positions have become polarised.

This was compounded when, as mentioned earlier, a proposal was submitted by the EU, Canada and the US in August 2003.[86] This called for an ambitious non-linear tariff reduction (i.e. a 'simple Swiss') formula and the inclusion of tariff elimination or harmonisation through sectoral initiatives. Despite the fact that this submission failed to take developing country priorities into consideration, the draft Cancún Ministerial Texts on NAMA (Annex B) of August and September 2003 reflected the US/EU/Canada positions. Whilst the Cancún Ministerial collapsed, in the main, due to the intransigence of the EU on the 'new issues' and to some extent disagreements over agriculture, this was not before developing countries had rejected Annex B.

The anger felt by developing countries rose to new levels when the rejected Annex B text of Cancún was duplicated again in full as part of Annex B of the 2004 WTO July Framework. Developing countries only finally agreed to the Annex's inclusion on the insistence that it be preceded by a vehicle (the first paragraph) which stated that key components of the Annex – including the formula for tariff reductions, the treatment of unbound tariffs and the sectoral initiative – still have to be agreed and negotiated.

In short the process is fundamentally flawed. The chairman of the NAMA negotiations has consistently reinstated a NAMA text that blatantly favours developed countries – indicating just how unfair the WTO negotiating process currently is. Further evidence was provided in June 2005 at the WTO NAMA negotiating group. At the same time, many African negotiators were at an African Union (AU) Trade Ministers meeting in Cairo and were not able to fully represent themselves at Geneva. At the Geneva meeting, those present claimed that the agenda had moved forward towards an agreement on a very ambitious tariff reduction formula. Many developing countries have subsequently rejected such a claim. Kenya, on behalf of the AU, did present a summary of the AU Declaration on NAMA to the WTO meeting. Overall, the Declaration reads:[87]

> *"We are concerned that some of the proposals on the formula submitted by WTO Members would result in deep tariff reductions by some African countries in comparison to developed countries; contrary to the principle of less than full reciprocity and S&D enshrined in the Doha Mandate. In addition, African countries would be adversely affected as these proposals would result in erosion of their preferences. This would undoubtedly deepen the crisis of de-industrialisation and accentuate the unemployment and poverty crisis confronting African countries."*

[86] *Contribution by Canada, European Communities and the USA: 'Non-agricultural Market Access: Modalities', 20 August 2003, Job(03)/163*

[87] *African Union (2005)*

6.2 The NAMA Annex B text of the 2004 July Framework – why it is anti-development

6.2.1 Bindings

The binding of tariff lines – which effectively sets a maximum level for a tariff – is usually the most significant obligation that any member will make as part of their tariff commitments at the WTO. The binding of tariffs involves a significant loss of 'policy space' in that it denies a country the flexibility – for example for industrial and developmental reasons – to raise the applied tariff level above the bound level should they want to do so, for reasons as discussed in section 5.1. But in addition, it is from these bound levels that WTO tariff reductions are made.

For these very reasons, developing country members have left a number of industrial tariff lines unbound. But the current Annex B demands that members of the WTO make a substantial contribution to increase their binding commitments.

Least Developed Countries: This commitment applies even to least developed countries (LDCs). LDCs are expected to 'substantially increase' them – and only negotiations will ultimately determine what 'substantial' would mean.

For a large number of LDCs this would be a significant commitment and a serious loss of policy space. For example, of the 32 LDCs in the WTO, Bangladesh, Burundi, Chad, Gambia, Mozambique, Myanmar, Tanzania, Togo, Uganda and Zambia all have a binding coverage of less than 10 percent whilst the majority of LDCs have a coverage of less than 35 percent. Some LDCs have already committed themselves to 100 percent binding, not because they deem this policy space unimportant, but because of exacting conditions on their accession to the WTO – for example, Cambodia and Nepal. In addition, depending on the tariff level at which they have to bind them, this could also result in a reduction in government revenues from import tariffs and potentially de-industrialisation.

Other (non-LDC) developing countries: All other (non-LDC) developing countries would be expected to increase their binding coverage to at least 95%. But Annex B differentiates between two groups of non-LDC developing countries. This is a blatant attempt by the developed world, particularly the EU, to divide developing country groupings and get larger developing countries such as India, China and Brazil (with their enormous markets) to make greater commitments in NAMA.

In short, those countries that have a current binding coverage of less than 35 percent would be exempt from any tariff reductions but in return would be expected to increase this coverage to 100 percent. This would apply to 12 developing countries (known as Article 6 countries in Annex B). All countries with a coverage of over 35 percent would be expected to increase it to 95%+ and to apply a reduction formula to tariffs (known as Article 8 countries in Annex B).

Most of the 12 'Article 6' countries are low-income developing countries. Of these 12, most have a low binding coverage – Cameroon (0.1%), Congo (3.2%), Ghana (1.2%), Kenya (1.6%), Nigeria (6.9%) and Zimbabwe (9.0%). Increasing the binding coverage to 100 percent represents a massive commitment and loss of policy space for these countries. In addition, Annex B currently demands that the 12 countries bind their tariffs at no more than the average of all developing countries' bound tariffs. This average currently stands at about 29 percent (this average falls considerably if the weighted average tariff for developing countries is used). However, Cameroon (55.7%), Kenya (54.8%), Nigeria (48.8%) and Ghana (35.9%) all have current bound rates higher than this level.

For Article 8 developing countries, Annex B currently demands that they increase their coverage to at least 95%. Fiji has left 55% of its industrial tariff lines unbound, India 30% unbound, Malaysia 19%, Pakistan 63%, the Philippines 38%, Singapore 36%, Thailand 29%, Tunisia 49% and Turkey 61%. These same countries are then expected to bind them at a level of twice their current applied rate. In many developing countries, the average new bound level will be below the average current bound level imposing further liberalisation and commitments upon these countries. In addition, countries have individual tariff lines that are bound many times their applied rate to provide them with policy flexibility; Barbados maintains an average bound rate on transport equipment that is nearly 10 times the corresponding average applied rate.[88]

In conclusion, the binding of tariffs under Annex B will impose a significant loss of policy space on every developing country. That is why many developing countries have requested a voluntary approach to tariff binding.[89] The group of African, Caribbean and Pacific (ACP) countries argues that: *"In the current WTO negotiations, there are now considerable demands being put on developing countries to increase the share of their trade covered by binding commitments…Since binding coverage for some ACP countries is as low as 3 percent, this would constitute a disproportionate level of commitment."*[90]

6.2.2 Tariff reduction formula

"The EU will continue to lead negotiations in 2005 to achieve an ambitious formula for tariff dismantling."
The European Commission[91]

The EU, together with other developed countries and a number of developing countries, has consistently pushed for an ambitious formula in the negotiations that will reduce industrial tariffs dramatically. This would apply equally to all developing countries except LDCs and Article 6 countries.

But it is the very nature and extent of proposed cuts in tariffs that has infuriated many developing countries. The Cancún Ministerial texts and the current Annex B both proposed a Swiss formula, applied line by line. Developed countries, most recently the EU, Norway and the US, have pushed an ambitious Swiss formula because it will significantly increase access to other markets for their TNCs by dramatically reducing higher tariffs more than lower ones (so-called harmonisation). But developing countries counter this by correctly saying that, because their industrial tariffs are currently higher, they will be making a greater commitment, effectively turning the principle enshrined in the negotiations of 'less than full reciprocity in reduction commitments' on its head (i.e. a demand for 'more than full reciprocity' from developing countries)!

Not withstanding this major infringement of the Doha Mandate, should an ambitious Swiss formula be agreed, some developing countries will not only dramatically reduce their bound tariff levels, but also their applied rate as well. The bound and applied rates in India, China, Egypt and Morocco are close together. Overall, if developing countries are faced with tariff cuts to their average bound rates of say about 50% – which is entirely possible under current proposals – the following countries for example will also begin to see reductions in their average applied rates as well as their bound rates; Argentina, Brazil, Mexico, Ecuador, Malaysia, Pakistan, Thailand and Tunisia.

An ambitious formula will entail considerable loss of policy space as well as deepen the crisis of de-industrialization and poverty confronting many developing countries. This also has implications for loss of income in these countries as trade tariffs make up a significant proportion of total government revenue – in India it is as much as 18.5%, in Morocco 15.9% and Egypt 12.6% (see also Section 4.5).[92]

As the ACP group concluded: *"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*…(and as was practised by the major developed countries at the early stages of their own industrialisation). *However, some of the proposals presented imply a more rapid or deeper reform in trade policy than others…for ACP states such an approach may mean going 'too far, too fast' with reform, and could entail unacceptable adjustment costs."*[93]

6.2.3 Sectoral initiative

The sectoral initiative is an attempt to bring much greater liberalisation in certain sectors, either through harmonisation or the elimination of tariffs; developed countries see this initiative as a further attempt on top of the tariff reduction formula to open up markets, including

[88] *Hilary, J. (2005).*
[89] *See for example African Union (2004)*
[90] *ACP (2004)*
[91] *European Commission (2004)*
[92] *World Bank (2003)*
[93] *ACP (2004)*

Stuart Freedman/ActionAid

those in developing countries. It was part of the EU-US-Canada proposal in August 2003 and made its way into all subsequent texts. In the run up to Cancún, the then Chair of the NAMA negotiating group proposed seven sectors that 'were of export interest to developing countries' that could be included in any initiative. They were electronic and electrical goods, fish and fish products, footwear, leather goods, auto parts and components, stones, gems and precious metals and textiles and clothing. Other nominations have been put forward such as primary aluminium by the United Arab Emirates.

But whatever the sector, and whether participation is mandatory or voluntary, many developing countries have consistently rejected this approach.[95] Firstly, who would choose which sector given that any export from a developing country is of interest? Secondly, it would entail drastic liberalisation beyond the capacity of developing countries' economies to absorb the shock. Thirdly, current preferences (see Section 6.2.5) enjoyed by poorer developing countries would be eroded or even eliminated.

Fourthly, even if voluntary, developing countries may well experience lobbying, even bullying, to join at a later stage. Fifthly, because developing countries have higher tariffs in these sectors than developed nations, they would be making the greater commitment – another example of 'more than full reciprocity'.

One of the sectors proposed is textiles, which is of export interest to a number of developing countries. However, this sector has been an important component in the industrial development of many countries. The phase out of the Multi Fibre Agreement (MFA) has brought higher-cost textile producers – for example Nepal, Cambodia, Bangladesh and Sri Lanka – into direct competition with lower-cost producers such as India and China. Many of these countries are already feeling the impacts through lost jobs, falling output and declining export markets. Textile tariff harmonisation or elimination through a sectoral approach would have a further devastating impact on these same countries through the erosion of preferences (see Box 8).

Box 7:

The implications of Annex B of the July Framework on environmental degradation and development

"Small-scale artisanal fisheries are not benefiting from the current multilateral trading regimes. Those that are benefiting are the export-import institutions dominated by accredited and authorised buyers including middlemen, traders and feed millers."[94]

Industrial liberalisation has profound impacts on the environment. All natural resources are effectively on the table in the NAMA negotiations, yet it is perhaps within the sectoral initiative that the worst impacts will be experienced. This is because a number of specific 'natural resource' sectors have been proposed for inclusion, namely fish and fishery products, and stones, gems and precious metals (i.e. minerals).

Further global liberalisation in natural resource sectors will increase trade and consumption. Yet current levels of production are clearly unsustainable. Take the fish sector; the global fish catch is already beyond its renewable capacity, which is being exacerbated by the use of subsidies to the major fishing superpowers (fishing subsidies are dealt with in separate WTO agreements). This over-fishing is also having disastrous impacts on food security, hunger and poverty in many developing countries.

94 *Position Paper on Fisheries Subsidies and Non-Agricultural Market Access. Prepared by Tambuyog Development Center, Philippines, 22nd June 2004.*

95 *ACP (2004)*

Box 8:
Trade liberalisation, Asian textiles and women

ActionAid

Many female garment workers in Asia are the sole providers for their families. Women often work long hours for low pay and ActionAid is actively campaigning for better working conditions. But as reported by the Christian Science Monitor, the garment industry is often the only means of supporting the immediate family; Shagorika, an unmarried young woman supports her family by stitching together sweaters and other knitwear for $60 a month. *"If I wasn't working here my brother and sister would have to leave school" she says. Similarly: "There's no way I could do without this job,"* says Taslima Aktarmuni, 20, who helps pay for the schooling of her three younger siblings. *"It's my duty to help my father. There is no one else".*[96]

But trade liberalisation is already taking effect throughout Asia due to the phase out of the MFA and the proposals in Annex B of the July Framework would compound the situation dramatically. The textile sector in Cambodia is already undergoing restructuring. According to the International Confederation of Free Trade Unions, Sath Chantha, a 20-year old woman, worked for two years in a clothing factory before losing her job at the end of 2004: *"I spend all my days going from one factory to another to see if there are any job offers. I ask my girlfriends if they've heard of jobs going in their factory. I do everything I can but I haven't found anything since October 2004…Now life's very tough for my family; when I was working I could send them $20 to $30 a month if I worked overtime, sometimes less or nothing when there was less work. Seven members of my family are largely dependent on the money I could send them from Phnom Penh, but now they no longer receive anything."*[97]

6.2.4 Special and differential treatment

Special and differential treatment (S&DT) is covered in Articles 2, 6 (see above), 8 and 9 of Annex B and in various Articles of the Doha Mandate. In essence, they require two specific and complementary ways of integrating the interests of developing countries into the negotiations. There is the need to take into account the 'special needs and interests' of developing countries and the 'importance of special and differential treatment and less than full reciprocity in reduction commitments as integral parts of the modalities'.

The latter – less than full reciprocity – provides a specific mandate to all WTO members; that reduction commitments made by developing countries should be less than those made by developed countries. ActionAid strongly argues that Annex B of the 2004 July Framework – prioritising as it does a Swiss formula on a line-by-line basis – contravenes the Doha Mandate (see Section 6.2.2).

In addition, Article 8 of the 2004 July Framework provides differential treatment – often referred to as 'flexibilities' – to developing countries. This is in terms of slightly longer implementation periods and minimal flexibilities allowing developing countries to keep a very small number of tariff lines unbound and/or allowing them to apply reduced tariff cuts through the formula.

ActionAid would argue that these flexibilities are completely inadequate as they are not commensurate with the different levels of development and industrialisation in developing countries. In addition, developed countries are now proposing a trade-off; that developing countries can only use these minimal flexibilities so long as they agree to more ambition in tariff reductions.

6.2.5 Preference erosion

Despite the importance to developing countries, particularly LDCs, of preference erosion, Annex B of the July Framework deals with it completely inadequately, calling upon WTO members only 'to take [the issue] into consideration'.

[96] *See Christian Science Monitor, 'Made in Bangladesh No Longer', November 2004, http://www.csmonitor.com/2004/1103/p06s01-wosc.html*
[97] *ICFTU (2005).*

As tariffs are reduced in the North, so the advantages of preferential access will be reduced and this will be particularly the case with any sectoral initiative (see above). Developing countries – for instance the ACP group – have argued that preference erosion must be addressed from the outset of negotiations and have recently proposed solutions.[98] Clearly, developing countries should either be 'compensated' for preference loss (but this should be addressed primarily through the WTO) and/or an alternative system of preferences should be considered (i.e. expanding market access for countries as their preferences are eroded).

6.2.6 Non-tariff barriers (NTBs)

Developing countries have expressed concern about the use of NTBs as less transparent yet significant means of protection in developed countries. As African Union Trade Ministers put it in the NAMA section of the Kigali Consensus: *"the framework [for NAMA negotiations] should ensure that non-tariff barriers are addressed in parallel with tariff reductions as NTBs have, in many instances, nullified existing market access opportunities for African exports".*[99] While Annex B of the July Framework for NAMA negotiations agreed at the WTO last year recognises that NTBs are an 'integral' part of the negotiations, developed countries are questioning whether several of the NTBs identified by developing countries as particularly significant barriers to trade belong within the NAMA negotiations. While it is possible that some NTBs are better negotiated outside the NAMA negotiations, e.g. in the WTO rules committee, all NTBs of concern to developing countries must remain on the NAMA agenda. In cases where negotiations are better placed outside the NAMA committee, progress must be reported to the committee so that it is possible for developing countries to make an overall assessment of what real improvements in market access are on the table.

98 *Communication from Rwanda on behalf of the African Group, 'Treatment of Non-reciprocal Preferences for Africa', World Trade Organisation, February 2005, TN/MA/W/49.*

99 *African Union (2004)*

7. Conclusions and recommendations

Developed WTO members are pursuing an ambitious agenda of aggressive tariff reductions in the WTO NAMA negotiations. The EU and the US consistently claim that significant reductions in barriers to international trade in industrial and manufactured products will bring clear developmental benefits. This could not be further from the truth. As this report has shown, the historical evidence reveals that developing countries have been hit hard by previous industrial liberalisation.

It is the short term commercial interests of Northern based industrial exporters, and not development, that are guiding rich countries in the NAMA negotiations. As ActionAid's detailed examination of the precise implications of Annex B of the 2004 July Framework reveals, this will deny developing countries the policy space needed for successful development and accelerate the process of de-industrialisation. As we have seen above this has wide-ranging and serious implications for poverty – through the loss of jobs, erosion of preferences and falling government revenues.

Annex B of the July 2004 Framework is simply anti-development and offers practically nothing to developing countries. It goes against the overall spirit of the Doha Mandate, which places development at its core, and by contravening the principle of ‘less than full reciprocity’ in the current negotiations. It prioritises the self-interested demands of developed countries over developing countries' needs, and it ignores the modus operandi of previous rounds of industrial tariff negotiations in the WTO. If rich countries are allowed to continue this 'do as we say, not as we did' strategy there is a real danger that they will end up 'kicking away the ladder' of development from today's poor countries.

ActionAid therefore demands that the current NAMA negotiations are halted, the Annex B text is rejected, and a full, independent assessment of potential developmental and environmental impacts of the NAMA negotiations must be carried out. This assessment must be comprehensive and include specific areas of interest to LDCs such as NTBs and preference erosion.

The following principles should guide any new NAMA negotiating framework, *inter alia:*

- Less than full reciprocity and effective and meaningful special and differential treatment for developing countries in all aspects of the negotiations.
- Developing countries must be able to retain the flexibility to choose which lines they bind (a new binding is itself a commitment that contributes to the predictability of the trading system), and at what level.
- Developing countries must retain the flexibility to choose tariff reduction commitments (requiring line-by-line cuts according to a non-linear formula is not acceptable and contravenes the Doha Mandate).
- The interests of all developing countries – but particularly LDCs – should be at its core. For example, preference erosion and the use of anti-dumping and other measures to block developing country imports. Assistance and capacity building should be forthcoming to enable developing countries to participate fully and effectively in the negotiations.
- LDCs should be exempt from all commitments and should have immediate duty free and quota free market access to developed country markets.
- Developed countries must address tariff peaks, tariff escalation and non-tariff barriers.
- Sectoral initiatives should be dropped – such initiatives, by their very nature, create a two-tier WTO membership and developing countries will face pressure to join these negotiations.

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ActionAid is a unique partnership of people who are fighting for a better world - a world without poverty.

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ActionAid
Hamlyn House
Macdonald Road
London N19 5PG
United Kingdom

Telephone
++44 (0)20 7561 7561

Facsimile
++44 (0)20 7272 0899

E-Mail
mail@actionaid.org.uk

Website
www.actionaid.org.uk

International Head Office
Johannesburg

Asia Region Office
Bangkok

Africa Region Office
Nairobi

Americas Region Office
Rio de Janiero

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