



An Analysis of the Outcomes of the NAMA Negotiations and impact on Poverty Reduction in SADC: Looking beyond Hong Kong

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Executive Summary

This paper analyses the outcomes of the 6th Ministerial Conference of the World Trade Organisation (WTO) Non Agriculture Market Access Negotiations. Specifically the paper ascertains that the current NAMA negotiations stand not to benefit poor and developing countries. It carries forward this debate by looking beyond Hong Kong and proposing strategies for moving forward for these disadvantaged countries and these include: research based advocacy, continual preparations; assessment of the effectiveness of market access, and most importantly some defensive and offensive strategies. The current structure or format of the NAMA text spells clear doom even for LDCs who are currently exempted from implementation.

"Forcing poor countries to liberalise through trade agreements is the wrong approach to achieving growth and poverty reduction in Africa, and elsewhere."

Commission for Africa report, March 2005

A monkey sets to scale up a greased poll. Each day it climbs three feet of the poll while it falls down two feet in the next day. How long will it take to climb up a sixty-foot high poll?

1. Introduction

In the run up to the Hong Kong talks, the objectives of the NAMA negotiations were to establish modalities for the reduction or, as appropriate, the elimination of tariffs, including the reduction or elimination of tariff peaks, high tariffs and tariff escalation, on non-agricultural products at the ministerial. This was to be done in a way that fully took into account the special needs and interests of developing and least-developed country participants, including less than full reciprocity in reduction commitments. The formula was the element where movement was mostly needed. Setting its structure was not only important in itself, but also because many other important issues revolved around it.

The text coming out of the Hong Kong ministerial on NAMA was based primarily on the proposals made by developed countries, and stipulated reduction of industrial tariffs in both developed and developing countries. LDCs were kept away from this mathematical wizardry of tariff rate cuts as text in this context promised these countries to provide duty-free and quota-free market access.

The importance of the NAMA negotiations cannot be overstated, as they pose a direct threat not only to industrial and development policy in developing countries but also to the international community's ongoing campaign for the eradication of poverty worldwide.

Developed countries such as the EU, USA and Canada have explicitly identified the NAMA negotiations as a high priority for their own gains in the Doha Round, with a stated intention "to achieve commercially significant market access improvements" for the multinational corporations whose interests they represent

This paper sets out to make a quick review of the NAMA negotiations at the December 2005 WTO Ministerial Conference. However, the main aim of this paper is to make proposals to mostly stakeholders from LDCs on the way forward before the conclusion of talks scheduled for April 2006 and perhaps beyond.

2. Structure SADC Economy

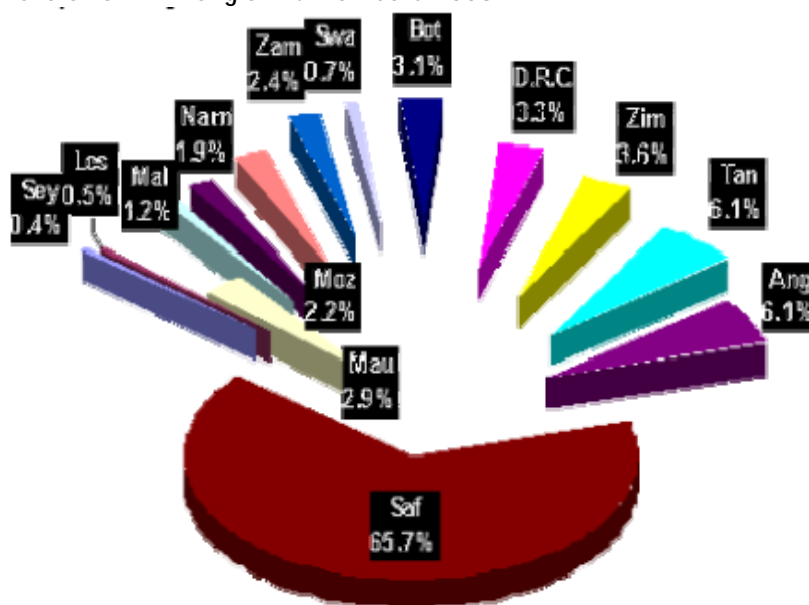
2.1 General Overview

The structure of many of the economies of the SADC countries has not changed remarkably since 1960, particularly with agriculture. In 1975, 39 per cent of the GDP of the Sub-Saharan region was agricultural with industry representing 19 per cent. In 1980, agriculture had declined to 27 per cent, while industry rose to 34 per cent. By the 1990s, manufacturing accounted for only 11 per cent of the region's economic productivity (compared with 9 per cent in 1965), while industry accounted for 17 per cent; farming for 33 per cent and services 40 per cent.

Poorly developed or deteriorating infrastructure has, to some extent, contributed to the lack of change in the structure of many SADC countries' economies. Essential services such as roads, railways, ports and communications have been neglected or damaged by civil war, particularly in rural areas. Although there has been some increase in industry, manufacturing has not increased because of low capacity utilisation, limited trained human resources, small domestic markets and poor technology and plant design.

As shown in Figure 1, 2003 output in SADC was extremely uneven, reflecting mainly differences in resource endowment and economic size of the different Member States. South Africa is still the largest economy in the region in terms of GDP.

Figure 1: Share of GDP Among SADC Members-2003



Source: SADC Statistics Database, 2003

2.2 Structure of Production

The current structure of production of SADC countries is characteristic of a developing region where large shares of GDP originate in primary sectors of production viz: agriculture and mining, whose total contribution is, on average over 50% of total GDP. Statistics on SADC show that only Mauritius and South Africa have sizeable manufacturing sectors at approximately 25% of GDP. The formerly sizeable manufacturing sector of Zimbabwe was not sustained due to several factors, including the influx of cheaper foreign goods, higher input costs and shortages of foreign exchange for importing inputs. This country has gradually become more reliant on services than before. The rest of the Member States have relatively small manufacturing sectors. They depend on services, agriculture or mining.

In addition to having a small manufacturing sector, SADC economies do not produce a diversified range of manufactured products. They produce a similar range of products such as foodstuffs, beverages, tobacco, textiles, clothing and footwear, which are agricultural-resource based. South Africa and Zimbabwe have significant mineral-resource based manufacturing industries also. But vertical integration in the different structures of production are lacking. Manufactured goods contribute substantial proportions to total formal merchandise exports in South Africa, Mauritius and Zimbabwe. Some of these countries exports' levels are higher than the 16 percent average ratio for Middle East and North Africa. But they were all below the world average ratio of 78 percent and the average ratios for all low and all high-income countries of 75 percent and 81 percent, respectively, in 1997.

3. NAMA Negotiations in Hong Kong

3.1 A Quick Review

The NAMA text, based primarily on the proposals made by developed countries, stipulated reduction of industrial tariffs in both developed and developing countries. LDCs were kept away from this mathematical wizardry of tariff rate cuts as text in this context promised these countries to provide duty-free and quota-free market access based on Annex-F.

The concern for the LDCs of their product of export interest remained the same. Developing countries fiercely opposed the developed countries-backed Swiss Formula that cuts higher tariffs more than the lower ones since the formers' tariffs are generally higher and in direct contradiction of the "less than full reciprocity" promised in Doha. The adopted non-linear Swiss formula contains the possibility of leading most of the developing countries to de-industrialisation.

The negotiators left for Geneva to detail out the coefficients. Like agriculture, the deadline for modalities on NAMA was set on April 30, 2006. It is unambiguous that high co-efficient is needed to protect local industries, but given the current negotiation tactics employed by rich countries, it would be very difficult for many developing countries to negotiate in their interests.

The text absolutely ignored the erosion of preferences. Non-agricultural products of LDCs remain at a disadvantageous position at the current stage of multilateral trading system. Their products would further become uncompetitive vis-à-vis the products from developing countries with the possible multilateral trade reforms. For example, average tariff imposed by the EU for Malawi products are almost zero if covered by rules of origin in comparison to competing countries. With the possible tariff cuts latter's product would be more competitive in the same market than the former.

3.2 Back to Square One: Impacts on Poverty Reduction

The NAMA talks outcomes are heading towards a development disaster. The developed

countries are having their way which is to force the developing countries to massively cut (or even altogether eliminate) industrial tariffs on a line-by-line basis in an irreversible manner. This is ruling out the future prospect of industrial development, and therefore economic development, in today's developing countries.

In debating the kind of trade agreements that would help alleviate poverty and bring about development, history is the most reliable guide. Policies that are tried and tested should be defended; those that have failed should not. In the case of NAMA, and contrary to what many developed countries would have us believe, there is a respectable historical case for tariff protection for industries that are not yet profitable, especially in developing countries. By contrast, free trade works well only in the fantasy theoretical world of perfect markets.

The historical and contemporary evidence shows that it is extremely difficult, if not totally impossible, for technologically backward countries to develop without trade protection (of which tariffs are the main element) and subsidies. The evidence shows trade liberalization works only when it happens gradually and selectively as part of a long-term industrial policy.

Virtually all of today's developed countries built up their economies using tariffs and subsidies (and many other measures of government intervention) throughout the 19th century and most of the 20th century (in particular, until the early 1970s). Throughout most of the period between the 1820 and 1945, the United States maintained average industrial tariffs at around 40 per cent, and never below 25 per cent except for brief periods, far higher than those it accepts from developing countries in the NAMA negotiations today. Five of the six fastest growing developed countries in the so-called 'Golden Age' (1950-73) were high tariff countries (Japan, Italy, Austria, Finland and France).

Double standards are thus rife when these countries preach the virtues of free trade and free markets to today's developing countries, many of which in fact have tariff rates lower than those that prevailed in today's developed countries at similar levels of development.

The evidence from the developing countries also supports this view. They did very poorly when they were deprived of policy freedom (most notably tariff autonomy) until the Second World War, while their performance after they gained policy autonomy was a great deal better. With very few exceptions, the tariff cuts and other measures of trade liberalization in these countries during the last two decades or so have produced at best disappointing economic performances, and at worst economic collapse.

The numerous success stories among developing countries over the last 50 years, from the Republic of Korea and Taiwan Province of China to more recent examples in China, India and Viet Nam, show that, while some trade liberalization may be necessary and beneficial, infant industry protection is vital in the early stages, and trade should be liberalized gradually, in line with the economy's ability to upgrade its capabilities. Success stories such as the Japanese and Korean auto industries, or Korean steel conform to the historical pattern established by almost all successful industrial countries from 18th Century Britain onwards. Without protection, Japan and the Republic of Korea would still be exporting silk and wigs made with human hair respectively. Anyone who drives a Japanese or a Korean car is living proof that infant industry protection is still a very much valid argument in today's world.

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

In contrast, premature liberalization in sub-Saharan Africa has been devastating. Economic growth in the continent was negative in per capita terms, while manufacturing employment collapsed. In Malawi, following trade liberalization starting in 1985, two-thirds of all manufacturing jobs were lost. In Uganda, domestic production was swamped by imports as manufacturing capacity utilization fell to just 22 per cent and although growth has returned in

the last few years, the rate is extremely low and its sustainability is questionable.

Some of the principles that govern the NAMA negotiation (and the WTO as a whole) - notably the 'level playing field' - are profoundly flawed. Others, such as special and differential treatment, less-than-full reciprocity and flexibility, are interpreted in such a narrow way and twisted, as to rob them of their developmental content and undermine their practical value in the negotiations.

All in all, there are thus strong theoretical and empirical arguments that show that the kind of tariff cuts proposed in the current NAMA negotiations are likely to damage the future of the developing countries. It may not be too much of an exaggeration to say that the developing country trade negotiators have to fight the developed countries' NAMA proposals as if the future of their countries depended on it.

Just as developed countries argue that they need to protect their past through agricultural protection and subsidies, the developing countries have the right to build a new future through industrial protection and subsidies. This right should be explicitly recognized. Granted, some countries have failed and will fail, in their attempt to do so, but this is not a reason to abandon industrial policy, just as the occasional failure in parenting does not justify abolishing the family.

On the whole, the developing countries have been good at handling the risk involved. When they used industrial protection and subsidies more actively during the so-called ISI period, they did much better than when they were severely constrained in the use of those measures in the subsequent period of trade liberalization and other neo-liberal economic reforms.

Given this reality, the arguments deployed by the developed countries against the use of protection and subsidies by developing countries can only be understood as another effort by the rich world to "kick away the ladder" of development from developing countries.

If they are to fulfill the developmental promises made in Doha and prevent the creation of a world economy divided by a growing gulf between haves and have-nots, the powerful players in the WTO must ensure that any NAMA agreement gives developing countries the largest possible policy space so that they can work out what is good for them and find their own ways to achieve it. An immediate suspension of the NAMA negotiations until a new and pro-development text can be agreed would be a good place to start.

4 Looking Beyond Hong Kong

Obviously the point of reference would be to consolidate the gains in Hong Kong and making the movement forward on the basis of negotiating unity arrived at Hong Kong. There is no denying the fact of strengthening the alliance and the fruition which could follow from such co-operation as the post-Hong Kong milieu points to the sheer urgency of instituting and consolidating a result-oriented LDC bloc. It is imperative that every LDC and developing country conducts an internal reflection to chart out strategies in order to derive optimal outcome from the Round. The following section is an attempt at that direction:

4.1 *An Assessment of Effectiveness of Market Access given in Hong Kong*

It has already been said that DFQF market access into developed countries was the prime agenda of the negotiations of most of the LDCs including Malawi. However, the modalities on market access adopted in Annex F at the end of the Ministerial excluded three per cent of the products, defined at the tariff line, from DFQF. For example, if we consider all products at 8-digit level of the US Harmonised Tariff Schedule, it means that the USA would be able to protect some 339 lines of products under its tariff lines. If the tariff line is considered less than

8-digit level, number of tariff lines under protection would come down, but the range of product coverage would be widened.

There is an immediate need for developing countries to make an assessment of what the DFOF means to their economy in general and exports structures in particular. Preliminary assessments from Malawi are already showing that most of the products that the country has a comparative advantage in have not been included in the 97 % especially looking at the schedules of the United States & Japan.

The assessment can be made by taking exportables of a single country to a single country market and considering the following:

- *Current trends:* This is an assessment of the export trends between developing country X and a particular developed country with which it trades extensively. The idea will be to decide whether trade has been increasing or decreasing and whether the developing country's core exports will be included in the 3% by looking at the excluded tariff lines.
- *Tariff Peaks:* It is of interest to also highlight the level of products facing tariff peaks.
- *Exports destination:* Another angle of analysis would be exports destination. A developing country stands to gain from the current DFOF only if it is exporting to developed countries.

4.2 Some Immediate Steps

- The most essential requirement is to strengthen the political unity and technical cohesion in order to present a common view on the important issues. It may be useful to have the meetings at the level of Ministers.
- Special efforts are needed to keep the group united and voice the position of group in unison. There must be total transparency within the group. For example, if some member of the group is not present in any formal or informal meeting or discussion, it should be immediately briefed by those present so that the members deliver the common position.
- There should also be linkages of the group with some other developing countries though outside of group, who have similar interest on some specific issues. Such linkages should be forged with full transparency within the group itself.
- The capitals of the countries should widen the consultations on the WTO issues within their countries. In countries of larger size, efforts should be made to enhance the awareness at the regional levels and at lower levels.
- The LDCs should promote institutions and organisations to continue their efforts for analysing various issues from the perspective of the LDCs. Their technical expertise should be tapped for the preparation of responses to the proposals of the developed countries.

4.3 Need for Adequate and Continuous Preparation

In post-Hong Kong period, it needs to be pointed out that the WTO meeting in Hong Kong is the beginning of a new phase, and complicated the task due to sheer time limitation. This implies for high degree of preparation for actively participating in the negotiations to come. Keeping this in view, there is need to mobilise resources for technical preparation in order to protect areas of interest and launch a concerted effort with coalition partners towards capturing the initiative from the very beginning of the new phase.

Within the milieu of trade policymaking process, such preparations have to be embodied at least in five focal areas in a coordinated fashion: the Ministry of Commerce, Permanent Mission in Geneva, Chambers of Commerce and Industries, the institutions involved in policy research and analysis, and the concerned civil society organisations.

4.4 *Research Based Advocacy*

The purpose of policy-research is not to provide governments with ready-made negotiating briefs but to provide information to officials about the trade-offs they face - the likely costs and benefits of different options, technical solutions to practical problems, insight into the various linkages that exist in an issue area, etc. Accordingly, the main objective of studies will be to analyse the impact of various proposals so far submitted by the WTO members and to prepare inputs for developing strategy with a view to pursuing the interests of SADC as well as least developed countries in on-going WTO negotiations in the post Hong Kong phase.

5 Conclusion

The NAMA negotiations have given developing countries and especially the poor among them at crossroads in the fight for the future of their peoples. Turning in one direction, is the potential of the negotiations to promote industrialization of these countries, while turning in the other direction, these countries' future looks bleak. The current direction of the negotiations is the latter.

National civil society organisations (CSOs) have for a long time requested their governments to reject NAMA negotiations. At the Hong Kong negotiations these governments are returning with a question to CSOs, What are the alternatives.

As this war on 'futures' rages on, it will be imperative that the developing countries agree on their defensive and offensive strategies. *Faizel Ismail, the head of the South African Delegation to the World Trade Organization, Permanent Mission of South Africa to Geneva, asks the following questions : What do you consider to be the main obstacles to the successful conclusion of the Doha Round? How would you suggest these obstacles could be overcome and result in a successful conclusion of the Doha Round by the end of 2006? What role can South Africa and Africa play in this?*

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