Preliminary Examination of Implications for Developing Countries of Various Suggested Techniques and Modalities for Trade Negotiations

At its meeting held on 12-13 June 1972 the Committee on Trade in Industrial Products agreed that the secretariat should prepare a paper on the implications of the different techniques for negotiating on tariff and non-tariff barriers, set out in COM.IND/W/76, for the trade interests of developing countries, having particularly in mind the structure of developing countries' trade and the existence of the Generalized System of Preferences.

The paper below attempts a first analysis, having regard to the discussion on COM.IND/W/76 at the June meeting as summarized in COM.IND/W/83. It may be recalled that, in the course of this discussion, some delegations stressed the fact that tariffs and non-tariff barriers and safeguards were interrelated. Some delegations also pointed out that the industrial and agricultural sectors are similarly interrelated. Thus in assessing the implications of different approaches towards negotiations for the trade interests of developing countries, it may be necessary to consider the change that the total package of measures in the field of tariffs, non-tariff barriers, safeguards and also agriculture involves in relation to the present treatment of exports of developing countries.

In addition, it must be noted that the Committee on Trade in Industrial Products is still at an early stage of the discussion of the various approaches. The precise implications of each approach will depend on how it is elaborated and at that stage it might be possible to carry out a more substantive analysis. Further, the specific trade interests of all developing countries not being the same, an analysis that does not take account of the particular trading patterns of individual developing countries must necessarily be couched in general terms.

Tariffs

A. Item-by-item technique

It has been suggested that this technique would permit the participation of some countries in the negotiations who might find it difficult to join in negotiations conducted on a linear or other broader basis. From the point of view of developing countries, an advantage of the item-by-item technique could be that it would permit the selection for tariff cuts of items of particular export interest to developing countries. However, an item-by-item negotiation based on bilateral requests and offers might result in a great preoccupation with reciprocity. At the same time, it opens up the possibility of developing countries being able to bargain for concessions which may not otherwise be available. In the ordinary course it is likely that there
will be an interest in seeking reduction or elimination of tariffs on items where the export interest of the developed countries predominates, while other items in which the developing countries have already an established export interest could be withheld from these negotiations if these were considered to represent sensitive products.

B. Continuation of Kennedy Round cuts

The Kennedy Round cuts cover a number of products of current and, more importantly, potential export interest to developing countries. On the other hand, developing countries in general consider that many items of interest to them, particularly in the field of processed temperate-zone and tropical products as well as industrial manufactures, had been excluded from the scope of the concessions. The exceptions to most-favoured-nation cuts made in the Kennedy Round also tend to coincide in a large measure with the exceptions subsequently made under the Generalized System of Preferences. There would, however, be some items in respect of which the continuation of the Kennedy Round cuts may have the effect of bringing tariffs below the level set in certain markets under the GSP.

The effect of this approach would be of greater interest to developing countries if further negotiations were to concentrate on areas excluded in 1967.

C. Duty-free trade in industrial products

The complete elimination of tariffs on industrial products would involve also the elimination of tariff margins for developing countries at present existing under the GSP or in special schemes. On the other hand, it would permit the establishment of zero duties for those items which are at present excluded from the GSP schemes or which are subject to quota or ceiling limitations or in respect of which the preference scheme does not provide for full duty-free entry. If uniformly applied to both raw materials and manufactures, it would also have the great advantage of eliminating the problem of tariff escalation with respect to the trade of developing countries.

In assessing the implications of across-the-board elimination of industrial tariffs, account would have to be taken of the time period envisaged for the phasing out of duties since, during this period, the benefits of the GSP would continue in whole or part. Account would also have to be taken of the procedures envisaged for the treatment of exceptions. The character of these exceptions and their product coverage could permit the continuation of preferential benefits on certain items. However, it is also possible that tariffs are not eliminated in respect of certain items which do not benefit or benefit only partially from the GSP. It is possible that exceptions to a most-favoured-nation round of tariff cuts may tend to coincide with the exceptions to the GSP involving sensitive items where developing countries have a major export interest. Further discussion of the differences between a system of exceptions based on a general criterion plus confrontation and justification and a system based on the adoption of a ceiling (such as a percentage of total imports) may help in an appraisal of the approach that might be appropriate.
Elimination of all tariffs below a certain level

Where the elimination of tariffs is restricted to rates below a certain level, the implications for the preferential margins on products benefiting from the GSP would be correspondingly small. To the extent that the elimination of low tariffs concentrates on raw materials without duties on semi-manufactures or manufactures being reduced in parallel, this could involve an increase in tariff escalation.

D. Techniques for the linear reduction of tariffs

The general comments relating to across-the-board elimination of tariffs would apply. Where the GSP rate is zero, a reduced margin of preferences depending on the depth of the most-favoured-nation cut might still be available. On the other hand, there would be advantages flowing from the most-favoured-nation duty reduction on items not benefiting from preferences or benefiting only partially. These benefits, however, would be more limited than those accruing from a complete elimination of tariffs.

E. Harmonization of techniques

Three specific harmonization formulae have been mentioned:

(i) reduction of rates by an agreed percentage which would depend on the initial height of the tariff on the product in the country concerned;

(ii) reduction of rates by an agreed percentage which would depend on the initial height of the tariff on the product in other participating countries;

(iii) reduction or elimination of the differences between tariff rates and a normative or target rate.

In general each of these formulae would require that the higher the tariff of a particular country on a product, the bigger the margin by which it is reduced. This could mean a correspondingly larger reduction in preferential margins where the high tariff country provides free entry under the GSP for the products in question but it could also result in a larger most-favoured-nation cut where the reduction of tariffs takes place in respect of products which do not benefit from preferential entry. It seems likely in this connexion that the products, in respect of which countries maintain specially high rates, represent the sensitive sectors of the economy. For these the GSP concessions are also likely to be limited and harmonization may serve to improve conditions of access for exporters in developing countries.

To the extent that the different techniques for harmonization favour the freeing of trade in raw materials without corresponding reduction in duties on semi-manufactures and manufactures, they could lead to an increase in effective protection.
F. Combination of above techniques

Each of the component techniques would retain the advantages and disadvantages that have been discussed above. The possibility of combining different techniques could, however, facilitate adjustments to cover the specific interests of developing countries.

Non-tariff barriers

In the June meeting of the Committee on Trade in Industrial Products, the possibility of examining the illustrative list with a view to seeing which of the categories of measures were susceptible to being treated in the negotiations was discussed. It has already been noted in this connexion that priority would be given in the further selection of measures to those barriers which have a significant incidence on the trade of developing countries. The overall significance of the action on non-tariff barriers for developing countries would also depend on the range of measures eventually covered and the possibility of working out international agreements that cover more than a limited number of participants.

The current work in the non-tariff barrier Groups embodies two approaches to the working out of multilateral solutions: first, an attempt to refine and elaborate a set of provisions based on GATT Articles where an existing practice is not wholly in conformity with the intent of GATT provisions; second, the drawing up of detailed codes dealing with trade restrictive or distorting effects of measures not applied primarily for commercial policy reasons. In either case, the work done so far indicates that the particular problems of developing countries in relation to such measures can be accommodated within the framework of such an approach, without ruling out the possibility of ad hoc or unilateral action in respect of certain types of measures.

The drawing up of a set of general principles might permit a reference to the concept of priority action on barriers which have particularly severe effects on the trade of developing countries. The application of this principle will, however, remain a matter for action from case to case.

Sector approach

This approach calls for a number of factors affecting trade in specific sectors, including tariffs and non-tariff barriers, to be dealt with together in so far as this can be done. Such an approach would permit developing countries to concentrate not only on those sectors in which they have a major export interest, for example textiles, leather, toys and furniture, etc., but also on those particular factors within the sectors, such as quantitative restrictions, restraint arrangements, etc., which provide the most severe barriers to trade. It would thus permit negotiation of more assured conditions of access. A sector approach could also allow different negotiating techniques to be set up in relation to different sectors depending on the tariff and trade situation of developing countries in relation to these different sectors.
Safeguards

The general points made at the June meeting of the Committee on Trade in Industrial Products would be relevant to the trade interests of developing countries. At the same time, the possibility of erecting safeguard provisions which, on the one hand, would reduce reliance on bilateral safeguard clauses, quotas and export restraints and, on the other hand, aim at great or multilateral surveillance of escape clause action, in conjunction with agreed action on non-tariff barriers, could significantly reinforce the benefits that developing countries may get from a reduction of most-favoured-nation tariffs.

General observations and lines for further analysis

The references made in the above analysis to the GSP relate to the basic features of the various GSP schemes as they exist at the present time. Further it does not deal with the possibilities that may exist under each of the techniques and approaches in the tariff field for special action in favour of developing countries, for example, through accelerated implementation of tariff cuts or other adjustments in the tariff-cutting schedule.

In the light of the broad considerations spelt out in this note, the negotiating approach made by individual developing countries would have to take account of their particular production and trading patterns, including, but not limited to, the coverage of their products by the GSP. The most important task is clearly to identify the specific interests of individual developing countries. To assist this process the secretariat expects to have available information on product categories where developing countries have a current or potential export interest identified by a trade flow from one or more developing country to one or more developed country, together with data on the import restraints to which these goods are subject. In addition, it expects to have data available on: (a) products included in the GSP of each donor country, (b) the preferential tariff level and limitations to preferential access in the form of quotas or ceilings, etc. and (c) proportion of imports from developing countries in total imports from the preference-granting country of the products in question. It should, however, be noted that this information may not by itself give a complete picture unless possible changes in the operation of safeguard provisions and, of course, the position in the field of agriculture, can also be taken into account.

A factor which cannot be easily quantified is the impact that GATT bound most-favoured-nation elimination or reduction of trade barriers may have by way of changing existing production patterns and broadening markets in the developed countries and the implications of this in terms of wider outlets for exports from developing countries.

A further element to be taken into account is that most-favoured-nation tariff cuts would mean also reduction of margins of preference on trade flows within free or preferential trade areas, including of course those among developed countries. The extent to which this takes place will depend on the scope of the
most-favoured-nation cuts. The implications for the trade of developing countries benefiting from the GSP will be determined by the extent to which their exports compete with these trade flows.

Finally, from the point of view of developing countries, an important question would also appear to be the inclusion of processed tropical or other agricultural products in schemes for tariff reduction or elimination and the extent to which this will modify the existing pattern of tariff escalation in these sectors.