

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

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Preferential Arrangements
Among Developing Countries
Negotiated in GATT

COMMITTEE OF PARTICIPATING COUNTRIES

Trade Negotiations Among Developing Countries

Objectives - Modalities - Procedures

Note by the Secretariat

1. At its meeting on 19 March 1979, the Committee of Participating Countries provided for in the Protocol Relating to Trade Negotiations Among Developing Countries invited the secretariat to prepare and circulate to members and other interested developing country delegations a note outlining possible objectives, modalities and procedures for a new round of trade negotiations among developing countries which would cover tariffs and non-tariff measures in the framework of the Protocol. Such a note would be considered at the June meeting of the Committee and be taken up also with other interested developing countries (CPC/49, paragraph 8).

2. In connexion with the expansion of trade among developing countries in the framework of the Protocol, a number of suggestions for possible tariff and non-tariff measure negotiations had earlier been put forward and summarized in documents CPC/8, paragraphs 6-11 and CPC/30, paragraph 18. Certain points that would need to be considered, at the appropriate time, in connexion with the initiation of a new round of trade negotiations among developing countries also appeared in document CPC/W/32. These have been taken into account in this preliminary note which outlines some possible objectives, modalities and procedures for a new round of trade negotiations among developing countries. They are not exhaustive of all possibilities which may exist, but take into account what appear to be the main points that have been raised from time to time in connexion with a new round of negotiations among developing countries. Delegations may have additional suggestions to make for consideration. For reference purposes, the working rules applied in the first round of trade negotiations among developing countries at the inter-regional level are reproduced in the Annex.

3. A number of delegations have indicated, at recent meetings of the Trade Negotiations Committee of the MTN, GATT's Committee on Trade and Development and the Consultative Group of Eighteen, the importance they attached to an early start to a further round of trade negotiations among developing countries inter-regionally, the results of which would complement the Tokyo Round results for them and contribute to their trade expansion on a mutually acceptable basis. It might be noted that in determining modalities and procedures for negotiations, the scope and coverage of the objectives would be relevant. Thus, a more broadly based negotiation in terms of scope and coverage involving tariff and non-tariff measure negotiations among a significant number of countries would probably require a more detailed outline of modalities and procedures than might otherwise be the case.

A. OBJECTIVES

4. The objectives of a second round of trade negotiations among developing countries might be to achieve, through an enlarged system of tariff and trade preferences among them, a balanced expansion and ever greater liberalization of trade exchanges among developing countries at the inter-regional level and the improvement of the standards of living of the people of developing countries, especially the least-developed countries, through co-ordinated efforts to promote the development of their economies. In this connexion, full regard would be given to other trade policy objectives of developing countries such as the continued expansion of trade at the regional and sub-regional levels including programmes of regional or sub-regional integration, as well as matters affecting their international trade relations generally.

5. In the field of agriculture and including tropical products the objective would be to increase, through appropriate action in the tariff and non-tariff measure fields, mutual trade exchanges on primary and processed products originating exclusively or substantially in developing countries.

6. Likewise, with respect to semi-processed and processed industrial products of growing importance to an increasing number and range of developing countries, and industrial raw materials, the objective would be to expand mutual trade exchanges through substantial action in the fields of tariff and non-tariff measures.

7. Among the factors which stress the importance of the expansion of trade in manufactures and semi-manufactures among developing countries as an objective is the growing specialization in production in an increasing number of developing countries, the greater possibilities emerging for complementarities in production and export consistently with the development of their economies and the establishment of industries which require broader markets to absorb their output than purely domestic opportunities which may be provided within each developing country.

8. The World Development Report 1978 published by the World Bank, reviews certain developments and possibilities in this respect. By way of illustration, it is indicated that some Middle Income developing countries could realize sizeable gains in trade with other developing countries, particularly in products such as chemicals where economies of scale can be overwhelmingly important. In addition, engineering products, such as those of the metal working and electrical machinery industries play a very important rôle in industrial development as countries progress from repair workshops to making replacement parts and simple implements and then to a wide variety of industrial equipment. Important factors in this process needing attention are stated to be engineering design and product development. But as such industries progress from meeting a narrow range of domestic needs, to import substitution over a range of products, specialization and economies of scale generally point to the need to develop export outlets both regionally and inter-regionally, thus contributing even more dynamically to a country's economic development.

9. An important objective would be to ensure the predictability of concessions negotiated, so that trade among developing countries could expand on a reliable and secure basis at the inter-regional level while respecting trade relations at the regional and sub-regional levels.

10. Another objective of a second round of trade negotiations among developing countries might be to examine the provisions of the Protocol to determine whether they should be revised or amended in the light of the objectives being sought and the results likely to be achieved in the negotiations.

11. The participation of any developing country in a new round of trade negotiations among developing countries would not create any new rights or obligations between that country and any other participating country in respect of any matter not covered by the negotiations. It would also be understood that participation in the negotiations would be without commitment as to eventual accession to the Protocol and that individual participants would, in due course, adopt appropriate decisions in this respect having regard, inter alia, to the advantages to be gained from participation in such an arrangement.

B. MODALITIES

12. It is to be expected that a second round of trade negotiations among developing countries would cover tariffs, non-tariff measures and other measures which impede or distort inter-regional developing country trade in both industrial and agricultural products, including tropical products and raw materials, whether in primary form or at any stage of processing.

13. A second round of trade negotiations among developing countries might be conducted on the basis of the principles of mutual advantage, mutual commitment and a fair distribution of benefits consistent with the objectives described in part A above.

14. In such negotiations, the particular situation of the least-developed countries would be fully taken into account having regard to their development, financial and trade needs. While developing countries would make every effort to include products of interest to the least-developed countries in schedules of concessions which might eventuate from the negotiations, least-developed countries would not be expected to make contributions inconsistent with their development, financial and trade situation.

Tariffs

15. GATT tariff negotiations up to 1964 were conducted on the basis of the item-by-item approach as were the first round of negotiations in 1970 and 1971 among developing countries at the inter-regional level. Since, at that time, a number of developing country participants in this initial round were engaged in similar processes of import substitution, the areas for granting concessions were generally found to be those where domestic production was insufficient to meet demand in the consumer and capital goods fields, or where raw materials and semi-processed products were required to meet the needs of domestic industry. However, some countries granting excessively high rates of protection to particular lines of production also undertook reductions in the level of protection in relation to imports from other developing countries. Thus, the item-by-item approach to tariff negotiations was found to be the more generally acceptable one, in the light of the conditions obtaining at that time.

16. Of significance to a further round of negotiations among developing countries in the near future, is the considerable development and diversification of the manufacturing base of a number of developing countries over the last decade and the consequent need to secure a wider range of market outlets for these manufactures. Also of relevance for tariff negotiations as indicated in document Spec(78)26^{1/}, is the significant variation in tariff structures as between individual developing countries and/or groups of developing countries both in terms of tariff levels for individual items and as a whole, as well as variations in detail at the line level as between individual tariff schedules. Such factors would seem to be among those relevant to the consideration of an approach to tariff negotiations among developing countries.

^{1/} Spec(78)26 contains a progress report on the technical work being undertaken by the secretariat concerning a new round of negotiations among developing countries.

17. It is expected that negotiations in the area of tariffs would be designed to secure a substantial reduction in tariffs on the broadest range of products of both actual and potential export interest to participating developing countries.

18. It is for consideration as to how such tariff negotiations might best be conducted. In this respect, a number of suggestions have been made, including a linear approach with exceptions lists, a sector approach covering broad sectors or categories of products of actual or potential interest in inter-developing country trade, or an item-by-item approach having regard to the essential development needs of individual developing countries. A target for the depth of tariff reduction and the modality of its application is also relevant. These matters are described in the following paragraphs.

Linear tariff reduction

19. The effect of linear tariff reductions - i.e. reductions in principle by the same percentage cut of all duties in the tariff of a participating country - depends on the depth and phasing of the reductions and the number of exceptions. If this approach were to be adopted, provision could, for example, be made to also enable smaller tariff reductions in sensitive sectors and different time-tables for high and low duties according to particular circumstances. This modality is relatively simple and easy to apply and normally leads to significant results provided that the number of exceptions can be kept within reasonable limits.

Sector approach

20. The sector approach, whereby tariffs and non-tariff measures including their trade distorting effects, could be eliminated or reduced for categories of products falling within particular sectors, was considered in the Tokyo Round as a complementary technique and received a certain level of support from a number of developing countries as well as its main sponsor. In the event, this technique was not utilized. It might be noted in document Spec(78)26 that the secretariat had identified in Annex Table 8, a list of categories or groups of products which, in the light of the technical work undertaken, appeared to be of significant trade interest to developing countries. It would be for consideration whether the sector approach could be used as a principal or complementary technique in trade negotiations among developing countries. If a linear tariff reduction technique was used in a sector approach, the depth of cuts could be fixed at various levels for various sectors.

Item-by-item technique

21. The item-by-item technique is normally initiated through the tabling of lists of requests and offers by all participants, followed by bilateral negotiations both with respect to the products to be included in the lists of concessions and the tariff reductions to be applied to those products as well as by a subsequent process of balancing of overall benefits.

22. This technique has the advantage of facilitating flexibility in negotiations since participants select the products on which they are able to make tariff reductions and the rate of reduction in the light of requests submitted to them. This technique would also permit a more flexible participation of countries according to their development, financial and trade situation. One inherent disadvantage is that the overall scope of the negotiations tends to be set by the participants who make the least extensive offers. Although this short-coming might be limited by stipulating a level of offers covering a minimum volume of trade in terms of value, experience has shown that other disadvantages can concern the selection of products where domestic pressures for the exclusion of items from the negotiations are likely to be more difficult to oppose under this technique.

23. It would, of course, be possible to use combinations or variations of the above techniques.

24. Depending on the negotiating objectives, a general tariff negotiating plan might be drawn up by participants in the negotiations establishing, for example, one or more tariff-cutting approaches keeping in mind the objective of a mutually acceptable result, and if thought desirable or useful such matters as base dates, base rates, etc. for negotiating purposes.

25. In the case of tariff negotiations, participants would of course be free to negotiate tariff reductions greater than those provided for in any general rules which might be evolved in relation to this matter. Among other things, bindings of duties at their existing level against increase would also be considered as concessions in the negotiations.

26. Depending on the technique(s) employed, the depth of cut, etc., it would be for consideration whether tariff reductions would be implemented without staging or over a certain period of time. The implementation possibly without staging of tariff concessions on products of particular interest to the least-developed countries would need to be taken up.

Non-tariff measures

27. The importance of the linkage between tariff and non-tariff measure negotiations directed towards the expansion of trade among developing countries has been stressed by a number of developing country delegations in

discussions on this matter. With regard to non-tariff measure negotiations, the following would appear to be aspects which could be the subject of consideration:

- (i) product related non-tariff measures which could be pursued on an appropriate basis;
- (ii) the need for any multilateral action on non-tariff measures in the context of trade relations among developing countries, having regard, for example, to the multilateral agreements negotiated in the Tokyo Round; and
- (iii) as mentioned earlier, the sector approach could also be relevant to non-tariff measure negotiations in particular sectors.

(i) Product related non-tariff measures

28. The progress report in Spec(78)26 lists in Table II, for illustrative purposes, a number of non-tariff measures identified in the country studies as having a certain frequency in their implementation. This listing, which is by no means exhaustive, is being reviewed when the country study programme has been completed shortly. Among the measures identified are prohibitions, quantitative restrictions and licensing and permit systems, a broad range of taxes and charges in addition to tariffs, technical regulations, and administrative procedures of varying complexity and intensity.

29. Again, depending on the objectives to be pursued in the negotiations, it would be for consideration as to what type of modalities could be most appropriately utilized for product related non-tariff measure negotiations. The approach adopted in recent GATT rounds of negotiations has been for a request and offer procedure also involving consultation and clarification essentially on a bilateral, but sometimes on a plurilateral, basis. A certain dissatisfaction was expressed in the Tokyo Round with this procedure by some delegations, which felt that such negotiations could have been multilateralized with greater effect.

(ii) Multilateral non-tariff measure action

30. Having regard to developments in the Tokyo Round with respect to non-tariff measure agreements, it is for consideration whether any further points might be taken up on a multilateral basis in connexion with the expansion of trade among developing countries. One such possibility might be, for example, in the field of government procurement where the Tokyo Round Agreement provides developing country participants with the possibility of giving developing country partners in regional or global economic arrangements preferences in their government purchasing. There may be other non-tariff measure areas which could be identified for possible attention on a multilateral basis.

(iii) Sector approach

31. Reference has been made to the possible use of a sector approach which would deal simultaneously with tariffs and non-tariff measures affecting sectors or categories of products of trade interest to developing countries: in that part of this note concerning tariffs (see paragraph 20).

Rules of origin

32. Provision was made in the Protocol as a result of the first round of negotiations among developing countries for rules of origin to apply to trade in products covered by the schedules of concessions. While these rules were reviewed after they had been in operation for a number of years, and no particular problems were reported, there may be a need to undertake a further examination of them to consider their adequacy in the context of a second round of negotiations among developing countries at the inter-regional level.

C. PROCEDURES

33. The Committee of Participating Countries has in mind that a meeting of all interested developing countries could be convened shortly after the June meeting of the Committee with a view to examining possibilities and procedures for expanding trade among developing countries on a multilateral basis through a further round of negotiations among developing countries in the framework of the Protocol.

34. At this stage, it would appear that arrangements for a new round of trade negotiations among developing countries should include the following:

- participation in the negotiations;
- negotiating machinery;
- timing for the negotiations;
- preparation of the negotiations.

Participation in the negotiations

35. The negotiations would be open to the participation of all interested developing countries and developing countries would be able to join in the negotiations at any phase of the negotiating process.

36. Developing countries belonging to economic groupings and in a position to undertake common commitments with respect to tariff matters or other aspects of commercial policy might wish to participate in the negotiations jointly. Participation in the negotiations would be without prejudice to commitments under regional or sub-regional economic and trading arrangements among developing countries.

Negotiating machinery

37. A Trade Negotiations Committee of Developing Countries might be established to elaborate and put into effect a detailed trade negotiating plan, establish appropriate negotiating procedures and supervise the progress of the negotiations. The Trade Negotiations Committee would be empowered to establish subordinate bodies as necessary to assist it in its work. The Trade Negotiations Committee would be composed of the representatives of the governments having notified the GATT secretariat that they would participate in the new round of trade negotiations among developing countries.

Timing for the negotiations

38. Participating countries might wish to establish a provisional time-table including a date for commencement and duration of the negotiations.

Preparation of the negotiations

39. Even though some fifty developing countries have been involved in the current technical work programme aimed at assessing the prospects for a new round of trade negotiations among developing countries, a number of other developing countries have expressed interest and support in GATT for early negotiations directed towards the expansion of trade among developing countries on a preferential basis. These countries might also be interested in taking part in a new round of negotiations and should be given the opportunity to participate in the preparatory work and in the negotiations. Consequently, the invitation to attend the meeting to be convened shortly after the June meeting of the Committee might be sent to all developing countries whether or not taking part in the technical work programme.

40. Preparations for the negotiations might be entrusted to an ad hoc body in which countries participating in the technical work programme and all other interested developing countries might participate. These activities might be completed within an agreed time frame (say three or four months). A first meeting of such a body might be convened on a date to be set after consultation with delegations.

ANNEX

Certain Working Rules Employed for the First Round of
Trade Negotiations Among Developing Countries

The aim of the trade negotiations among developing countries is to expand trade between developing countries and to widen the markets they provide for each other, through reduction or elimination of some of the tariff and non-tariff barriers that affect existing trade flows or inhibit the development of new trading possibilities.

1. The negotiations are open to all developing countries irrespective of whether these countries:

- (a) belong to the same geographic region or not; and
- (b) are contracting parties to the GATT or not.

The participation of any developing country in these negotiations will not create any new rights or obligations between that country and any other participating country in respect of any commitment not covered by these negotiations.

2. The negotiations may cover an exchange of concessions on tariffs and/or any other barriers to trade. It will be for the participating countries, in their bilateral negotiations, to decide on the scope of the concessions to be exchanged between them.

3. The negotiations will be carried out on a selective product-by-product basis. It will, however, be open to participating countries to offer tariff reductions on one or more sectors of their imports on a linear basis.

4. The concessions resulting from these negotiations apply on a preferential basis. They will be applicable on a multilateral basis and on the principle of mutual benefit to all developing countries referred to in Rule 1, namely, developing countries whether contracting parties to the GATT or not. The procedures under which the concessions would be applied to developing countries who have not effectively participated in the negotiations will be defined before the concessions come into force.

5. In applying the principle of mutual benefit, the participating countries intend to take into account the development, financial and trade needs of individual developing countries.

6. Concessions will be exchanged between participating countries on the basis of specific lists of requests and of offers made within the framework of these negotiations.

7. The list of concessions granted by each participating country will be attached to an appropriate legal instrument giving effect to the scheme resulting from these negotiations.

8. Developing countries who have not until now participated in the negotiations may at any time request the Trade Negotiations Committee to make arrangements for their participation.