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PREPARATIONS FOR THE FOURTH SESSION OF THE MINISTERIAL CONFERENCE

Proposal on Market Access for Non-Agricultural Products

Communication from Kenya, Mozambique, Nigeria, Tanzania, Uganda and Zimbabwe

The following communication, dated 19 October 2001, has been received from the Permanent Mission of Kenya.

A. Rationale

Although the Uruguay Round and the subsequent Ministerial conferences did not make any mention on future negotiations on industrial tariffs, it is widely recognized that tariff reduction has been one of the key functions of the multilateral trading system. However, any decision to undertake further reduction on tariffs in this sector would require an explicit decision, and the consensus of all Members.

In order to get a fairer picture of the current situation in developing as well as least-developed countries and make an informed decision on whether to engage in negotiations or not, there is an urgent need for the WTO membership to conduct a stocktaking exercise on the relationship between liberalization on industrial products and development concerns of this group of countries. This need arises from the experiences, which have had adverse effects arising from past liberalization on industrial products. A study process involving stock-taking, examination and analysis will assist the WTO membership to draw lessons from the experience of the past and make conclusions on the most appropriate manner in which to proceed on this matter. Such an educative process is needed to examine the positive and negative experiences of different Members, so that each Member can draw from the lessons of these experiences and devise appropriate policies that would avoid negative effects whilst achieving positive effects in their industrialization process. The educative process may also provide valuable inputs to the evolution of appropriate policies, guidelines and modalities for the future work of the multilateral trading system in this area. It would be premature to begin a process of negotiations before the study process is completed. Therefore, negotiations in this area should not be launched at the 4th Ministerial, but should await the conclusions drawn from the study process. Since the WTO is seeking to place the interests and needs including development of developing and least-developed countries at the heart of the WTO's work, the study process on the impact of liberalization on industrial products should be given first priority after Doha.

Experience of some developing and least-developed countries

Liberalization has taken place at a significant rate and in a wide scope in many developing and least-developed countries. Whilst some developing countries have managed to tailor their liberalization on their capacity to compete, many other countries were unable to do so. The latter group of countries had an over-ambitious liberalization programme, in some cases as a result of structural adjustment reform policies that did not offer much flexibility. As a result, many local industries lost their market share arising from uncontrolled imports and subsequently closed down rendering many people out of employment. Governments that substantially reduced their customs tariffs also experienced significant loss of revenue, which has added to pressures on the government budget deficit, a problem made worse by the decline in aid flows, the fall in commodity prices, and the continuation of debt servicing.

Recent studies by international agencies and academics have provided increasing empirical evidence of many developing and least-developed countries experiencing these negative consequences. For example, a new publication by Cambridge University Press authored by Professor Edward Buffie (2001), entitled "Trade Policy in Developing Countries" has collated what he calls "the most disturbing evidence" of post-1980 liberalization episodes in the African region. According to information collected in the book (page 190-191):

Senegal experienced large job losses following a two-stage liberalization programme that reduced the average effective rate of protection from 165 per cent in 1985 to 90 per cent in 1988. By the early nineties, employment cuts had eliminated one-third of all manufacturing jobs (Weissman, 1991; African Development Bank, 1995, p.84).

The chemical, textile, shoe, and automobile assembly industries virtually collapsed in Côte d'Ivoire after tariffs were abruptly lowered by 40 per cent in 1986 (Stein, 1992). Similar problems have plagued liberalization attempts in Nigeria. The capacity utilization rate fell to 20-30 per cent, and harsh adverse effects on employment and real wages provoked partial policy reversals in 1990, 1992, and 1994.

In Sierra Leone, Zambia, Zaire, Uganda, Tanzania, and the Sudan, liberalization in the eighties brought a tremendous surge in consumer imports and sharp cutbacks in foreign exchange available for purchases of intermediate inputs and capital goods. The effects on industrial output and employment were devastating. In Uganda, for example, the capacity utilization rate in the industrial sector languished at 22 per cent while consumer imports claimed 40-60 per cent of total foreign exchange (Loxley, 1989).

The beverages, tobacco, textiles, sugar, leather, cement, and glass products sectors have all struggled to survive competition from imports since Kenya initiated a major trade liberalization programme in 1993 (African Development Bank, 1998; Ministry of Planning and National Development, 1998). Contraction in these sectors has not been offset by expansion elsewhere in manufacturing. The period 1993-1997 saw the growth rates of output and employment in manufacturing fall to 2.6 per cent and 2.2 per cent, respectively (Ministry of Planning and National Development, 1998, p. 164).

Manufacturing output and employment grew rapidly in Ghana after liberalization in 1983 and generous aid from the World Bank greatly increased access to imported inputs. But when liberalization spread to consumer imports, employment plunged from 78,700 in 1987 to 28,000 in 1993 (African Development Bank, 1995, p. 397). The employment losses owed mainly to the fact that "large swathes of the manufacturing sector had been devastated by import competition" (African Development Bank, 1998, p. 45).

Following trade liberalization in 1990, formal sector job growth slowed to a trickle in Zimbabwe and unemployment rate jumped from 10 to 20 per cent. Adjustment in the nineties has also been difficult for much of the manufacturing sector in Mozambique, Cameroon, Tanzania, Malawi, and Zambia. Import competition precipitated sharp contractions in output and employment in the short run, with many firms closing down operations entirely (African Development Bank, 1998, pp.45, 51).

The book also provides some information on other developing countries outside Africa. According to the author: "Liberalization in the early nineties seems to have resulted in large job losses in the formal sector and a substantial worsening in underemployment in Peru, Nicaragua, Ecuador and Brazil. Nor is the evidence from other parts of Latin America particularly encouraging: 'the regional record as it now stands suggests that the normal outcome is a sharp deterioration in income distribution, with no clear evidence that this shift is temporary in character.' (Berry 1999, p4)."

Information of this type indicates that for many developing countries the effects of import liberalization can be negative and sometimes devastating, reducing their prospects for industrialization and indeed in some cases destroying the domestic industrial base.

There is thus a need for the WTO to review the basis of its policies, rules and guidelines in relation to industrial tariffs.

Developing countries have an interest in obtaining more access to the markets of developed countries, especially in product areas where developing countries are able to benefit in. Thus, the study process will identify area where further liberalization should begin and which products should be targeted. Should the study show that because of their limited productive capacity and weak industrial base developing and least-developed countries are unlikely to benefit from further liberalization, then they should be exempted from further tariff reduction.

While this measure may be necessary, it may also not be sufficient for the purpose of giving an opportunity for the affected countries to rebuild domestic industrial capacity in view of the closure of local firms and industries. In order to take full account of this extremely serious situation, action should be taken as soon as possible, even when the study process is progressing. We propose that the rules of GATT 1994 be revisited to take this serious situation into account. Developing countries, which have been adversely affected, should be allowed to reevaluate tariffs beyond their allowed threshold levels in respect of specific products and product areas, in order to enable them to rebuild the domestic capacity that had endured a decline, or to prevent a decline in such domestic capacity.

B. Proposal

The draft Ministerial Declaration issued on 26 September 2001 contains a paragraph (Para. 13) on the issue of market access for non-agricultural products. We propose that this paragraph be replaced by the following:

> We agree to initiate a study process to be conducted in a working group to examine the issue of market access for non-agricultural products. The study process shall take into account the special needs and interests of developing and least-developed country Members, including: (1) the effects that previous liberalization and tariff reductions have had, including on domestic firms, employment and government revenue; (2) the effects that tariff peaks and tariff escalation in developed countries have had on the trade prospects of developing and least-developed countries; and (3) the implications of these for future policies. The study process shall focus on the reduction or elimination of tariff peaks and escalation in developed countries in sectors and products of export interest to developing countries. It should also clarify that, exemptions from further liberalization commitments shall be given to least-developed countries and to developing countries that have been and would be adversely affected by such liberalization. It should also clarify the appropriate framework, guidelines and rules that can cater to the different conditions and needs of Members, including non-reciprocity for developing countries, and the ability of developing countries to increase their tariff beyond bound rates in certain cases. The study process, based on an examination of these elements, may make recommendations for guidelines and modalities for any future negotiations.

While the study process is proceeding, the following action shall be taken:

1. Developed countries shall eliminate/substantially reduce their tariffs in product of export interest to developing countries.

2. In the course of their developmental efforts, the developing countries may enhance their tariffs beyond the bound levels in respect of specific products/product areas for a specified period in pursuance of the provisions of Article XVIIIA and XVIIIC of GATT 1994. They shall not be called upon to give any compensation for these measures.

3. The developed countries shall remove their specific tariffs and convert them into ad valorem tariffs within the next two years. Care must be taken to avoid effective increase in the tariff levels as a result of such conversion.