



The Multilateral Negotiations on Non-Agricultural Market Access¹

The Background

The World Trade Organization (WTO) members agreed on the framework for negotiations of modalities for NAMA in the Doha Round on August 1, 2004 (the July Package). The members recognized that “additional negotiations are required to reach agreement on the formula; the issues concerning the treatment of unbound tariffs; the flexibilities for developing-country participants; and the issue of participation in the sectoral tariff component and the preferences”. However, the WTO members made clear commitments on:

- *The kind of formula:* They opted for a non-linear formula, meaning that the tariff cuts will be larger on high tariffs than low tariffs. It will thus harmonize the tariffs structure of each WTO member. The text implicitly refers to the formula proposed by Ambassador² Girard in the Chair’s Draft Elements of Modalities.
- *The Special and Differential Treatment:* All the LDCs, as well as countries with consolidated tariffs under 35%³, will be exempted from tariffs cuts commitments. Hence, only eight African countries will be concerned by the NAMA clauses⁴. Developing countries not exempted of all commitments will benefit from extra flexibilities, with longer implementation period, and exemptions on 15% of their tariff lines. The possibility of an implicit special and differential treatment (S&D), meaning that developing countries could apply a more flexible Girard formula, is still open.

Relevant issues for Africa on implications of the July Package

The Tunis Roadmap⁵ that is meant to guide African countries in their negotiations on the various areas currently being tackled in the Doha Round identifies several priority areas that more work is required with respect to enabling the African countries derive the most favourable outcome from the Round. This policy brief addresses some of these areas as identified in the Tunis Roadmap and sheds light on a number of the issues in the hope that it could provide empirically-based sound options. Specifically, the issues identified in the Tunis Roadmap that are tackled in the brief are:

- (a) Presentation of possible scenarios for the formula to be applied for further tariff reductions in NAMA, with a special focus in providing policy space and flexibilities for African countries;
- (b) Specific propositions on how to incorporate flexibilities in NAMA that would address development aspects of African countries;

- (c) Clear indication of the potential impact on African economies of proposals submitted by some WTO Members on NAMA; and
- (d) An analysis and evaluation of scope for unrestricted market access for Africa's exports in developed countries' markets in the context of broadly defined preferences.

Scenario analysis for the tariff reductions formula in NAMA: impacts on African economies (point III-7 (a & f) of the Tunis Roadmap)

This sub-section provides in a nutshell the results from an economic analysis of various scenarios using different coefficients and special and differential treatment elements; to evaluate the impacts of these different combinations of modalities elements on African economies. The basic formula used to derive the tariff reduction rates assessed in the economic analysis is the Girard formula. Two ways of introducing special and differential treatment modalities were analysed in the simulations: the value of Girard coefficient and the tariff lines exempted from tariff reductions. The first element constitutes what can be referred to as *implicit* S&D while the second element implies *explicit* S&D. The magnitude of the tariff reductions that must be effected by each country are linked to the level of the coefficient of the Girard formula. However, some trends can be identified.

The scenarios: Four tariff reduction scenarios, which are coherent and consistent with the July Package commitments, were analysed to bring out the implications for African economies. The first scenario tested the S&D negotiated in the July Package⁶ and employed a Girard coefficient of one for both developed and developing countries. The other three scenarios differ in the way the S&D is taken into account. The second scenario, which could be considered as a conservative scenario, differs with the first scenario only through application of a higher Girard coefficient of three but applied equally to both developed and developing countries. The S&D defined in the July Package was unchanged in this case. Scenarios three and four may be considered as ambitious. Scenario three applies the S&D as defined in the July Package but it also includes what has been referred to above as an *implicit* S&D, i.e. a high Girard coefficient for the developing countries ($B = 3$) and low coefficient ($B = 1$) for developed countries. Concretely, a low coefficient has a stronger impact on tariff reduction. This scenario therefore gives the developing countries greater flexibility. Finally, Scenario four includes the S&D stated in the July Package except that it multiplied that S&D by two. Concretely, this excludes any tariff reduction in more than double the lines from the normal July Package S&D definition of tariffs lines exclusions.

The Results: The results indicated that unless different values for the *implicit* S&D coefficient were applied, on average, the Girard formula would not significantly change the market access

for the African economies to the QUAD economies, meaning Japan, USA, Canada and the EU. Two reasons can explain this phenomenon. The African countries usually enjoy preferential access to the QUAD markets, and the preferential tariffs are not correlated to the MFN ones. Furthermore, the tariffs on industrial imports to the QUAD are low on average. On the contrary, the impact of the Girard formula could be significant on the tariff structure of the developed countries, and tackles a large proportion of the tariffs peaks that still hamper the African exports with a differentiated *implicit* S&D coefficient. The tariffs on food products should thus decrease significantly⁷.

The consequences of the NAMA agreement on African economies appear to be mitigated and to a large extent depend on the nature of the implicit and explicit S&D. The simulations realized thanks to the general equilibrium model⁸ applied showed that the welfare and the GDP of sub-Saharan Africa would slightly improve, while the welfare and GDP of North Africa would significantly increase depending on the depth of special and differential treatment. Otherwise, the NAMA commitments as currently defined in the July Package would induce a systematic deterioration of the trade balance all over Africa, largely due to worse terms of trade.

The implications of the NAMA negotiations on African economies (minimum, maximum all scenarios⁹)

	Sub-Saharan Africa	North Africa
Welfare (US\$ million)	[337, 543]	[2860, 3545]
GDP (% deviation from baseline)	[+0.21, +0.37]	[+1.28, +1.7]
Trade balance (US\$ million)	[-748, -2796]	[-525, -1729]
Terms of trade (% deviation from baseline)	[-0.13, +0.22]	[-0.69, -0.25]

Source: GTAP 6.0 simulations

How to incorporate flexibilities in NAMA that would address development aspects of African countries (point III-7 (c & f) of the Tunis Roadmap)

Two ways are available to improve some flexibility for Africa from the negotiations on NAMA. First, African countries could obtain more policy space when the “explicit S&D” is larger, meaning that African states get more exempted tariff lines. Second, African countries could have more flexibilities when the developing countries apply lighter tariff cuts, through higher B coefficient in the Girard Formula, what is usually called “implicit S&D”.

Improving the explicit Special and Differentiate Treatment: The explicit S&D means that some tariff lines can be exempted from the tariffs cuts commitments. This enables non-LDC African

states and other developing countries not to open sensitive markets to the imports, keeping policy space and customs revenue in these sectors. If the number of tariff lines covered by the explicit S&D of the July Package were doubled, Africa could improve its benefits in the Doha round. The GDP growth would be slightly reduced, but terms of trade, trade balance and the general welfare would be improved¹⁰ compared to the second scenario with $B = 1$ for all countries. Reinforcing the tariff-lines exemption is a solution to limit the commitments of the most developed African states and to help them in pursuing their industrial development strategies.

The influence of the explicit S&D with Girard $B = 1$

		July Package S&D	Doubling of July Package S&D	Variation (%)
Welfare (mln \$)	SSA	489.02	514.98	5
	N. Africa	3545.99	3274.92	-8
Trade balance (mln \$)	SSA	-2796.5	-1455.7	48
	N. Africa	-1729.12	-1194.07	31
Terms of trade (% deviation)	SSA	-0.13	-0.03	77
	N. Africa	-0.69	-0.43	38

Source: GTAP 6.0 Simulations

Improving the implicit Special and Differentiate Treatment: The implicit S&D corresponds to the differentiation of the coefficient of the Girard formula between developing and developed countries. This measure was not officially adopted but is implicitly referred to in the July Package. It implies that the eight African states concerned by the tariff cuts would have to commit themselves proportionally less than the developed states. Similarly to the explicit S&D, the implicit S&D would enable African countries to keep larger policy space and customs revenues. It would be complementary to the explicit S&D, as it would keep room for maneuver on all the tariffs lines not exempted through the explicit S&D. It would lead to higher gains in Sub-Saharan Africa, reduced trade losses, and improve the African terms of trade compared to an equivalent scenario without explicit S&D.

The influence of the implicit S&D¹¹

		B = 1 for all countries	B = 1 for developed & B = 3 for developing	Variation (%)
Welfare (million \$)	SSA	489.02	543.41	11
	N. Africa	3545.99	2860.91	-19
Trade balance (million \$)	SSA	-2796.5	-870.52	69
	N. Africa	-1729.12	-611.83	65
Terms of trade (% deviation)	SSA	-0.13	0.22	269
	N. Africa	-0.69	-0.25	64

Source: GTAP 6.0 Simulations

Unrestricted Market Access for the African exporters to the QUAD: a genuine proposal to make the Doha Round useful for African development (point III-7 (b) of the Tunis Roadmap)

Unrestricted market access for African exporters to the four countries of the QUAD (European Union, Japan, United States and Canada) could be a way to make the Doha Round useful for Africa. It would correspond to Japan, US and Canada extending to the LDCs the current EU Everything-but-Arms preferences under the same terms.

African economies would significantly benefit from this measure, boosted by the growth of their exports (+USD 229 million¹²). This growth of exports would mainly result from the improvement of the African terms of trade (+0.4%), which would in return create a surge of economic activity, with a rise in the African GDP *value* by 1.3%. The social impact of unrestricted market access could also be considerable, as total African welfare could increase by \$1.2 billion, two-thirds of which would result from the improvement of the situation of unskilled workers. Unrestricted Market Access could thus contribute to a large reduction of poverty in Africa.

These results are all the more favourable, because the costs of the measure to grant unrestricted market access for SSA by the QUAD countries are easily bearable for the rest of the world. Indeed, many non-African countries will improve their welfare and trade position thanks to it. In particular, as African exporters would not be able to fully satisfy a surge of the demand, non-African exporters will benefit in new opportunities in the QUAD markets left by the African exporters, as well as in Africa, where imports would be boosted by the economic growth. Eventually, all the regions of the world would enjoy an improvement of their trade position. The GDP and welfare of developing countries rise, while developed countries could suffer minor losses of welfare. Unrestricted Market for African exporters to the QUAD could thus be an in-expensive way to make the Doha round really useful for Africa.

The impact of Unrestricted Market Access for Africa

	Welfare (US\$ million)	GDP value (%)	Trade Balance (US\$ million)
Canada	1.59	0	7.9
European Union	-167.34	-0.01	108
USA	-77.82	-0.01	126.57
Japan	-38.18	-0.01	72.77
Sub-Saharan Africa	1228.6	1.32	-423
Other developed countries	-3.12	0	21.45
China	-16.47	0	12.71
Brazil	-3.17	0	8.3
India	-4.99	0	6.18
Other developing countries	13.72	0	58.37

Source GTAP model with GTAP 6.0 database simulation. With the hypothesis of abundant supply of unskilled labour in Africa

(Footnotes)

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² The tariffs would be cut so that $t_1 = \frac{B \times t_a \times t_0}{B \times t_a + t_0}$, where t_1 is the final tariff, t_0 the initial one, t_a the initial national average and B the coefficient of the formula.

³ These countries will have to consolidate all their tariffs.

⁴ These countries are Botswana, Gabon, Morocco, Swaziland, South Africa, Tunisia, Egypt and Namibia.

⁵ African trade negotiators held a brain storming meeting in Tunis, Tunisia in November 2004. The Tunis Road Map was the output of this meeting.

⁶ The S&D defined in the July Package proposes exclusion of 5% of tariff lines (or 5% of trade) from tariff reduction and 10% of tariff lines (or 10% of trade) to have tariff reductions of half the reduction given by the formula.

⁷ The tariffs on textile and clothing should also be reduced by the Doha round according to our calculations. Yet, the phasing out of the Multi Fibers Agreement will cancel all these improvements by cutting quotas on textile and clothing to zero.

⁸ The figures were obtained thanks to the GTAP model and the version 6.0 of the GTAP database. They are all extracted from the study undergone by the ECA, "Le cycle de Doha peut-il bénéficier à l'industrie africaine?" ECA, (2005).

⁹ The figures inside the brackets indicate the fork of results obtained with the different scenarios tested.

¹⁰ The welfare of the North-African states would yet slightly decrease.

¹¹ Both scenarios also include the explicit S&D of the July Package.

¹² All figures are extracted from the study realized by the Economic Commission for Africa, thanks to the GTAP 6.0 database. "Unrestricted Market Access for Sub-Saharan Africa: Important Benefits with Little Cost to the QUAD", ATPC Work in Progress No. 11, ECA, 2005.