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India's Interests in the Doha Round of Negotiation on "Non-Agricultural Market Access"

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Introduction

The decision to launch negotiation to cut industrial tariffs and discipline the use of non-tariff barriers (NTBs) was taken at Doha by the WTO Members when a new round of trade negotiation was launched in November 2001. Negotiation on non-agricultural market access (NAMA) is mandated under the Doha Ministerial Declaration. The objectives are to cuts tariffs on industrial goods and remove NTBs to market access of industrial exports. It covers all goods not covered under the WTO Agreement on Agriculture. The products are essentially industrial, but WTO Members are also negotiating on natural resources such as fisheries, forests, gems and minerals. The aim of the negotiation is to continue the process of trade liberalisation on industrial goods that started with the General Agreement on Tariffs and Trade (GATT) in 1947 and continued since then through periodic rounds of negotiation.

The main components of the current round of negotiation include:

- increased tariff binding and reduction;
- a sectoral initiative where WTO Members may select several products for complete tariff elimination (also called "zero-for-zero" reductions);
- NTBs, which call for "examination, categorisation, and ultimately negotiations on NTBs";
- special and differential treatment (S&DT) to ensure "less than full reciprocity in reduction commitments" for developing and less developed countries; and
- the issue of preference erosion for least developed countries (LDCs).

Since early 2002, the WTO Members are trying to find a modality that would meet the criteria set out in the Doha Declaration and ultimately for achieving the negotiating and trade policy objectives of this negotiation. So far, the main attention has revolved around finding a formula to meet these goals. This negotiation on industrial tariff as per the Doha Declaration mainly covers two issues:

- how to reduce tariffs by working out a multilaterally agreed formula?
- what percentage of products will be covered by tariff binding?

India has offensive as well as defensive interests in NAMA negotiation. India wants greater market access in the developed country markets not so much through reduction of their tariffs, which are already relatively low, but through the removal of NTBs to trade and also by way of generalised system of preference (GSP) provided unilaterally by importing countries to a selected range of beneficiary countries, covering selected products and sectors. On the other hand, India has defensive interests in NAMA – it is resisting that reduction in tariffs at an artificial pace should not be forced upon the developing countries. India is committed to tariff reduction in an autonomous way and at a pace that it judges suitable to the Indian industries.

NAMA Negotiations: Doha and Beyond

Paragraph 16 of the Doha Work Programme deals with NAMA negotiations. This paragraph has the following four elements:

- reduction/elimination of tariffs, including tariff peaks, high tariffs and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries;
- comprehensive product coverage without any *a priori* exclusion;
- special needs and interests of developing countries and LDCs to be taken fully into account; and
- less than full reciprocity by developing countries and LDCs in reduction of tariffs

There are certain features of the Doha mandate on NAMA, which need elaboration and they are as follows.

- The Doha Declaration did not specify whether tariff reduction should be undertaken on the basis of average tariff cuts or line-by-line formula-based cuts. Thus, there exists a possibility for developing countries to seek tariff reduction through the least burdensome method of average tariff reduction.
- Although the coverage of products for tariff reduction would be comprehensive without *a priori* exclusion, there is a possibility for keeping certain tariff lines outside the scope of tariff reduction.
- The Doha mandate provides for special needs and interests of developing countries to be *fully* taken into account in the negotiation.
- Under the concept of 'less than full reciprocity,' the developed countries are expected to undertake deep tariff cuts without commensurate measures by the developing countries.

These four features of the Doha mandate would suggest that the interests of developing countries would be protected during the NAMA negotiation. However, subsequent developments do not indicate that the

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negotiation is proceeding in a direction that would address the main concerns of developing countries like India.

After the Cancun fiasco in September 2003, came the July 2004 Framework Agreement of the WTO Members, which recognised that the formula approach is key to reducing industrial tariffs. It was further specified that countries would continue to work on a non-linear formula, which will be applied on a line-by-line basis. Certain flexibilities for addressing the concerns of developing countries were also envisaged in the July 2004 Framework and as mandated in Doha Declaration. However, the crucial point is that the July 2004 Framework should be viewed only as providing a contour for further developing full-fledged negotiating modalities and it was not any sort of an agreement.

At the Hong Kong Ministerial Conference of the WTO Members in 2005, it was decided that NAMA tariff reductions would be undertaken through what is known as the Swiss Formula. Expressed mathematically, the Swiss Formula is as follows:

$T_1 = (AXT_0)/(A+T_0)$, where T_1 = new reduced tariff after application of the Swiss Formula; T_0 = existing (bound) tariff on which the Swiss Formula is to be applied applied; and A = the co-efficient, which determines how steep the tariff cuts will be. The lower the co-efficient, the larger the cuts. In other words, for an existing (bound) tariff of 20 percent with a co-efficient of 10 there will be a deeper cut than with a co-efficient of 30. And also with a co-efficient of 10 there will be a deeper cut on an existing (bound) tariff of 30 percent than on a tariff of say 20 percent.[1]

Industrial Tariff Liberalisation in India

Since early 1990s India has progressively reduced policy impediments to trade in manufacturing goods. India adopted a sequenced approach to trade liberalisation. The 1991 Industrial Policy abolished industrial licensing. It liberalised the foreign direct investment regime. Import controls were virtually withdrawn in 1991–92 on all raw materials, intermediates, and capital goods. India gradually reduced average industrial tariffs (applied rates) from 125 percent in 1991 to 17 percent in 2003. Quantitative restrictions (QRs) were removed in 2001. The QR-protected share was 93 percent of the total tradable goods in the pre-reform period. In respect of industrial products, India has bounded 69.8 percent of its tariff lines whereas prior to the Uruguay Round only six percent of these tariff lines were bound. Most of India's bound tariff rates are in the range of 20–40 percent. There are only a few tariff lines that are outside the higher end of this range.

However, India still has high tariffs in comparison to the rest of the world. Some two percent of its tariff lines have peak rates of duty. Examples are: edible oils, alcoholic beverages and motor vehicles. India has an inverted tariff structure in case of some products.

The most important point to be noted is that India is unilaterally (in its own interest) reducing its tariffs on industrial products. This tariff reduction is contributing towards improving the competitiveness of Indian industry, as a large amount of industrial production in India is dependent on imported products as raw materials. This improvement in competitiveness is being further enhanced through strategic regional arrangements. Through all these WTO-compatible regional arrangements, India is aiming at building synergies in the overall interest of expanding trade and investment and making its industry competitive.

India's current approach is to reduce tariffs to the ASEAN (Association of South East Asian Nations) level. The Kelkar Committee has recommended that the reduction of multiplicity of levies and a downward revision of import duties in the range of five to 20 percent in each year: five percent for basic raw materials, eight percent for intermediate goods and 20 percent for consumer durables.[2] The impact of such a policy may, however, lead to a loss of tariff revenue, which constitutes 20 percent of India's gross tax revenue. However, it is expected that the volume of imports will increase (given that the price elasticity of demand for many of these products are high) and thus, will compensate a portion of this loss of tax revenue.

NAMA Negotiation: India's Approach

India's negotiating stance on NAMA is based on the following objectives:

- Leverage autonomous tariff reduction to enhance market access in developed countries
- Retaining some policy space for the domestic industry
- Reduction of tariff peaks and escalation in developed countries
- Obtain adequate flexibilities for developing countries to address developmental sensitivities
- Classification, identification and reduction of non-tariff barriers and to eliminate non-tariff barriers in the developed countries
- Application of the sectoral formula on a voluntary basis and after finalisation of the overall formula for tariff cuts

From India's submissions on NAMA negotiation, it would appear that India's negotiating position has evolved considerably and changed significantly from its initial approach to tariff reduction and its earlier stand on how unbound tariff lines should be treated for purposes of tariff reduction. This transition in the stand can be attributed mainly to:

- the realisation of its strength and requirements; and
- the necessity to go forward in alliance with other developing countries.

Tariff Reduction

India's initial approach to NAMA negotiation is contained in its submissions: TN/MA/W/10 (dated 22nd October 2002) and TN/MA/W/10/ Add 1 (dated 8th January 2003). From the onset of this negotiation, India does not appear to have supported the least onerous approach to tariff reduction through average tariff cuts. Instead, it favoured the relatively more onerous approach of a simple percentage cut on each product. In April 2005, even this approach was abandoned in favour of a further onerous formula — the non-linear ABI (Argentina-Brazil-India) Formula (see Box 1), which is a variation of the Swiss Formula. Thus, India's approach has evolved from seeking a less tedious approach to tariff cuts to proposing and accepting tariff cuts based on the Swiss Formula, which would result in significant tariff reductions.

Box 1: ABI Formula for Tariff Reduction

After consideration of various formulae proposed for these negotiations, a Swiss 'type' formula incorporating each country's tariff average seems best suited to address the mandate in its entirety. This could be expressed as:

$$t_1 = \frac{B \times t_a \times t_0}{B \times t_a + t_0}$$

where,

t_1 is the final rate, to be bound in *ad valorem* terms

t_0 is the bound base rate

t_a is the average of the current bound rates

B is a coefficient, its value(s) to be determined by the participants

The defining features of this formula are as follows:

- The 'formula' would apply to bound tariff lines
- The coefficient 'B' will be modulated to reflect the ambition in other areas relevant to market access agreed to for this Round

Source: Market Access for Non-Agricultural Products, Communication to the Negotiating Group on NAMA from Argentina, Brazil and India, TN/MA/W/54, 15th April 2005

As far as unbound tariff lines are concerned, India's initial negotiating stand was that developing countries should have the flexibility not to bind certain tariff lines still considered domestically sensitive or strategically important. However, in a joint submission by Argentina, Brazil and India, TN/MA/W/54 (dated 15th April 15 2005); India has clearly stated that, "increasing the binding coverage to 100 percent is a desirable objective of this Round". This is another instance of a significant shift in India's negotiating stance between October 2002 and April 2005.

S&DT under NAMA

The Doha mandate provides for the reduction or elimination of tariff and non-tariff barriers on products of export interest to developing countries. This is an issue of particular interest to India as its exports on apparel, footwear, etc. face significant tariff (and non-tariff) barriers in the developed country markets. So far no proposal has been made, either by India or any other developing country, seeking reduction or elimination of tariffs on these products of interest to developing countries. While tariff reduction through the Swiss Formula would cut tariffs on these products, particularly tariff peaks on apparel, footwear, etc., in the absence of product-specific proposals, developing countries would lose an opportunity to seek deeper cuts on products of export interests to them.

The Doha mandate provides for the developing countries to make less than fully reciprocal commitments on tariff cuts. This is likely to be reflected through developing countries retaining the option to keep a certain percentage of products outside the scope of tariff reduction, or subjecting them to less than formula cuts. While the exact percentage of these tariff lines remains to be agreed upon, this should provide a certain amount of breathing space to India for protecting sensitive products from adverse impact of tariff reduction.

In order to ensure less than full reciprocity in tariff reduction, developing countries want higher 'coefficient' in the 'Swiss formula" for tariff reduction, as proposed in the Hong Kong Ministerial Declaration of the WTO Members. In the current phase of the Doha Round of negotiation, resumed after the suspension of talks in July 2006, the US and the EU have called for a 'co-efficient' of 10 for the developed countries and 15 for the developing countries. Since developed countries in general have tariffs averaging about six percent, while developing countries' average tariff is closer to 30 percent, the proposed numbers would require substantially deeper cuts by the latter. Thus, Argentina, Brazil and India stressed that the co-efficients proposed by the US and the EU were unacceptable to them. The US says that it would be necessary to define the 'spread' between the two co-efficients. While the US has sought for the gap to be no higher than 5, the NAMA-11 group has called for it to be no lower than 25. Thus, this stance is consistent with that of India's that the co-efficient applicable to the developing countries should not be less than 35.

Autonomous Liberalisation

In one of its initial negotiating submissions (TN/MA/W/10/Add 1 dated 8th January 2003), India proposed that the developing countries must get credit for autonomously binding their tariffs after the Uruguay Round. Credit for autonomous liberalisation can be obtained in the form of less onerous tariff reduction commitments in the Doha Round. As after the Uruguay Round India has bound a large number of tariff lines autonomously, it stands to gain significantly if an agreement is reached on the methodology for getting such a credit. It is, therefore, surprising that India made a proposal on this issue only in June 2006, more than three years after suggesting this idea.

"Zero-for-Zero" Reduction of Tariffs

India is against any proposal of a mandatory "zero-for-zero" reduction on tariffs on seven specific products by the year 2015. These include sectors such as automobiles, textiles, gems and jewellery, leather products, electric and electronic products, which constitute bulk of India's export basket and also that many of these products are reserved for production under India's small-scale sector. A "zero-for-zero" regime would amount to granting unmitigated access to large foreign firms in the Indian market. India wants it to be voluntary.

Non-tariff Barriers

Tariff reduction by the WTO Members has always been the main thrust area of the Doha Round of negotiation and therefore, the discussion on NTBs has received less attention though for many countries the market access implications of NTBs is just as important as the effects of tariffs on their exports. Like tariffs, NTBs also have a significant impact on developing country exports, even in cases where tariff treatment is already favourable. This is mostly common in the developed countries, which already have, on average, relatively low tariffs on most products, but have high and diverse NTBs to restrict imports.

While negotiating for greater market access in developed countries the developing countries and LDCs notified the Negotiating Group on Market Access of NTBs that are impacting their exports. In this respect, they notified various environmental, safety and/or health-related standards as barriers to their exports, even though some of them are WTO-compatible. It was at the insistence of the developing countries at Doha that NTBs are included in the NAMA negotiation, both to address the use of non-transparent NTBs in the developed countries and to counter-balance the effects of reducing their own tariffs.

Paragraph 16 of the Doha Ministerial Declaration provides the mandate for negotiation on a range of subjects including NTBs. It is aimed to "reduce or appropriately eliminate NTBs, in particular on products of export interest of the developing countries". The negotiation will take into account the special and differential needs and interests of developing and least developed countries.

In its submission TN/MA/W/10 (dated 22nd October 2002) India emphasised the significance that it attaches to the removal of NTBs, particularly on products of export interest to the developing countries. However, progress achieved so far in this respect does not hold out much promise. In the Hong Kong Ministerial Declaration, the trade ministers have only taken note of the work done for "the identification, categorisation and examination of notified NTBs" and have recognised "the need for specific negotiating proposals", which should be submitted as quickly as possible. There is, thus, no deadline even for the submission of proposals, let alone for the elimination of NTBs. Clearly, from India's perspective, one of its important objectives – the removal of NTBs – has not seen a desired progress.

Conclusions

Developing countries like India are at the receiving end in NAMA negotiation. In fact, as per WTO Director-General Pascal Lamy's 'triangle' of issues, it is expected that countries like India would have to significantly reduce their industrial tariff. In a scenario where Indian economy is doing extremely well with a double-digit annual growth of its industrial sector, along with a healthy foreign exchange reserve, it would be crucial for the country to leverage NAMA negotiation in order to generate employment through the expansion of trade. Given the relatively high level of bound tariffs on industrial goods in India, compared to developed countries, tariff reduction through the non-linear Swiss Formula would require India to make deeper tariff cuts than that by the developed countries. In other words, the extent of percentage points by which India would be required to reduce its bound tariffs would far exceed the corresponding number for developed countries. Here lies the imbalance in the possible outcome of the NAMA negotiation for India. Domestically, a possible way of mitigating adverse effects of tariff reduction could be by designing appropriate safety nets for sectors likely to be adversely affected by reduced tariffs.

As commitments on bound tariffs are irreversible, deep cuts in bound tariffs would make it difficult for India to use tariff protection as a tool for industrial policy in the future. In other words, India may not be able to protect some sectors of its domestic industry through appropriate levels of customs duty, even if there is a surge in imports of low-priced manufactured goods. Given the employment potential of some of the informal manufacturing sectors, it is important for India to seek import protection in those sectors. At the same time, India should not ignore the possibility of enhanced exports, which can generate additional employment in other sectors.

Unlike many developing and developed countries, India is not a member of many regional/free trade agreements. Thus, India's exports become uncompetitive to the extent of margin of preference enjoyed by its competitors in the domestic market of preference-granting countries. However, this disadvantage would be addressed after industrial tariffs as per the NAMA negotiation come down.

Unlike agriculture, Indian industrial sector has climbed the ladder of quality and competitiveness in the last one-and-a-half decade. This is evident from the empirical data. Therefore, what is required by India is to be more flexible in NAMA so that it can be more demanding in agriculture where the question of livelihoods of millions of poor farmers is of utmost importance. However, given the mandate on NAMA as per the Doha Declaration India can very well retain some flexibility to protect certain sensitive products by keeping them outside the scope of the applicable tariff reduction formula.

Endnotes

1 With a co-efficient of 10, an existing (bound) tariff of 20 percent will be cut to 6.66 percent [(10X20)/(10+20)]. With a co-efficient of 30, an existing (bound) tariff of 20 percent will be cut to 12 percent [(30X20)/(30+20)]. With a co-efficient of 10, an existing (bound) tariff of 15 percent will be cut to 6 percent [(10X15)/(10+15)] – the higher the existing (bound) tariff, the deeper will be the cut. This formula will be applied on bound tariffs of a country and not on its existing tariffs and thus, while existing tariffs will not be affected, there will reduction in "water in tariffs" – the difference between the existing bound tariffs and applied tariffs will be reduced. And once negotiation is complete and agreed upon by the WTO Members, countries will not be allowed to increase its bound tariffs; they may unilaterally change their applied tariffs: decrease and/or increase, subject to a bound rate. A bound rate, following this negotiation, cannot be increased but a country can unilaterally decrease it and make it equal to the corresponding applied rate.

2 Report on India's Tax Reforms, Ministry of Finance and Company Affairs, Government of India, 2002

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