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WTO NAMA negotiations & the global textiles & clothing trade: Reconciling the irreconcilable amid the financial meltdown

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T&C Trade - Why is it important?

Even though the overall share in world manufactured exports for T&C appears small at 1.7% & 2.5% respectively, the importance of this sector cannot be discounted due to various factors:

- Critical role in the developing and least developed countries. Provides livelihood to millions in the poorest countries of the world.
- Engine of growth for developed countries in the past.
- Heavy dependence in terms of export earning, poverty alleviation, provision of employment (especially to women).
- One of the most controversial and regulated sectors of world trade along with Agriculture.

Combined T&C Exports in 2007 was US $ 583 Billion.

**Percentage Share of Manufactures in World Exports (2007)**

Source: WTO International Trade Statistics 2008

- Clothing: 2.5%
- Textiles: 1.7%
- Automotive: 8.7%
- Office & Telecom Equipment: 11.1%
- Chemicals: 10.9%
- Iron & Steel: 3.5%
NAMA negotiations cover all products not covered by the Agreement on Agriculture.

Products covered include manufactured products (including T&C), fuels and mining products, fish and fish products, and forestry products.

NAMA products have accounted for almost 90% of the world merchandise exports.

The basic aim is to reduce tariffs that continue to be an important barrier to world trade.

Successful NAMA negotiations would mean that market access opportunities will open up for developed Members, but also of other developing Members.

Market access will be further improved through sector-specific initiatives to be implemented on an MFN basis by acceding Members.

Sounds Good! So what's the problem?
Even though the primary sponsors of NAMA Negotiations are the developed countries. The developing & LDCs dependent on T&C trade have an important stake in the outcome especially in regards to products of interest to them.

- Reduction of Tariff peaks on T&C products.
- Ambitious tariff cuts will lead to reduction in applied tariff rates and loss of tariff protection.
- Developing countries would have to eliminate tariffs used to shield their industries from foreign competition.
- **Conflicting interests** within developing countries and the LDCs.
- LDCs are concerned about **preference erosion** which would negate the advantage that their T&C exports to developed countries currently receive.
- Tariff’s becoming the new tool of protectionism after expiry of quotas in 2005.
CONFLICTING INTERESTS

- Restrictive Rules of Origin (ROO) maintained by developed countries;
- End of T&C quotas – loss of market share to countries with comparative advantage;
- Preferential trade & GSP Schemes;
- Calls for “fair” trade as opposed to “free” trade;
- Reduced protection through tariffs for sensitive sectors;
- Reducing/Eliminating non-tariff barriers (NTBs);
- Dispute Resolution – parallel or in consonance? (proposed EU dispute settlement system undermines the existing Dispute Settlement Body)

“...new animal – a NAMA minus – in a negotiation where we have always structured the thing so that there may be NAMA-plus”

Pascal Lamy
What is preference erosion and how is that an issue in NAMA Negotiations?

• Current focus of the negotiations is on the “Swiss” formula which envisions reduction of higher tariffs more than lower tariffs with the overall objective of harmonising all tariffs.

• many LDCs and developing countries view NAMA tariff elimination as eroding whatever is left of their preferential margin as extended to them by the developed countries under their preferential trade and GSP schemes.

• This becomes relevant in the post-quota expiry period due to heightened competition between T&C exporters.

• Complying with the conditions of GSP incurs further costs that affect the actual value of preferences. Any tariff reduction will further affect any gains by the LDCs.

• Negative effects of ROO must also be considered. Compliance with ROO shackles preference receiving countries to source inputs from importing market at uncompetitive rates.
Major issue for developing countries and LDCs receive trade preferences for T&C exports (e.g. African LDCs under AGOA and CBI countries under CBTPA);

Less relevant for Asian LDCs such as Bangladesh that concentrate on apparel exports in the US market since the US does not normally grant trade preference to T&C exports;

Reducing tariffs on clothing would mean that Bangladeshi products would increase their competitiveness against CBI and AGOA clothing exports since the preferential benefits enjoyed by the CBI and AGOA beneficiaries would be reduced.

Some developing countries & LDCs are calling upon the developed countries to avoid large slash in tariffs so that the margin of trade preference currently enjoyed by the LDCs and some developing countries can be maintained.
To cushion impact of preference erosion, EU & US proposed cutting tariffs over a period of 10 years rather than 5;

Pakistan & Sri Lanka complained and secured an exception that would allow for regular cuts in tariffs on products of interest;

This attracted complaints from Asian LDCs (Bangladesh, Cambodia & Nepal) that do not receive tariff-free access to the US;

These LDCs would have faced higher tariffs than Pakistan & Sri Lanka;

US agreed to phase tariff cuts for products of interest to Bangladesh, Cambodia & Nepal over five years instead of ten (along with the similar benefits extended to Pakistan & Sri Lanka).
Opposed to deep tariff cuts in T&C Trade

*Calls for Separate Sectoral Initiative*

- Turkey proposed for separate sectoral negotiations for T&C within the NAMA talks;
- This would allow WTO members to negotiate different treatment for T&C as compared to other products that would be covered under the general formula of tariff reductions;
- This is the exact opposite of other sectors in NAMA, where the aim is to achieve deep uniform cuts in tariffs with eventual elimination of tariffs;
- Turkey’s proposals allow sensitive T&C to be protected from full application tariff cuts whilst some products would be subjected to deeper cuts (more than the tariff cut formula);
- Supported by the US Industry, USTR & Japan.
Supporters of Tariff Cuts in T&C

- Major exporters oppose Turkish proposals.
- These were restricted by the quota system and look forward to benefiting from unrestrained trade in T&C;
- T&C are collectively treated as industrial goods at the WTO level and should not be treated as an exception.
- World Bank, IMF etc. are the appropriate organisations that are best able to deal with post-expiry adjustment issues.
- China has been the specific target of the Turkish proposals.
- China has accused Turkey of attempting to resurrect the old quota system.
- China has cited Turkey’s T&C export growth in EU market (second largest T&C exporter to the EU) with 14% market share.
- China views quota system as discriminatory and states that WTO’s role is to promote competition, not to stabilise market prices.
- Supporters include Brazil, Chile, Hong Kong, India and Pakistan who oppose special measures for T&C sector and maintain that Turkey’s proposals of separate sectoral treatment undermine the integration of T&C into the WTO framework after quotas.
Criticism

• Supporters of tariff negotiations cite that reducing tariff preferences would only carry a small impact on developing countries;
• The benefits from trade liberalisation would offset losses on particular products;
• Preferential tariff schemes have resulted in few benefits to the developing countries (in few sectors like fisheries, agriculture and textiles);
• Erosion of tariff preferences would not adversely affect the LDCs if its spread over a phased period of time;
• Maintaining tariffs on T&C while reducing in other sectors is a revival of quotas;
• LDCs benefit from GSP schemes on a limited scale only due to stringent ROO part of the preferential trade schemes; and
• Supply side constraints such as poor human capital, limited trade facilitation measures, poor infrastructure, high cost of inputs, limited access to financing etc.
Entire economies are organised around T&C manufacturing;
Any adverse impact carries multitude of socio-economic consequences;
T&C is a “unique sector” with its own dynamics and hence deserves special treatment;
In absence of a guaranteed market shares in the developed countries in the form of quotas, possible decline in industries (trade figures point out to struggling AGOA, CBTPA and ASEAN countries);
Calls for “fair” trade as opposed to “free” trade – (which in itself is “unfair” to countries that possess comparative advantage in this sector);
Poor exporters cannot weather loss in export share while the global economy is in recession;
Industry interests in the developed countries oppose general tariff cut formula since foreign exporters would get more opportunities in the developed market than the developed countries exporters.
• Contraction in demand for T&C from developed markets;
• Negative effects on exports from LDCs and developing countries;
• Negative effects on Outward Production Processing (OPP);
• Impact on T&C industries in poor countries affects livelihood of millions of people;
• Labour in developed countries may weather lay-offs but in developing countries they cannot;
• Price reductions in T&C exports has negative effects on labour welfare and reduced wages;
• Recession has not significantly reduced inflation in developing economies;
• Part of stimulus payments in developed countries (US, Australia) may be spent on clothing which may assist exporters;
• Impact on loans and financial assistance to manufacturers/exporters;
• Businesses are now motivated by short-term survival as opposed to long term growth.

Global Financial Crisis?

Trade statistics & analysis have pointed out that exports from Vietnam, China and exporters with better comparative advantage have not slowed down due to recession. However, the same countries that oppose tariff elimination have experienced decline in exports (US import data shows 22.7% decline from Central American exporters in January 2009 whilst Chinese exports grew by 1.3%)
Success of NAMA negotiations is heavily dependent on tariff liberalisation in sectors of interests to the developing countries & LDCs (esp. T&C);

Establishing separate T&C sectoral would continue to be problematic due to competing interests;

Preference erosion issue is a continuation of the controversial quota system in another form. This will lead to continued discriminatory trade in T&C;

Different treatment for Developing countries, LDCs, Small & Vulnerable Economies will lead to uncertainty;

After quotas tariffs would continue to be used for protecting domestic T&C sectors (countries would be loathe to reduce tariffs due to political and economic reasons);

Lack of effective dispute settlement system to resolve tariff disputes would overload the WTO DSB.

Conversely, establishing a separate dispute settlement stream would undermine DSB working.

In the end, T&C trade has to be liberalised since quotas, safeguards, preferential regimes etc. only delay the inevitable. Countries with comparative advantage will eventually export more in the long run.

THE FUTURE

The underlying debate behind T&C specific issues in NAMA Negotiations is whether this sector is unique which merits special regulatory measures and an entirely different tariff reduction scheme?