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MARKET ACCESS NEGOTIATIONS ON NON-AGRICULTURAL PRODUCTS: INDIA AND THE CHOICE OF MODALITIES

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Foreword

Non-Agricultural Market Access is one of the important items on the agenda of the ongoing Doha Round of Multilateral Trade Negotiations in the WTO. In the past rounds the contracting parties of the erstwhile GATT 1947 employed different techniques in tariff negotiations such as request-offer or product-by product procedures, linear or harmonization formula approach, or sectorial harmonization or elimination. These techniques are known as modalities of negotiations. As in the past, Members would need to decide on the modalities before they can proceed with the negotiations in the current round.

During the discussions in the Negotiating Group on Non-Agricultural Market Access a number of suggestions have been given on the modalities. The Chairman of the Negotiating Group has also submitted a comprehensive proposal for the consideration of Members. Members had earlier agreed that they would decide on the modalities by 31 May 2003, but differences prevented an accord before the deadline. The decision would be crucial for breaking the logjam that has been created in the Doha Round following the collapse of the Fifth Ministerial Session at Cancun.

India was initially a reluctant participant but by the time of the Fifth Ministerial Session held at Cancun in September 2003 appeared ready to engage in these negotiations. In future negotiations India would have to take a decision on the best way to advance its interest in the eventual choice that is made by the Members in respect of the modalities in the area.

The authors have taken the view that there are good reasons for India to be ambitious in its outlook and proactive in approaching the negotiations. India has liberalized its tariffs at a pace that seemed unthinkable before the onset of economic reforms. There is harmony in the views of the political executive and economists that the trend must be maintained. India has a large repertoire of concessions that it can trade for getting reciprocal concessions in return. Further in the context of the wave of regional integration arrangements that is sweeping across the world, steep reduction in the non-discriminatory tariffs is the only way in which non-participants in major regional arrangements can alleviate the trade diversion effect of preferential arrangements. As for modalities the authors recommend that a non-linear formula which attaches weight to the tariff average of the country concerned would be in India’s best interest. They advocate that if participation in sectorial liberalization is to be mandatory, India must ask for the possibility for developing countries to retain the flexibility to set the tariff at five per cent. The authors do not favor placing great reliance on the concept of special and differential treatment. This concept served the developing countries well in the past when the main motivation was to fend off pressures for tariff reduction by them. However, it is a poor instrument for extracting concessions from the developed country partners.

It is hoped that the Working Paper would be helpful to the policy-makers, the business community and other interested persons to take a view on what is in India’s best interest in the negotiations in this area.

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Arvind Virmani
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I Introduction

Market access in non-agricultural products is one of the important areas of negotiations on the agenda of the Doha Round of multilateral trade negotiations.[1] These negotiations encompass both tariff and non-tariff barriers, and are to take place in accordance with the modalities to be agreed. The deadline for reaching an agreement on the modalities was initially fixed for 31 May 2003. However, the deadline was missed on account of disagreements among Members[2] and an accord also eluded the Fifth Ministerial Session of the WTO held at Cancun in September 2003. In any future attempt to resume the negotiations in the area finding a basis for agreement on the modalities will have to be the starting point.

What does the term "modalities" denote in the context of tariff negotiations? In the WTO Agreement, as in GATT 1947,[3] the Member governments are mandated to enter into negotiations periodically for the reduction of tariffs "on a reciprocal and mutually advantageous basis". The relevant article[4] states further that these negotiations "may be carried out on a selective product-by-product basis or by the application of such multilateral procedures as may be accepted" by the Members concerned. In past negotiations, governments have carried out negotiations on a product-by-product basis or have agreed to adopt a formula for reducing tariffs. They have also employed other tools or techniques for this purpose. The term modality refers to these methods used in tariff negotiations. The application of these methods also involves an agreement on several other aspects such as base rates (the tariff level taken as the base for applying the agreed

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1 The WTO Agreement contains a definition of agricultural products, which includes a number of manufactured products as well, such as manufactured food products. At the same time, the definition excludes fish and fish products. The Negotiating Group on Market Access covers all products not included in the definition of agricultural products.

2 The States and separate customs territories that are members of the WTO are referred to in the WTO Agreement as Members.

3 The General Agreement on Tariffs and Trade (GATT) negotiated in 1947 entered into force on I January 1948. After 47 years of independent existence, GATT became a part of the WTO Agreement in 1995, along with the improvements made during its period of operation and further improvements made during the Uruguay Round. The GATT in its original form is known as GATT 1947, and in the form in which it was assimilated into the WTO Agreement it is known as GATT 1994.

4 GATT 1994, Article XXVIII *bis*.

reduction) and staging (the period over which the tariff reduction would be phased). All these and other related aspects are covered by the term “modalities”.

A great deal of discussion has already taken place in the current round on the modalities and a number of proposals have been made on the subject. The objective of this paper is to facilitate the process of development of the position that would be in the best interest of India to take in future discussion on the modalities for tariff negotiations. The paper is divided into five parts. Part II analyses the WTO rules relating to tariff negotiations and the past practice. Part III describes the proposals on modalities made initially by Members in the current negotiations and also analyses those made by the Chairman of the Negotiating Group on Non-Agricultural Market Access and others in the run up to the Fifth Ministerial Session of the WTO. Part IV discusses the considerations that should determine India’s approach towards these negotiations. Part V makes recommendations on the position that would be in the best interest of India to take in the negotiations on modalities. Finally, Part VI summarises the conclusions.

II WTO Rules and Past Practice in Tariff Negotiations

II.1 WTO Rules Relating to Tariffs and Tariff Negotiations

II.1.1 *Tariffs and tariff negotiations in the WTO*

The WTO Agreement allows Members to use “duties, taxes or other charges” for regulation of trade without stipulating the general or specific levels of tariff that Members can maintain. It, however, encourages them to periodically enter into rounds of tariff negotiations “directed to the substantial reduction of the general level of tariffs and other charges on imports and exports and in particular to the reduction of such high tariffs as discourage the importation even of minimum quantities”.[5] As mentioned earlier, the WTO Agreement leaves it to Members to decide whether the negotiations should be carried out on a selective product-by-product basis or by the application of “multilateral procedures”. It envisages that the negotiations could result in the reduction of duties, the binding of duties at existing levels, or commitments not to raise duties on particular

[5] GATT 1994, Article XXVIII *bis*, paragraph 1.

products beyond specified levels. It stipulates further that " [t]he binding against increase of low duties or of duty-free treatment shall, in principle, be recognised as a concession equivalent in value to the reduction of high duties".[6]

II.1.2 Principle of reciprocity and concept of non-reciprocity

A central requirement of GATT 1994 is that negotiations be held on a reciprocal and mutually advantageous basis. There is no provision on the manner in which reciprocity should be measured and the understanding has been that governments participating in negotiations have freedom to adopt any method for evaluating the concessions. In the 1960s, the concept of non-reciprocity came to be recognised for trade negotiations between developed and developing countries. This concept was later explained to mean that in the exchange of concessions during negotiations the developing countries would be expected to make concessions that were consistent with their individual development and financial and trade needs rather than none at all.

II.1.3 Renegotiations

Once negotiations have been concluded, Members cannot modify or withdraw the tariff concession, except after entering into re-negotiations with the Members with whom the initial negotiations were held and with those Members who have a principal supplying interest. Consultations have also to be held with Members who have a substantial interest in such concessions. In such re-negotiations or consultations, the Member seeking modification or withdrawal is expected to give compensatory concessions on other products. If agreement is not reached, the Member may still go ahead with the proposed changes, but the affected Members get the right to withdraw substantially equivalent concessions initially negotiated with the Member making the change. There may be three categories of "affected Members", viz., those with initial negotiating rights (INRs), principal supplying interest, and substantial supplier interest. Members with INRs are those with whom the specific tariff concession was negotiated at an earlier round or during subsequent re-negotiations. Members with the largest share of

[6] GATT 1994, Article XXVIII *bis*, paragraph 2(a).

imports in a particular product are deemed to be having a principal supplying interest with respect to that product and those with a share of 10 per cent or more are considered to have substantial supplying interest.

II.1.4 Principle of non-discrimination

By virtue of the *most-favoured-nation* (MFN) clause of GATT 1994, a WTO Member has not only to treat all other Members equally but also has also to extend to each of them the best treatment it accords to any trading partner. An important element of the obligation is that the extension of any concession or favour to all Members has to be immediate and unconditional. All tariff concessions made by Members during the course of negotiations and renegotiations have to be extended to all other Members on a non-discriminatory basis. It follows that all modifications and withdrawals of tariff concessions, including retaliatory withdrawals, must be applied on a non-discriminatory basis. There are some exceptions to the MFN rule, the most important one being tariff concessions extended under regional trading arrangements.

II.1.5 Implications of tariff commitments

After tariff negotiations are concluded the results are incorporated in the schedules of concessions of the Member concerned, which are lodged with the WTO Secretariat. Once a tariff concession has been entered into the schedule of a Member, the most important implication is that there is a commitment not to apply customs duty upon the importation of the product above the level indicated in the schedule. The tariff level is thus "<u>bound</u>" against an increase. The binding against increase affects not only the basic customs duty but also "other duties or charges of any kind" (ODCs). As a broad definition of ODCs it has been accepted that only those levies that discriminate against imports are covered, e.g. stamp duty, development tax, revenue duty, etc. During the Uruguay Round, it was agreed that all ODCs would be recorded in the schedules of concessions against the tariff item to which they apply. If no ODCs are shown in the schedule against a particular tariff item, it is presumed to be zero. This obligation applies to the Uruguay Round and future negotiations, and the position regarding ODCs in respect of concessions negotiated in earlier negotiations is more complex.

Internal taxes, anti-dumping, or countervailing duties and fees or other charges commensurate with the cost of services rendered are not affected by the level at which concessions have been bound during negotiations. Thus, a Member is entitled to impose on imports charges that are equivalent to an internal tax such as excise duty. Tariff commitments have an implication also for the pricing practices of import monopolies. The mark-up on the price of products imported by an import monopoly must not afford protection to domestic goods above the level provided by the tariff commitment.

II.2 Modalities Adopted in Past Negotiations

Eight tariff conferences and rounds of multilateral trade negotiations were held under the auspices of GATT 1947 between 1947 and 1994 within the legal framework outlined earlier. These were the Geneva Tariff Conference (1947), the Annecy Tariff Conference (1949), the Torquay Tariff Conference (1950–51), the Geneva Tariff Conference (1956), the Geneva Tariff Conference (1960–61), also known as the Dillon Round, the Kennedy Round (1964–67), the Tokyo Round (1973–79), and the Uruguay Round (1986–94). The modalities adopted during these negotiations are summarised below. In this summary of past practice we deal only with some broad aspects, such as the main negotiating tool used for the reduction of tariff, the measurement of reciprocity, and special and differential treatment of developing countries. A number of other aspects are also relevant, but past practice on those aspects has not been described in the interest of brevity. We shall take up these aspects when we deal with the proposed modalities in the current Round.

II.2.1 The early rounds

The rules and modalities of the first three rounds of negotiations had the following common elements:

The negotiations were to be conducted on a selective *product-by-product* basis;

The requests for reduction of tariff on a product could be made in principle only in respect of products of which the requesting countries were individually or collectively the *principal suppliers* to the countries from which the concessions were asked;

Each participating country had the full flexibility on granting concessions on individual products; it was free not to grant concessions on individual products; or if chose to grant a concession, it could reduce the duty or bind it at the existing or a specified higher level;

The binding against increase of low duties or of duty-free treatment was in principle recognised as a concession equivalent in value to the substantial reduction of high duties or the elimination of preferences;

The negotiations were to proceed strictly on the basis of reciprocity and no government was to be required to grant unilateral concessions, or to grant concessions to other governments without receiving adequate concessions in return. (Hoda 2001)

The selective product-by-product technique was also adopted as the modality for the 1956 Geneva Tariff Conference. In the Dillon Round, also the governments chose to adhere to the bilateral item-by-item negotiating procedures.

II.2.2 Kennedy Round

In the Kennedy Round, for industrial products the selective product-by-product technique was replaced by linear tariff reduction, and the working hypothesis adopted for the rate of reduction was 50 per cent. Exceptions to the application of the rate of reduction agreed as the working hypothesis were not ruled out, but such exceptions were to be kept to a bare minimum, justified on the basis of overriding national interest. The selective product-by-product technique continued to apply for agricultural products.

Two main reasons led to the adoption of the linear approach. First, the selective item-by-item technique adopted in the past had led to very small reductions, as the negotiations depended on the extent to which the principal supplier was willing to reciprocate the reduction of duty in a particular product. Second, the increase in the number of governments participating in the negotiations had made the process cumbersome and unwieldy.

On account of the recognition of the concept of non-reciprocity in negotiations between the developing and developed countries, the adopted modality applied only to the developed countries.

II.2.3 Tokyo Round

In the Tokyo Round, the developed countries agreed at the outset to conduct negotiations on tariffs by employing a formula of as general application as possible. The general sentiment was that there should be an agreement on a formula that would result in harmonisation, i.e. higher the duty, larger the reduction. While a number of harmonisation formulae were proposed the ultimate agreement was on the Swiss formula, which was $Z= AX/ (A+X)$, where coefficient A = *14 or 16*, X= initial rate of duty, and Z= resulting rate of duty. Governments were given the option to adopt 14 or 16 as the coefficient, the latter resulting in slightly lower reductions. As in the Kennedy Round, participant governments made exceptions in the application of the formula to some product areas, but in lieu of this they undertook deeper reductions in other products. As in the Kennedy Round, the formula was not followed by the developing countries at all and the developed countries also did not apply it to agricultural products. A number of developed countries that were signatories to the Agreement on Civil Aircraft agreed to also eliminate tariffs on civil aircraft.

II.2.4 Uruguay Round

In the Uruguay Round, the US advocated that a request–offer approach should be followed, while some other developed countries spelt out details of a formula approach that they proposed as the principal modality.

- The **EC** made the following proposal
  - For reduction of duties by the industrialised and more advanced developing countries:
    - base rate of 40% or higher: reduction to ceiling of 20%
    - base rate of less than 40%: reduction on the following basis:
      - rates between 0 and 29%

R=D plus 20 (where R is the percentage reduction and D the base rate of customs duty)

- rates between 30% and 40%

  R=50

- For other developing countries excluding the least-developed the EC proposed the following approach:
  - base rate of more than 35%: reduction to ceiling of 35%
  - base rate of 35% or less: possibility of bilateral negotiations with a view to reducing and harmonising the rate of duty.
- For the least developed countries the EC proposed that they would make contributions to the limits of their capabilities.

❖ Initially **Japan** proposed elimination of tariffs on all industrial products. Subsequently it proposed that developed countries eliminate tariff on a certain proportion of their tariff lines. Tariffs that were not eliminated were to be subject to reduction under a harmonisation formula such as the one used in the Tokyo Round.

❖ **Canada** suggested the adoption of the following formula:

R=32 plus D/5, where R is the rate of reduction and D is the base rate. In performing the calculation D/5 the result had to be rounded off to the next full number and the maximum figure for R was to be 38 per cent.

❖ **Switzerland** proposed adoption of the Tokyo Round with the coefficient of 15.

$Z = \frac{15 \times X}{15 + X}$, where Z= final duty and X= initial duty.

The conflicting approaches on modalities remained unresolved until the end but at the mid-term review meeting held at Montreal a basis was found for making progress in tariff negotiations. An agreement was reached at that meeting on 'a target amount for overall reductions at least as ambitious as that achieved by the formula participants in the Tokyo Round'. This translated into the target amount of overall reductions by one-third (33 1/3 per cent). It was left to each participant to determine the manner in which it would reach the overall target of reduction. In making their offers, most developed countries used a formula proposed during the negotiations, but the US stuck to its approach of following the request–offer item-by-item technique. Although in principle the target for overall reduction applied to the developing countries as well, the expectation from them was mainly for increasing the coverage of bindings in their tariff schedules. The agreement at Montreal included the general principle that there would be '(A) a substantial increase in the scope of bindings, including bindings at ceiling levels, so as to provide greater security and predictability in international trade'.

Towards the end of the negotiations, the four major developed countries Canada, Japan, the EC (12) and the US also agreed on several new ways of reducing their tariffs. First, they agreed to eliminate tariffs in 10 products or product groups (sectors), viz., agricultural equipment, beer, construction equipment, distilled spirits (brown), furniture, medical equipment, paper, pharmaceuticals, steel, and toys. Second, they also agreed on harmonisation of chemical tariffs, whereby tariffs in certain headings were eliminated while for certain others they were reduced to 5.5–6.5 per cent. Third, for tariffs above 15 per cent (peak tariffs), they agreed to negotiate for a reduction of 50 per cent. Fourth, for other tariffs they agreed to reduce by an average of one-third at least, reducing in certain cases by more than 50 per cent.

The negotiations for reduction of peak tariffs and for reduction of other tariffs from one-third to 50 per cent and beyond were only partially successful. However, the negotiations for elimination and harmonisation of tariffs in the sectors enumerated above were fully successful. While the four major developed economies joined all the sector initiatives, other developed countries were selective. Norway joined only for seven sectors (excluding beer, paper and toys), and Switzerland only five leaving out distilled spirits (brown) and steel as well. Australia joined only for beer and pharmaceuticals and New Zealand for paper and pharmaceuticals. Norway and Switzerland joined the tariff harmonisation initiative on chemicals but Australia and New Zealand did not. Among developing country Members, only Hong Kong, Korea and Singapore agreed to the elimination of duties in most but not all of these sectors. There was no insistence on other developing countries to accept the sectorial initiatives on a mandatory basis. Nevertheless, except in the case of toys in which the dominant exporting country, China, was not yet a Member of the WTO, Members accounting for a major share (60 per cent or more) of the world export or import trade joined the agreement and eliminated or harmonised the duties in the sector.

The target for overall reduction applied only to non-agricultural products. For agricultural products, altogether different yardsticks were used. As the initial step, all countries were required to convert their non-tariff measures into customs duties. Thereafter, all customs duties, including those resulting from conversion of non-tariff measures, had to be reduced by a simple average of 36 per cent. There was to be a minimum rate of reduction of 15 per cent for each tariff line. For developing countries, the rate of reduction was 24 per cent, with a minimum reduction of 10 per cent for each tariff line.

II.2.5 After the Uruguay Round

About two years after the establishment of the WTO a group of developed and developing countries took an initiative for eliminating customs duties and other duties and charges on six categories of information technology products. These categories were computers, telecommunication products, semiconductors, and semiconductor manufacturing equipment, software, and scientific instruments. A unique feature of the modalities adopted for the negotiation of the Information Technology Agreement was that the Agreement was to become effective when participants representing approximately 90 per cent of trade in these products had accepted the agreement. As in the case of the sector agreements during the Uruguay Round, it was thus ensured that the major beneficiaries of the agreement also eliminated tariffs themselves. The critical mass for making the Information Technology Agreement operational was pitched at a level higher than what had been done in the sector agreements during the Uruguay Round.

II.3 Reciprocity and its Measurement

As stated earlier the principle of reciprocity is fundamental to the negotiating framework of the WTO Agreement. It has also been indicated that the rules do not specify how reciprocity is to be measured. However, the practice during past negotiations under the GATT throws some light on the subject.

When negotiations were held on the basis of the request–offer item-by-item technique, reciprocity was a function of two factors, *viz.*, trade coverage and depth of tariff reduction. These two factors remained the basic criteria in later negotiations as well. However, when linear and formula approaches were adopted, complementary techniques were also employed to establish reciprocity. In the Kennedy Round, for determining reciprocity with trading partners, participants took into account the average reduction in dutiable products or the trade coverage of the working hypothesis of 50 per cent reduction or the extent of exceptions to linear reduction in respect of products of export interest to them. Where the offer was for reduction by less than the working hypothesis of 50 per cent, the offers on dutiable tariffs were converted to the equivalent of 50 per cent tariff reduction. During the Tokyo Round, when participants made exceptions to the application of the agreed formula in respect of some products, they were required to make deeper cuts in other products in order to maintain a reciprocal balance.

Although statistical methods were largely used to determine reciprocity during negotiations, in the internal assessments of the value of tariff concessions made by trading partners numerous other factors were used to evaluate the balance of concessions. These were existence of non-tariff measures, the height of duties, demand and supply elasticity, the size and nature of markets, etc. In the Kennedy and Tokyo Rounds, participating countries insisted sometimes not only on global reciprocity in bilateral trade but also on reciprocity in specific product groups. In the Tokyo Round, reciprocity in tariff negotiations was only a part of the equation in the broader negotiations that covered non-tariff measures as well. In the Uruguay Round, reciprocity in tariff negotiations became somewhat less significant in the context of more comprehensive negotiations that encompassed services and intellectual property rights as well. But it did not disappear altogether and remained important in its own right. In the sector initiatives for elimination or harmonisation of tariff, the participants ensured that there was broad-based participation by other producers and exporters. In the case of the Information Technology Agreement, participants sought to achieve reciprocity through the critical mass requirement, i.e. by making it a condition that the Agreement would become effective only after participants with a share of 90 per cent of world trade had accepted it.

II.4 Developing Countries in Past Negotiations

In the first five rounds, developing countries participated in the negotiations with developed countries as equal partners and exchanged concessions with them on the basis of reciprocity. However, with the recognition of the concept of non-reciprocity in the mid-1960s, the level of their engagement in tariff negotiations was very low during the Kennedy and Tokyo Rounds. During the Kennedy Round, they were not called upon to participate in the linear reduction of tariff. They were exhorted to make at their discretion a general contribution to the overall objective of trade liberalisation. Only some of them made concessions in response to the exhortation from the developed countries, and these too were minimal in significance. During the Tokyo Round also, the developing countries were not asked to adopt the formula for the reduction of industrial tariffs. But the mood of the developed countries towards the more advanced developing countries was more demanding than in the Kennedy Round. During this round, the concept of non-reciprocity in trade negotiations between the developing and developed countries was broadened into the comprehensive principle of special and differential (S & D) treatment of developing countries in all areas of negotiations. But in the process, the notion of graduation of developing countries was also introduced, whereby the more advanced developing countries were asked to undertake greater tariff commitments. Several of them had to make tariff concessions in response to requests, particularly from the US.

During the Uruguay Round, the developing countries continued to benefit from special and differential treatment, of which the concept of non-reciprocity was a subset. They were not expected to subscribe to the generally agreed target of one-third for overall reduction of industrial tariff, but instead they were asked to increase the coverage of tariff commitments. While increasing the level of bindings they were also allowed to undertake ceiling bindings whereby the bound level was higher than the current applied rates. In agriculture, as we have seen, they were asked to reduce average tariffs by a lower percentage, but the coverage of their bindings had to be comprehensive.

The Uruguay Round witnessed a sea change in the attitude of the developing countries towards tariff negotiations. Many of them had reduced their external trade barriers in the context of wide-ranging economic reforms undertaken since the Tokyo Round. They were keen on fuller participation in the tariff negotiations, without insisting too much on the concept of non-reciprocity. Even though they were under no pressure to subscribe to the overall reduction of tariffs by one-third agreed at the mid-term review meeting, they made generous tariff concessions and some of them (such as Korea and India) even exceeded the target. Indeed, the concessions made by them were quite substantial, especially when judged against the commitments made by them in past negotiations. Table 1 shows the extent to which some important developing countries made commitments to reduce tariffs in the Uruguay Round.

Table 1: Trade-weighted averages of tariff in percentage

Country	Pre-Uruguay	Post-Uruguay
Argentina	38.2	30.9
Brazil	40.7	27.0
India	71.4	32.4
Indonesia	20.4	36.9
Korea	18.0	8.3
Malaysia	10.0	9.1
Mexico	46.1	33.7
Thailand	37.3	28.0
Turkey	25.1	22.3
Chile	34.9	24.9

Source: GATT Secretariat, *The Results of the Uruguay Round of Multilateral Trade Negotiations*, November 1994.

The contribution of the developing countries was even more impressive in respect of the increase in coverage of tariff bindings in industrial products, as can be seen from Table 2.

Table 2: Scope of bindings in industrial products for selected developing countries: percentage of tariff lines

Country	Pre-Uruguay	Post-Uruguay
Argentina	5	100
Brazil	6	100
Chile	100	100
India	3	60
Indonesia	10	93
Korea	10	85
Malaysia	0	25
Thailand	1	63
Turkey	34	37
Mexico	100	100

Source: GATT Secretariat, *The Results of the Uruguay Round of Multilateral Trade Negotiations*, November 1994.

III The Doha Mandate And Proposals Made Thereunder

III.1 The Doha Ministerial Declaration on Negotiations on Non-agricultural Tariffs

The WTO Agreement had itself provided that another round of negotiations in the areas of agriculture and services should begin in *2000*. While the WTO Agreement envisages that Members must enter into tariff negotiations periodically, no specific decision had been taken in respect of products other than agricultural products. In the run up to the Seattle and Doha Ministerial Meetings of the WTO, an issue had arisen whether the agenda should be made more comprehensive by including, *inter alia*, market access negotiations on non-agricultural products. A number of countries including India opposed the inclusion of market access on non-agricultural products for a long time but eventually the following paragraph was agreed in the Doha Declaration:

"We agree to negotiations which shall aim, by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries. Product coverage shall be comprehensive and without *a priori* exclusions. The negotiations shall take fully into account the special needs and interests of developing and least-developed country participants, including through less than full reciprocity in reduction commitments, in accordance with the relevant provisions of Article XXVIII *bis* of GATT 1994 and the provisions cited in paragraph 50 below. To this end, the modalities to be agreed will include appropriate studies and capacity-building measures to assist least-developed countries to participate effectively in the negotiations."

Paragraph 50 refers to the various instruments agreed to in the past in the GATT and the WTO on special and differential treatment of developing countries.

III.2 Proposals made by Members on Modalities during the Doha Round

Following the Doha Ministerial Meeting in November 2001, intensive discussions took place in the Negotiating Group on Market Access with a view to reaching an agreement on modalities by the target date of 31 May that had been fixed for finalising the modalities. Several Members had made proposals on the subject until the end of January 2003, on 5 February the Chairman of the Negotiating Group on Market Access circulated an overview of these proposals. On 16 May 2003 the Chairman of the Negotiating Group submitted a draft of the 'Elements of Modalities for Negotiations on Non-Agricultural Products' (TN/MA/W/35) to facilitate an agreement among Members and on 19 August 2003 he circulated a revised version (TN/MA/W/35/Rev.1). The run up to the Fifth Ministerial Meeting at Cancun saw the appearance of a joint Canada-EC-US paper, which, as we shall see later, left many of the elements of modalities unspecified. The Draft Ministerial Declaration submitted by the Mexican Minister Derbez (JOB(03)/150/Rev.2 dated 13 September 2003) attempted to paper over the disagreements on the modalities. While differences on the Singapore issues and agriculture were the main reasons for the collapse of the Ministerial Meeting, agreement was not in sight in Non-Agricultural Market Access as well at the time the Meeting was closed. We first consider the important issues raised initially in the proposals made by Members and then take up an analysis of the draft elements proposed by the Chairman on the Negotiating Group as well as the subsequent texts and submissions. .

III.2.1 Elimination of non-agricultural tariffs

The choice among the three main negotiating tools or modalities (formula, elimination, or harmonisation by sector or request–offer procedures) becomes less significant in the context of proposals made by the US (TN/MA/W/18) and Hong Kong (China)(TN/MA/W/12) for across-the-board elimination of non-agricultural tariffs by all or a subset of Members. However, the US proposal involved the use of both a harmonisation formula and sector approach in the process of elimination of all non-agricultural tariffs. It envisaged that the five steps outlined below would be taken the first four being applied between 2005 and 2010 and the fifth between 2010 and 2015. For developing countries, a differentiated treatment was envisaged but not spelt out in clear terms.

- Elimination by 2010 of tariffs on all products with tariffs at or below 5 per cent *ad valorem*.
- For all other tariffs above 5 per cent, application of a harmonising Swiss formula with a coefficient of eight. By this formula, Final Rate = (Initial Rate x 8)/ (Initial Rate + 8).
- As soon as possible but no later than 2010, elimination of tariffs in the Uruguay Round zero-for-zero sectors, in addition to tariffs covered by the Information Technology Agreement (ITA) and the Agreement on Civil Aircraft (ATCA).
- As soon as possible but no later than 2010, elimination of tariffs in the following additional sectors and others, as agreed by Members: wood products, non-ferrous metals, bicycle parts, certain chemicals and allied products including soda ash and photographic film, electronics, fish and fish products, scientific equipment, and environmental goods.
- Complete elimination of remaining tariffs by 2015 through linear cuts.

Hong Kong (China) proposed that developed and developing countries must first undertake to make a one-off reduction immediately upon the conclusion of the Doha Round, the cut being lower for developing countries. Thereafter, the developed countries must undertake to reduce tariffs further by equal annual cuts until all tariffs were eliminated within a specified period. As for developing countries, the commitment must be to apply further tariff cuts over a longer time frame, on the basis of a common overall target.

III.2.2 Choice of modality or negotiating tool

(a) The formula approach

Several Members emphasised that reliance must be placed on a harmonisation formula as the central negotiating tool. Some of them refer to the Swiss formula, without specifying the coefficient to be used. As mentioned earlier, only the **US** had proposed (TN/MA/W/18) the use of the coefficient of eight in the Swiss formula for arriving at the intermediate level of tariff before all tariffs were finally eliminated. Thus, the formula proposed by the US would have been as follows:

$$t_1 = \frac{8 \times t_0}{8 + t_0} \ .$$

The application of the US formula would have resulted in the final tariff not exceeding 8 per cent, irrespective of the level of the base level of tariffs.

In the scheme proposed by the US, initial tariffs that were less than five per cent would also be eliminated at the intermediate stage.

There were five other proposals, including the one made by India that suggested adoption of a specific formula, as indicated below.

Japan has proposed (TN/MA/S/3/Rev.2) that the reduction of tariff should be made by setting a target level of a trade-weighted average tariff rate for each Member according to the level of its bound rate (trade-weighted average). The following formula was suggested:

$$t_{1a}^{w} = \frac{A \times t_{0a}^{w}}{A + t_{0a}^{w}} + \boldsymbol{a}$$

where t_{0a}^{w} was the weighted tariff average prior to the application of the formula and t_{1a}^{w} was the weighted tariff average after the application of the formula. A was a constant whose value varied as follows:

$t_{0a}^{w} \leq 10\%$, $A = 10$,

$10\% < t_{0a}^{w} \leq 20\%$, $A = 20$,

$20\% < t_{0a}^{w} \leq 30\%$, $A = 30$,

$30\% < t_{0a}^{w}$, $A = 40$.

$\boldsymbol{a}$ was proposed as a constant equal to 0.3.

According to the proposal, each Member would have had flexibility on ways to realise the target tariff level. Thus the formula could not be applied to individual tariff lines.

Korea had proposed (TN/MA/W/6/Add.1) that the modalities should take into account the current tariff structures of Members as these reflected their respective levels of development. Each Member was required to reduce its trade-weighted average tariff by 40 per cent, with the tariff on each product being reduced by not less than 20 per cent. For those products whose current bound tariff rates were above either each concerned Member's current simple national average tariff rate or 25 per cent, the tariff rates were to be reduced by more than 20 per cent. The formula thus factored in the national tariff average or the existence of tariff rates above 25 per cent in applying the reduction to the higher tariff rates. The following formula was proposed for tariff rates that were above two times the national average but less than 25 per cent:

$T_1=(T_0*0.8)-0.7*(T_0-2*T_a)$,

where,

T_1: maximum tariff rate after reduction;
T_0: tariff rate before reduction (above 2 times the national average); and
T_a: national average tariff rate.

A similar formula was proposed for tariff rates above 25 per cent but less than twice the national average:

$$T_1 = (T_0 * 0.8) - 0.7 * (T_0 - 25),$$

Where,

T_1: maximum tariff rate after reduction;
T_0: tariff rate before reduction (above 25 per cent).

If the tariff rate was above two times the national average but at the same time above 25 per cent, the final tariff rate was required to be the lower of the rates resulting from the application of the above two formulae.

The **European Communities** proposed (TN/MA/W/11/Add.1 and Add.2) that WTO Members agree to reduce all tariff duties considerably by compressing them into a flatter range, within which tariff peaks and high tariffs are eliminated. The application of such a compression mechanism would result in considerably reduced tariff rates with a limited dispersion. The formula was to be applied over a set of tariff intervals and the tariff rate cuts depended upon the lower and upper limits of the relevant interval. The following formula was proposed with $f(x)$ as the tariff level after the application of the formula:

$$\left\{ f(x) = B_1^L + (x - B_0^L) * \frac{(B_1^U - B_1^L)}{(B_0^U - B_0^L)}, \right.$$

with B_0^L and B_0^U as lower and upper limits in base bracket,

and B_1^L and B_1^U as same limits in the new bracket,

and where x = initial duty.

The following were the tariff intervals proposed by the EC:

	Base			Final		
	B^L_0		B^U_0	B^L_1		B^U_1
Interval 1	0	to less than	2	0	to	0
Interval 2	2	to	15	1.6	to	7.5
Interval 3	15	to	50	7.5	to	15
Interval 4	50	to more than	50	15	to	15

The People's Republic of China proposed (TN/MA/W/20) a harmonisation formula linked to the average tariff rate. The objective was to achieve greater reduction where the tariff rate was higher than the average tariff rate and less reduction where it was lower than the average. The following formula was proposed:

$$T_1 = \frac{(A + B \times P) \times T_0}{(A + P^2) + T_0} \quad ,$$

where

T_0	Base rate;
T_1	Final rate;
A	Simple average of base rates;
P	Peak factor, $P=T_0/A$;
B	Adjusting coefficient, e.g. for the year 2010, B=3; for the year 2015, B=1.

India also proposed (TN/MA/W/10/Add.2) a formula for adoption by the developed countries and also by the developing countries with some adjustments. It proposed a two-step approach, of which the first step involved a simple percentage cut of the bound tariffs of each Member, with a higher percentage set for developed countries than for the developing countries. In the second step, Members were to be required to ensure that no individual tariff in the final commitment was in excess of three times the average tariff of the final schedule. The following was the proposed formula:

Step 1 : $T_{F1} = (1 - \frac{AY}{100}) * T_O$;

Step 2 : $T_F = T_{F1}$ or $3*T_A$ whichever is less,

where

A	=	less than full reciprocity parameter = $\begin{cases} A = 1 \text{ for developed countries and} \\ A = 0.67 \text{ for developing countries;} \end{cases}$
Y	=	Reduction percentage (to be negotiated);
T_O	=	Present bound tariff on an individual tariff line;
T_{F1}	=	Reduced tariff after Step 1 on the individual tariff line;
T_A	=	Simple average tariff after Step 1;
T_F	=	Final bound tariff on the individual tariff line.

India did not make a definite proposal regarding the reduction percentage but its submission mentioned, on an illustrative basis, the figures of 50 and 45 per cent for general application and 33.33 and 30 per cent for developing countries.

A part of the Indian proposal was that developing countries must have the flexibility to bind 15 per cent of the tariff lines at a higher level, provided that the overall percentage was achieved (obviously by making deeper reductions in other tariff lines).

(b) The sector approach

A number of Members have proposed harmonisation or elimination of duty on sector basis as an additional tool. The idea was that tariffs would be eliminated or harmonised if a critical mass of Members (accounting for say 80 per cent of world trade share) joined the initiative. Reference has already been made to the sectors proposed by the US for tariff elimination in the first phase by 2010. Japan also proposed (TN/MA/W/15 and TN/TE/W/17) that sectorial harmonisation or elimination should cover the following products: consumer electrical products, bicycles, rubber and articles thereof, glass and articles thereof, ceramic products, cameras, watches, toys, electrical machinery parts, titanium and articles thereof, motor vehicles, textiles and clothing, machine tools, construction equipment, bearing, certain articles of iron or steel, and paper. For textiles and clothing, the suggestion was for harmonisation, with substantial reduction of tariffs, and for motor vehicles the idea was that zero-for-zero must be adopted by Members with a mature automobiles industry. Japan was not in favour of elimination of duty in the fishery or forestry sectors.

A number of Members were in favour of taking up environmental goods for elimination or reduction of tariffs, in view of the importance that all Members attached to the protection of the environment. There was considerable divergence of view, however, on what constituted an environmental good. Japan proposed a large list of products including a number of consumer durable goods, claiming that their use had a favourable impact on the environment.

There were proposals also for expanding the list of product lines as well as the list of Members of the existing harmonisation and zero-for-zero agreements.

(c) The request–offer approach

A comparatively smaller number of Members suggested that the request–offer procedure be used to supplement and complement the use of other modalities.

III.2.3 Tariff peaks, tariff escalation, and high tariffs

A number of Members sought a definition of tariff peaks, but only a few proposed a definition of such peaks. It is obvious that the application of all the proposed harmonisation formulae, including the Swiss formula, would lead to the greater reduction of high tariffs than other tariffs and would also extenuate the problem of tariff escalation.

In addition, some Members proposed the idea of a cap or ceiling tariff level. India proposed that Members must not impose a tariff on any product in excess of three times their national average, after effecting the reductions. China suggested that a tariff peak must be defined as a tariff rate three times more than the simple average tariff level of that Member.

III.2.4 Coverage of bindings

The Doha Ministerial Declaration speaks of comprehensive product coverage in the negotiations on market access for non-agricultural products, and a number of Members stressed that the negotiations must result in full coverage. The EC proposed a substantial increase in the scope of bindings, the objective being to "bring about a situation where all WTO Members other than the least developed countries have as close to 100 per cent bindings as possible" (TN/MA/W/11). India proposed that developing countries must have the freedom to leave unbound up to 10 per cent of the tariff lines that were hitherto unbound and were considered sensitive or strategically important. India also suggested that developing countries must have the flexibility to bind hitherto unbound tariffs at the highest of the bound rates in the tariff schedule of that country or at the applied rate on a cut-off date (not defined).

III.2.5 Base rates

If reduction of tariff has to take place on the basis of an agreement on the extent of reduction, clearly the base rate becomes important. The GATT/WTO practice has been that where a tariff line has been bound in earlier negotiations, the bound rate is the base rate. Most Members favour continuing the same approach. A few Members, including the United States, suggested that where the current applied rate was lower than the bound rate, the applied rate must become the base rate.

As to the tariff lines in which there is no binding, the general practice is to make the applied rate at the commencement of negotiations the base rate for applying the agreed reduction. In line with this practice, some Members proposed that the applied rate in 2001 or 2002 should be the base rate.

There were other aspects of the proposals that are also relevant in the context of the discussion of the base rates, particularly in respect of items where the rates have not been bound. There seemed to be some acceptability of the notion of credit for autonomous liberalisation undertaken by Members since the Uruguay Round. It was obvious that one way to give credit for such liberalisation would be to treat the rate prevailing at the end of the Uruguay Round as the base rate for tariff lines that were not bound.

III.2.6 Implementation periods and staging

As in the past, there was a broad agreement that implementation of the agreed reduction would be carried out in stages over a number of years. The norm suggested was the same as in the Uruguay Round, i.e. five years. As in the past, longer implementation periods could be agreed to in specific cases. One suggestion was that in the case of sensitive products, a longer period rather than lesser reductions should be allowed.

III.2.7 Non **ad valorem** *tariffs*

A number of proposals were made regarding non *ad valorem* tariffs. While some countries wanted the elimination of non *ad valorem* duties, others proposed making some progress in this regard. US and Canada wanted to maximise the use of *ad valorem* tariffs but China proposed that all non *ad valorem* tariffs must be converted into *ad valorem* tariffs.

III.2.8 Special and differential (S&D) treatment of developing countries

There are two types of suggestions for according S&D treatment to developing countries. A few developed country Members suggested that particularly substantial reduction should be made on products of interest to developing countries. The EC proposed that Members must agree on deeper cuts on textiles, clothing, and footwear.

However, a large number of Members put forward proposals on allowing developing countries to take a lower level of commitments to reduce tariffs. Put another way, the idea is that developing countries should be allowed to show less than full reciprocity in tariff negotiations. But the idea was not to give the same treatment to all developing countries. The least-developed countries were singled out for the most favourable treatment, but the general sentiment among developed country Members was to tailor the S&D treatment to other developing countries to their specific level of development.

Thus, Norway spoke of the use by developing countries of differentiated coefficient*s*. Switzerland proposed that the formula approach must be modulated to take into account different levels of development. Canada spoke of the formula-based approaches being sensitive to the varying circumstances of Members. In proposing elimination of tariff in two stages, the US states that once Members had secured agreement on the modalities, they should turn to more precise and customised approaches to ensure participation by developing countries consistent with their individual development needs.

Hong Kong (China) proposed that the formula should allow a different level of tariff cut for developing country Members. MERCOSUR countries (Argentina, Brazil, Paraguay and Uruguay) stated that deeper reduction commitments were required from developed countries than developing countries. India proposed that a higher percentage reduction must be set for developed countries than for developing countries. There were other proposals also in the same vein. India also proposed flexibility on the level of binding of individual tariff lines, while maintaining the percentage reduction on an average basis. It suggested that developing countries must be allowed to bind hitherto unbound tariff lines "at levels generally above the higher of the bound rates prevailing for bound items in a country's tariff schedule*"*. It suggested further that developing countries should have the flexibility not to bind unbound tariff lines considered to be highly sen*sitive.* Other aspects of the Indian proposal have already been explained in the sections on formula approach and coverage of bindings.

There seemed to be a general agreement for a longer period being allowed for developing countries to implement the agreed reductions. Korea and India proposed seven and ten years respectively.

III.3 Chairman's draft and subsequent developments

III.3.1 Chairman's draft elements

As mentioned earlier the Chairman of the Negotiating Group on Non-Agricultural Market Access submitted a draft of the elements of modalities for the negotiations in the area in order to facilitate the negotiating process. We analyze here the revised version of the draft that the Chairman circulated in August 2003 (TN/MA/W/35/Rev.1).

(a) The 'core modality'

The Chairman has proposed the use of multiple modalities to achieve the objectives spelt out in the Doha Ministerial Declaration on the reduction of non-agricultural tariffs in the negotiations. However, the central technique (the core modality) would be the application of the following harmonization formula on a line by line basis:

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

Where,

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

t_0 is the base rate

t_a is the average of the base rates

B is a coefficient with a unique value to be determined by the participants

The proposal envisaged that participants with a binding coverage of less than 35 per cent would be exempted from the need to apply the formula, but that they would be required to bind 100 per cent of non-agricultural tariff lines at an average level that did not exceed the overall average of bound tariffs for all developing countries after the full implementation of the current concessions.

The proposed formula is clearly a non-linear formula based on the Swiss proposal adopted in the Tokyo Round. Instead of the common coefficient of 14 or 16 adopted in the Tokyo Round, this time the proposal is that the tariff average of each participant would be the coefficient for that participant. The Chairman has proposed one more coefficient, 'B', to be determined by the participants through negotiations. Obviously the Chairman's intention was to allow room for negotiations among the participants. The value of 'B' would determine the weightage to be given to the tariff average in the formula.

An important aspect of the Chairman's proposed formula was the suggestion on the base rate. It was designed to give credit for autonomous liberalization, both where the tariffs had been bound and where they had been reduced but not bound. Where tariff commitments have been made in the course of previous multilateral negotiations or plurilateral initiatives the bound rate after the full implementation of the concessions would be the base rate. Where the bound duties have been further reduced autonomously after the Uruguay Round, the base rate would be the higher rate that existed before the reduction. In the case of items that were not previously bound, two times the MFN applied rate or the new bound rate, whichever is higher, for the year the liberalization took place would be the basis. For unbound items the basis for commencing the tariff reductions was proposed as two times the MFN applied rate in 2001. Where the MFN applied rate is less than 2.5 per cent, 5 per cent is to be used as the basis.

Non ad valorem duties have to be converted to ad valorem equivalents according to procedures that have been prescribed. The negotiations are to commence on the basis of Harmonized System (HS) 1996 nomenclature but they must be finalized on the basis of HS2002.

(b) Sectorial Tariff Elimination

An element of the Chairman’s proposal is the elimination of tariffs in seven sectors covering products of interest to the developing countries viz., Electronic & Electrical Goods; Fish & Fish Products; Footwear; Leather Goods; Motor Vehicle parts & components; Stones, Gems, & Precious Metals; and Textiles & Clothing.

A feature of the proposal is that both developed and developing participants would be required to eliminate tariffs. The developed participants would be required to phase out the tariffs in one phase, while the developing would have the possibility to implement the elimination in three phases. The developing participants would be required to bring down the duties to not more than 10 per cent at the end of the first phase, maintain them at that level during the second phase, and achieve elimination at the end of the third phase.

The mandatory nature of the proposed sectorial elimination of tariffs differs from the approach adopted in the zero-for-zero initiatives in the Uruguay Round and in the Information Technology Agreement. It would be recalled that in the latter the agreements were operationalised after participants with a major proportion of share of world trade joined in. In the current proposal the idea is that all must join in.

(c) Special and Differential Treatment

The use of the tariff average of the participant as one of the coefficients for the application of the Swiss formula would already endogenise S&D treatment to some extent in the proposal for general application. In addition the developing countries are proposed to be given a longer period of implementation as well as the flexibility to retain unbound up to 5 per cent of the tariff lines or not to apply the formula cut on them. There is, however, the condition that no more than 1 per cent of the tariff lines accounting for no more than1 per cent of the Member’s imports would be so excluded from one HS Chapter.

The least-developed country participants are proposed to be absolved from undertaking reduction commitments. The expectation from them is only that they would substantially increase the level of binding commitments.

(d) Newly Acceded Members

In order to account for the fact that the newly acceded Members have undertaken extensive market access commitments in the course of their accession the Chairman has proposed that participants consider providing such Members with flexibility by way of a higher coefficient, a longer implementation period or a grace period which would commence after the implementation of the current commitments.

(e) Supplementary Modalities

The Chairman has suggested that the participants consider additional liberalization by employing such modalities as zero-for-zero sector elimination, sectorial harmonization, and request-offer procedures.

Joint Canada-EC-US Paper

After the circulation of the Chairman's draft a joint paper was presented informally by Canada, the EC and the US making certain proposals on the modalities for the tariff negotiations. A feature of this proposal was the lack of specificity in some of the elements. The Chairman had proposed a particular harmonising formula while the Canada-EC-US proposal referred to a non-linear formula. The Chairman had proposed to take the tariff average as the coefficient, although he had introduced some room for manoeuvre by introducing the factor 'B'. The Canada-EC-US paper mentioned a single coefficient (without specifying it) and referred to the vague concept of trade, competitiveness, and finance needs of individual developing countries on the basis of which it would be increased for developing countries. The Chairman had suggested concrete ways for giving credit for autonomous liberalisation. The Canada-EC-US paper mentioned only that such credit would be given without spelling out the manner in which this would be done. The Chairman specified that for unbound items, the basis for commencing the reductions would be two times the MFN applied rate. On the other hand, the Canada-EC-US paper stated that the base rate for unbound tariff lines must be ‘n’ times the applied rates existing on 14 November 2001. Clearly these major players were not ready for a decision on modalities on the eve of the Fifth Ministerial Meeting at Cancun.

The Derbez Text

The Draft Cancun Ministerial Text prepared by the Chairman of the General Council (JOB (03)/150/Rev.1) contained the proposed framework for establishing modalities in agriculture as well as in market access for non-agricultural products. Annex B of the Ministerial Text underwent some minor modification in the eventual draft that was presented to the Ministers at Cancun by the Chairman of the conference, Foreign Minister Luis Ernesto Derbez of Mexico (JOB (03)/150/Rev.2). In the level of specificity the proposed framework resembled more the joint Canada-EC-US text than the draft circulated by the Chairman of the Negotiating Group on Market Access for Non-Agricultural Products. Some of the elements proposed by the Chairman of the Negotiating Group were taken on board but all numbers, where mentioned, were placed under square brackets, denoting the Chairman’s lack of confidence that Members would eventually agree to specific suggestion. The following were some of the important elements of the framework for tariff negotiations proposed in the Derbez Text:

- the Negotiating Group would continue its work on a non-linear formula applied on a line by line basis
- For unbound tariff lines the basis for commencing the tariff reductions shall be [two] times the MFN applied rate in the base year
- credit shall be given for autonomous liberalisation by the developing countries provided that the tariff lines were bound in the WTO after the conclusion of the Uruguay Round

- participants with a binding coverage of less than [35] per cent would be exempt from making reductions according to the formula and would be required only to bind [100] per cent of tariff lines at an average level that does not exceed the overall average of bound levels of all developing countries
- sectorial elimination or harmonisation particularly in respect of products of interest to developing countries with the participation of all countries but with adequate flexibility for developing countries was recognised as an important element for achieving the objectives set out in the Doha Ministerial Declaration
- flexibility for developing countries for applying less than formula cut in respect of [10] per cent of the tariff lines or keeping [5] per cent of the lines unbound as well as longer implementation period were some of the measures envisaged for special and differential treatment of developing countries.

The discussions immediately before and during the Cancun meeting centred on whether a non-linear or linear formula would be the core modality and whether the sectorial elimination proposals would be mandatory or non-mandatory. The assessment of many participants was that agreement on a framework was possible at Cancun but the Ministerial Meeting ended in discord over deeper differences over agriculture and the Singapore issues.

We have reviewed the main proposals made by Members and the attempts at finding the meeting ground on various elements of the modalities. In future negotiations the proposed elements would be further discussed and new ideas may emerge on the key aspects. Before making recommendations on the modalities that would be in the best interest of India in the negotiations we take up some broader considerations that should be taken into account in developing an approach towards the negotiations.

IV Approaching WTO Negotiations on Tariffs

India had pronounced itself against holding negotiations on non-agricultural tariffs at the outset and the stance was maintained until mid-2001. It was only during the

Doha Ministerial meeting that it finally joined the consensus in its favour. In the WTO discussions on modalities, India initially showed itself to be a reluctant participant in the negotiations in the area. It was only in its submission dated 18 March 2003 that India made a proposal that carried a message that it was willing and ready to engage in the negotiations on market access in non-agricultural products. By the time of the Fifth Ministerial Conference India's position had evolved considerably and at Cancun it was supporting the elements of modalities proposed by the Chairman of the Negotiating Group with the exception of sectorial tariff elimination on a mandatory basis. The domestic tariff policy reforms undertaken in the country since 1991–92, the recommendations of successive expert panels set up by the Government of India, and the imperatives of international trade policy developments, all point towards the need for the country to continue a positive approach and in fact adopt a proactive role in these negotiations. We take up each of these aspects in turn.

IV.1 Evolution of India's Tariffs and Trade Policy since 1991–92

Prior to the 1991–92 economic reforms, India maintained very high import barriers. Virtually no product could be imported freely. Even where imports were allowed without license, some conditions applied, such as restriction on who could import and for what purpose. Consumer goods were generally banned for imports. In addition to quantitative restrictions on imports, India maintained very high import tariffs going up to 300 per cent ad valorem although over-valued exchange rates alleviated these restrictions to some extent. If the Government decided to bring down these barriers it was because of the realisation that the Indian industry could not become efficient without sharply scaling down these barriers. India needed to integrate itself into the world economy in order to become competitive. Impressive progress has been made in this regard since then. The exchange rate system was first changed and a market-determined unified exchange rate established. Import controls were virtually withdrawn in 1991–92 on all raw materials, intermediates, and capital goods. It took a longer time to abolish such controls on consumer goods but that too was finally accomplished in 2001. The process of reduction of peak tariffs was also begun in right earnest and these were progressively brought down every year up to 1997–98. There was an interruption in this process of reduction during the next two or three years, and in fact new duties were imposed by way of a 4 per cent Special Additional Duty (SAD) in 1998–99 and a 10 per cent surcharge on basic customs duty in 1999–2000. After this interlude, the policy of reduction of external trade barriers adopted as an integral part of the economic reforms in 1991–92 has reasserted itself. The surcharge on basic customs duty was given up in 2001–02, and the peak basic customs duty reduced to 30 per cent in 2002–03, 25 per cent in 2003–04, and 20 per cent in the interim budget for 2004-05. The SAD was also abolished in the interim budget.[7]

As stated earlier, India increased the proportion of its tariff bindings considerably (from 3 to more than 60 per cent) during the Uruguay Round in respect of non-agricultural products. At that time, the bindings left out mainly the consumer goods, including consumer durable goods. Shortly after the establishment of the WTO, India undertook some additional tariff commitments in textile and clothing items and at the time the Doha Round began, bindings covered 69 per cent of the tariff lines. Seventy per cent of the bound tariff lines are bound at the level of 40 per cent ad valorem and 17 per cent at 25 per cent ad valorem. The remaining 13 per cent are bound at various levels, including zero for information technology products. Most of India's bound tariff lines are in the range of 20–40 per cent. There are only a few tariff lines that are outside the higher end of this range. A number of tariff lines pertaining to textiles and clothing products have mixed tariffs, but the ad valorem element is in the range of 25–40 per cent.

[7] The Government of India had maintained that SAD was an internal tax. Section 3A of the Customs Tariff Act, 1975 provided as follows:

"3(A)(1) Any article which is imported into India shall in addition be liable to a duty (hereinafter referred to in this section as the special additional duty), which shall be levied at a rate to be specified by the Central Government, by notification in the Official Gazette, having regard to the maximum sales tax, local tax or any other charges for the time being leviable on a like article on its sale or purchase in India;

Provided that until such rate is specified by the Central Government, the special additional duty shall be levied and collected at the rate of eight per cent, of the value of the article imported into India."

This provision makes it clear that no attempt was made to relate the level of the duty to the existing level of internal taxes and the rate of 8 per cent, which was later reduced to 4 per cent, was fixed purely on an *ad hoc* basis.

Although SAD was leviable at the comparatively low level of 4 per cent, the valuation of imported consignments for the purposes of imposition of SAD increases the incidence of duty. As a result of the application of the valuation provision in paragraph 2 of Section 3A of the Customs Tariff Act, 1975, a duty of 4 per cent translated itself into a figure of 5 per cent if the customs duty was 25 per cent.

Reduction of peak tariffs to the level of 20 per cent has already created a substantial wedge between the applied and bound tariff lines.

IV.2 Agenda for Tariff Reform in India

That the Indian Government's intention is to continue the process of tariff reduction has been confirmed by all its recent Finance Ministers in their budget speeches. They have reiterated that the Government's intention was to reduce tariffs to the levels prevailing in the ASEAN countries. More recently, the Finance Minister has spoken in terms of the tariff levels being brought down to the levels of 20, 10, and 5 per cent. It is clear that the intention of the Government is to bring down tariff levels substantially in the not too distant future so that the customs duty protection does not exceed the levels prevailing in other industrialising as well as industrialised countries. Indeed, substantial reduction of these levels has been the thrust of the recommendations of successive panels established by the Government, even though they have differed on the structure of future tariffs.

The Inter-ministerial group on Customs Tariff Reform, whose report was submitted by Dr. Arvind Virmani to the Ministry of Finance (Department of Revenue) in November 2001, supported the Government's intention to lower the so-called 'peak rate' to 20 per cent by 2004–5. (MoF, Revenue Department 2001) It also proposed further reduction in this rate to 10 per cent thereafter. In an April 2002 Planning Commission working paper, (Virmani 2002) Dr. Virmani proposed adoption of a single uniform rate of import duty of 10 per cent by the year 2006–07 for all categories of goods and defined a phased programme of tariff reductions over the decade. He argued that a single rate of nominal duty would be equitable, as it would protect to an equal extent all producers and all uses of capital and labour. It would be neutral, would promote efficiency and competitiveness, and eliminate all administrative hassles and legal disputes about classification.

In December 2002, the Kelkar Panel (Ministry of Finance and Company Affairs 2002) made the following recommendation for changes in the customs duty regime on imports:

- For life-saving drugs and equipment, sovereign imports, and imports by RBI—0 per cent;
- For other goods:
  - (a) By 2004–05: Raw materials, inputs and intermediate goods—10%,
Consumer durable goods—20%;
  - (b) By 2006–07: Basic raw materials—5%,
Intermediate goods—8%,
Finished goods—10%,
Consumer durable goods—20%.

As stated earlier, what the Virmani and Kelkar reports had in common was the recommendation for a drastic reduction of import tariffs in a relatively short time frame. It is apparent that in India there is a remarkable convergence of views in expert circles and in the political leadership that the levels of import duties must be brought down substantially over a comparatively short time frame.

IV.3 India's Tariffs in Comparison with Other Countries

As the Government of India would like to bring down its tariffs to the levels prevailing in ASEAN and other industrialising countries it is instructive to compare the prevailing levels of tariffs in these countries. Calculations made in the Planning Commission for the year 2001–02 gave the following results for the weighted-average import duties in percentage *ad valorem* terms:

Table 3: Weighted-average import duty

Country	Weighted-average import duty
Indonesia	14.3
Korea	7.0
Malaysia	9.4
Philippines	8.5
China	10 (18.5)
India	35.1

For China, the weighted-average import duty was 18.5 per cent in 2001–02 but it is scheduled to go down to 10 per cent when the commitments made in the process of accession to the WTO are implemented.

Table 4, drawn from a recent document brought out by the WTO Secretariat, gives the picture of India's applied MFN tariffs in comparison to a group of developing and developed countries:

Table 4: MFN Statutory Applied Duties for non-agricultural products

Country	Year	Simple average	Peaks (>15 %)
Argentina	2001	12.71	36.2
Brazil	2001	14.9	50
China	1997	16.3	42.4
India	1997	35.0	92.8
Indonesia	1999	8.4	13.3
Korea	2001	7.5	1.6
Malaysia	2001	8.1	23.3
Philippines	2001	6.8	9.7
Thailand	1999	15.5	31.2
Canada	2001	4.3	9.3
EC	2001	4.3	0.8
Japan	2001	2.7	0.7
US	2001	3.6	3.2

Source: WTO Document TN/MA/S/4/Rev.1.

It would be seen that the simple average of applied duties in India was more than double of the level of other developing countries in the list, like China, that have high tariffs, and 8–13 times that of the major developed countries. In 92.8 per cent of the tariff lines, Indian tariffs were more than 15 per cent, a figure that was far higher than that of other developing countries. The reduction of peak tariff to 20 per cent and the abolition of the SAD in the interim budget of 2004-05 has considerably improved the relative position of India but it is still a long way to go before India's tariff profile becomes comparable with that of its principal trading partners. In as many as 81.04 per cent of the non-agricultural tariff lines the basic customs duty is at the peak level of 20 per cent and in 6.33 per cent it is more and sometimes much more than 20 per cent. In 115 six-digit tariff lines in Chapter 3 and Headings 16.04-05 (fish and fish products) the basic customs duty is 30 per cent; in Chapter 72 (iron and steel) it is 20 per cent and in Headings 87.03 and 87.11 it is 60 per cent. The simple tariff average in respect of non-agricultural tariff lines is still 20.52 per cent. While liberalisation in India since 1991–92, particularly in respect of non-agricultural products, has been unprecedented, the current level and structure of tariffs in the country does not as yet measure up to international standards. For promoting an internationally competitive economy, it is imperative for India to complete the agenda of reform in the area of tariff, and do so quickly. There was no reason for India to have been defensive in these negotiations.

Table 5 gives the picture of India's bound tariffs in comparison with some other developed and developing country Members:

Table 5: Bound duties on non-agricultural products

Member	Binding %	Maximum level	Simple Average	Duty free	Peaks> 15%	Peaks > 3 times*
Argentina	100	35	31.8	0	98.1	0
Brazil	100	85	30.8	0.3	97.1	0
China	100	50	9.1	6.2	13.3	1.3
India	69.8	150	34.3	2.5	60.1	0.1
Indonesia	96	60	35.6	2.2	89.7	0
Korea	93.6	80	10.2	15.1	11.9	3.6
Malaysia	81.2	40	14.9	4.1	38.5	0
Philippines	61.8	50	23.4	2.2	50.2	0
Thailand	70.9	80	24.2	2.5	47.2	0.3
Canada	99.6	20	5.3	29.4	6.8	6.4
EC	100	26	3.9	23.9	0.8	7.1
Japan	99.5	30	2.3	57.1	0.6	10.3
US	100	48	3.2	38.5	1.8	8.2

* This column gives the percentage of tariff lines in which the level of tariffs is at least three times higher than the Member's overall simple average. The WTO document cited above has designated these tariff lines as "national peaks" and the lines above 15 per cent as "international peaks".

Source: WTO Document TN/MA/S/4/Rev.1/Corr.1

The simple averages of bound tariffs of developed countries are in the range of 2–5 per cent while those of the selected developing countries in Table 5 are in the range of 9–35 per cent. It is interesting to observe that the simple averages of China and Korea are nearer the range of the developed countries than those of other developing countries while India's average is at the higher end of the range. Analysis of tariff peaks (>15 per cent) also reveals a similar position. The percentage of tariff lines in the developed countries above this level is in the range of 0.6 to 6.8, while in the developing countries it is between 11.9 and 98.1. Once again, China and Korea are nearer the developed countries than to other developing countries. As far as national peaks are concerned, the developed countries show a much higher percentage than the developing countries. The duty free percentages of developing countries are quite low while those of the developed countries are in the range of 24–57 per cent. India shares with some of the ASEAN countries the feature of not binding a substantial proportion of its non-agricultural tariffs.

The percentage of India's international peaks (>15 per cent) seems to be somewhat less than those of some other developing countries. It must be noted that the figures in the 'peaks' column give the percentage of tariff lines with the total number of bound tariff lines as denominator. In India's case, the percentage is about 60 because India has bound only about 70 per cent of its tariff lines. If it had bound all or most of its tariff lines the percentage of tariff lines bound at a rate greater than 15 per cent would have in all likelihood been substantially higher. As for national peaks, the WTO document shows that in India, 0.1 per cent of the tariff lines are covered, that is four six-digit tariff lines. In actual fact, India's tariff schedule has seven non-agricultural products (all chemical items) bound at 150 per cent. These products are not sensitive items and the high level of binding was probably the result of a misconception that these items were agricultural products.

IV.4 Regionalism and India

Over the past 10 years or so, a wave of regionalism has been sweeping the world and regional trading arrangements (RTAs) have been proliferating. New arrangements have come into existence, old ones have been deepened and broadened, and several more are in the pipeline. Out of the 250 RTAs notified to the GATT/WTO, as many as 162 were in existence on 1 January 2002 (WT/REG/W/44). There is intense activity in the process of formation of integration arrangements and the latest WTO Annual Report estimates that by the end of 2005, the number of RTAs could be in the range of 300 (WT/TPR/OV/8). The existing RTAs already cover more than half the world trade. RTAs have been motivated by a number of economic and political factors. Geographical proximity, cultural similarity, and similar levels of development continue to be important factors though they are not the only determinants.

The European Union, which is the oldest and biggest RTA, has recently grown from 15 to 25 members, and is likely to become a part of the Euro-Mediterranean Free Trade Area by 2010. The North American Free Trade Agreement (NAFTA) came into being in 1995 and in December 2003 - January 2004 the US concluded the Central American Free Trade Area (CAFTA), with Costa Rica, El Salvador, Honduras, Guatemala and Nicaragua. Differences between the US on the one hand and the Mercosur countries on the other seem to have stalled the conclusion of negotiations for the time being but it is not unlikely that over time a free trade area encompassing North and South America comes into existence, the Free Trade Area of the Americas (FTAA). In the Asian region, Japan has dropped its earlier reservation against joining a Free Trade Area initiative and is now actively seeking the conclusion of bilateral FTAs with other important economies in the region, except with India. A few years ago India made a start with FTAs in the South Asian region (Sri Lanka and South Asian Free Trade Area) and in 2003 it concluded separate framework agreements for FTAs with ASEAN and Thailand. In 2004 India also became a Party to the BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Co-operation) Agreement. A dialogue for the formation of free trade areas has also been commenced with Singapore and the MERCOSUR. What is significant, however, is that India has not received an invitation to be linked with any of the major industrialised economies with RTAs. In the above background the future of India’s trade is clouded by the prospects of being discriminated against in all the three major markets—the US, the EC, and Japan. India will be placed at a competitive disadvantage in these markets *vis-à-vis* the constituent members of the RTAs. A comparative analysis of exports to the US from Mexico and India after the establishment of the NAFTA carried out in an ICRIER study (Aggarwal 2004) brings out the serious trade diversion effect of FTAs. Comparing the figures of Mexico's exports to the US during the triennium 1989-91 with those in the triennium 1997-99 it is seen that there was a phenomenal increase in certain product groups. Exports of made-ups increased about 27 times, of apparel about 70 times, leather manufactures by about 14 times and footwear by about 8 times. During this period India's share of the US market went up from 1.6 to 2.8 per cent for made-ups while that of Mexico increased from 1.6 to 13.8 per cent. In apparel India increased its share from 2.8 to 3.3 while Mexico's went up from 0.3 to 12.6 percent. In leather manufactures India's share increased from 1.5 to 2.3 while that of Mexico from 0.7 to 5.6 per cent. In footwear India's share declined from 0.9 to 0.8 per cent while that of Mexico went up from 0.7 to 3.3 per cent. These are the product groups in which India has export interest and at the same time the MFN rates are relatively high and no concession is granted to developing countries under the Generalised System of Preferences. To some extent the difference is also accounted for by the fact that textile and apparel items have quantitative restrictions applied to them under the WTO Agreement on Textiles and Clothing, which would be phased out at the end of 2004.

What should be India's strategy in this situation? Free Trade Areas linking India with one or more of its industrialised country trading partners are likely to be problematic. A simpler course that India could adopt is to try to minimise the trade diversion potential of these major RTAs by securing a reduction in the non-discriminatory (MFN) tariffs worldwide. This can be accomplished only by joining forces with those WTO Members that are pushing for ambitious results in the area of non-agricultural (and agricultural) market access in the Doha Round. These negotiations are aimed at reducing *inter alia* the MFN tariffs of WTO Members. The way to meet the challenge of being left out of major RTAs is to strive for very substantial results in the Negotiating Group on Market Access in Non-Agricultural Products.

The foregoing analysis in this section brings up the following points:

- India has embarked on a process of reform to bring its tariffs down to international levels in order to promote efficiency in an integrating world economy. While impressive progress in trade liberalisation has been made in the last 12 years or so, its tariff levels remain very high by international standards.
- There is convergence of views among experts that the tariff levels on non-agricultural products must be brought down drastically over a comparatively short time frame, and the political leadership shares this view.
- India had bound only about 70 per cent of its non-agricultural tariff lines before the Doha Round. This gives it considerable bargaining leverage in the current negotiations. Reduction in peak levels of applied tariffs during the past few years has already brought down the level of duty below the rates at which many of them were bound. This further enhances India's bargaining ability.

India's trade interest is already suffering because of the creation of a number of regional trading arrangements, and it is likely to suffer even more on account of the formation of new RTAs and strengthening and expansion of existing ones. While entering into FTAs with some of its trading partners in Asia will be some consolation, its being linked with FTAs with the major industrialised countries is not likely in the foreseeable future. In the situation, the best bet for India to alleviate the situation created by tariff discrimination arising from RTAs is to ensure that the adopted modality results in the steepest reduction of tariffs in India's trading partners.

V Proposed Indian Stand on Modalities in Tariff Negotiations

It would be evident from the conclusions drawn at the end of Part IV that there is every reason for India to eschew the defensive posture that it had initially struck in respect of market access for non-agricultural products. Given the serious harm that is being done to India's trade interests by the existing RTAs and the further harm that might be done in the future by the expansion of these RTAs and the establishment of new RTAs, India must be proactive in these negotiations. Ambitious results in these negotiations will bring down the MFN tariffs worldwide and minimise the harmful trade-diversion effects of preferences within RTAs. Since India is firmly set on the course of steep reduction of industrial tariffs, it would only have to undertake commitments to bind its tariffs at levels to which these are reduced for entirely autonomous reasons (to achieve economic efficiency). Binding the tariffs at reduced levels is not necessary from the point of view of domestic policy, although some countries rely on WTO commitments to ward off protectionist pressures to raise tariffs. India needs to bind tariffs only in return for substantial concessions from its tariff partners. India must exploit fully the bargaining potential of the concessions that it can make in this area. These concessions could be in the area of tariffs or in other areas in which it has an interest, such as movement of natural persons in the negotiations on services, and reduction of subsidies in the negotiations on agriculture. After all, in terms of the Doha mandate, the negotiating agenda represents a single undertaking. While the overall approach must be positive, India must lose no opportunity to strengthen its bargaining ability in the negotiations. This will enable India to secure even greater concessions than it would be able to get ordinarily.

With the above considerations in view we propose below the stand to be taken by India on the modalities of negotiations:

V.1 Principle modality: A formula approach

The decision on modalities would involve a choice among alternative approaches, viz. a formula approach (linear or harmonisation formula), request- offer (product-by-product) procedures or sectorial elimination or harmonisation (mandatory or voluntary). It has become apparent during the discussions that no single modality can respond to the interests and concerns of all Members. The question is not of excluding one modality or the other, but of deciding which one should be the core modality.

If India were to continue its past negative stance, then obviously it would have been appropriate for it to favour the product-by-product technique. The adoption of such a technique would have enabled India and other countries to exercise total control on the new concessions that they have to grant. The results would have been minimal, as the reductions would have taken place in each Member only on those tariff lines that were considered by it as non-sensitive. But we have adduced reasons in the earlier analysis for India to be ambitious in its outlook and proactive in its approach. The best way to promote far-reaching results is to go in for the formula approach. But among the proposed formulae, which one is the best in India's interest? Table 6 shows the results of the application of the various formulae proposed by Members to various ranges of tariff. For the formulae in which the average national tariff is a factor (as in the formulae of China and Korea), we have made the calculations with the average tariff at 34.3 per cent, which is the simple average of India's bound tariffs, and at 5 per cent, which is the rough order of magnitude of the average level of tariffs in the US, EC, and Japan. China has proposed different values for the adjusting coefficient *"B"* for the years 2010 and 2015. For the sake of comparability particularly with the US, which has also made separate proposals for 2010 and 2015, we have adopted the value of the adjusting coefficient *"B"* proposed for 2010. India has proposed a two-step reduction, but here we have taken into

Table 6: Results of the application of the proposed formulae on various tariff ranges

Initial Level	US	China (B=3) $T_a = 5$	China (B=3) $T_a = 34.3$	Korea $T_a = 5$	Korea $T_a = 34.3$	EC	India 33.3% reduction	India 50% reduction
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
5	0	3.63	4.42	4	4	2.96	3.4	2.5
10	4.44	5.79	7.92	8	8	5.23	6.7	5
15	5.22	7.24	10.79	8.5	12	7.5	10.1	7.5
20	5.71	8.29	13.19	9	16	8.57	13.4	10
25	6.06	9.09	15.24	9.5	20	9.64	16.8	12.5
30	6.31	9.72	17.02	10	20.5	10.71	20.1	15
35	6.51	10.22	18.59	10.5	21	11.78	23.5	17.5
40	6.67	10.64	19.98	11	21.5	12.86	26.8	20

Columns (2)–(9) above show the final rates resulting from the application of various proposed formulae to the initial rates given in column (1). An interesting aspect that comes out in the above table is that the Chinese and Korean formulae would have differential impact on the developed and developing countries. Columns (3) and (5) give the final rates in the cases in which the simple national average of tariffs is 5 per cent. Application of the Chinese formula for a tariff average of 5 per cent would reduce the initial 40 per cent level to 10.6 per cent while the application of the Korean formula for the same tariff average of 5 per cent would bring down 40 per cent to 11 per cent.

consideration only the first step. The tariff range considered by us is 0–40 per cent, which takes care of the full or almost full range of bound tariffs on non-agricultural products in India and its developed country trading partners.

In deciding on the adoption of formulae, the first question that arises relates to whether India should propose the adoption of different formulae for developing and developed countries. In the Kennedy and Tokyo Rounds, developing countries were exempted from the application of linear or formula approaches and they were also exempted from the target of one-third reduction, set in the Uruguay Round. It is felt that if India presses for the continuation of the same approach, ambitious results cannot be obtained from the developed countries. A viable alternative would be to suggest that developing countries would also subscribe to an appropriate formula, but a more rigorous formula needs to be adopted by the developed countries. In fact, India has already made such a proposal, although the differentiation between developed and developing countries has not been done through a different formula but by applying a different factor in the same formula. Against the background of minimal contributions by the developing countries in past tariff negotiations, pressing for the acceptance of a differential formula for developing countries, or at least a different coefficient for them in a harmonisation formula, would seem to be a reasonable approach for India to adopt during the negotiations. As an alternative the formula could be so designed as to have a differential impact on the developing and developed countries, as has been proposed in the Chinese and Korean formulae. India had proposed that to achieve harmonisation a cut must be applied in the second step so that no individual tariff was more than three times the national average of the final level of tariffs. The Indian proposal was quite appropriate from the tariff compression perspective and not bad as an instrument to secure reduction of peak tariffs in the developed countries. Table 7 gives the result of the application of the formulae proposed by India and others on the maximum levels of tariff in the US, EC, and Japan. Where the average level of base rate tariffs is a factor, we have used the calculations of these averages made by the WTO Secretariat (TN/MA/S/4/Rev.1/Corr.1). For the application of the Indian formula, we have assumed that a 50 per cent linear cut would be applied to tariffs in these countries as the first step.

Table 7: Results of the application of the proposed formulae on maximum tariff

Countries	Initial Level	US 2015	US 2010	China 2015 (B=1)	China 2010 (B=3)	Korea	EC	India
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
US	48	0	6.86	3.16	8.37	9.28	14.57	4.8
EC	26	0	6.12	3.69	8.36	8.06	9.86	5.85
Japan	30	0	6.31	2.27	6.14	6.22	10.71	3.45

The best results in securing reduction in the peak rates in the developed countries would undoubtedly be achieved by applying the US suggestion for elimination of all tariffs by 2015. Table 7 shows that the application of the Chinese formula for 2015 (B=1) gives the next best results.

It is not easy to rank the formulae proposed by Members from India's perspective. One formula might be better from the perspective of seeking maximum reduction in the tariffs of its trading partners and another from the point of view of the commitments that it would have to make. Taking both the perspectives into account, the Chinese formula (B=3) and the Korean formula appear to be equally good from the point of view of India. They secure a drastic reduction in the tariffs of the major developed countries while such reduction would be considerably less for India.

However, even more advantageous from India's perspective is the formula suggested by the Chairman of the Negotiating Group. Chairman's formula uses as its central element the Swiss formula, the merit of which is well recognised for bringing about harmonisation of tariff. What makes the formula attractive for high tariff countries like India is that the tariff average is used as the coefficient. Since a property of the Swiss formula is that the coefficient becomes the ceiling level of the new tariffs resulting from its application, the implication is that for a country like India with higher average tariffs the impact would be less severe than for countries with a low average tariff. Thus an element of special and differential treatment gets built into the formula and it becomes less important for India to be seeking more explicit ways of according special and differential treatment. It follows that in the Chairman's formula the factor "B" should be taken as equal to unity. Taking lower figures of 0.75 or 0.5 would not make sense, as the tariff average needs to be given full weight in the formula and there is no compelling ground for reducing it arbitrarily. Another attractive feature of the Chairman's proposal is that it recommends that with respect to unbound tariff lines the base rate would be two times the applied level in 2001, the year in which the negotiations were launched. Since India has not bound 30 per cent of its non-agricultural tariff lines, it would benefit considerably from this provision on the base rate. With the suggested uplift for unbound tariffs the average tariff for India rises to 44.5 per cent from the simple average of 34.3 for the bound tariffs. Use of the Chairman's formula (with the value of the factor "B" being taken as equal to unity) would bring down India's tariffs bound in the Uruguay Round from the level of 40% to about 21% and the unbound levels from the general peak of 35% (in 2001) to about 27%. For a few unbound products for which the applied rate was higher than general peak of 35 %, the bound rate after the application of the Chairman's formula would be higher. These bound rates are higher than those prevailing in India at the beginning of 2004, except in the case of fish and fish products and automotive products. At the same time this formula would result in the maximum levels of tariff in the US and EC being brought down to a little above 3% as against the current levels of 48% and 26% respectively.

Even if the Chairman's suggestions in their entirety are not accepted at the negotiations India should advance the following arguments and counter-arguments in support of giving adequate weight to the tariff average and greater flexibility in respect of the unbound tariffs in any future formula for tariff harmonisation:

(i) GATT 1994 (Article XXVIII *bis*) requires *inter alia* that negotiations must take into account the needs of developing countries "for a more flexible use of tariff protection to assist their economic development and the special needs of these countries to maintain tariffs for revenue purposes". While the notion of high tariffs being needed for assisting economic development is now discredited the need to take revenue needs into account while reducing tariffs is still valid. The Doha Declaration reiterates that negotiations in this area must take fully into account the special needs of developing country participants. Factoring in the tariff average would be a good way of fulfilling these mandates;

(ii) In terms of economic good sense tariff compression is a desirable objective; applying a formula that brings down the tariffs in all lines below the average tariff of the country concerned is an effective way of achieving this objective;

(iii) The post-Uruguay levels of tariffs and bindings of individual Members represent the overall balance that was struck among participants in the Uruguay Round package and have to be the starting point in new negotiations. If in any Member the levels at which tariffs were bound were high or the proportion of bindings was low, the concerned Member would be fully justified in seeking that adequate allowance must be made for the pre-existing contractual balance in the design of the formula for the reduction of tariff in the current Round.

The joint Canada-EC-US paper speaks of a non-linear harmonising formula with a single coefficient. It does state that the coefficient would be varied for developing countries “consistent with their trade, development, competitiveness and finance needs”. Additionally the coefficient would be further increased “as a result of Members fully binding their tariffs and participating meaningfully through reductions in their binding overhang which effectively enhance market access”. There is nothing fundamentally wrong with the basic approach in this paper. What is wrong is that it takes the negotiations backwards rather than forward. In the absence of clear quantifiable elements, the determination the formula and the coefficient(s) in future negotiations would have a tendency to be a function of the economic clout of Members. The use of tariff average as a coefficient inspires greater confidence than the vague formulations on the “trade, development and finance needs” of developing countries.

There is no reason for India to reject the Canada-EC-US paper. That would be a confrontational approach. Rather India must endeavour to ensure that that it is elaborated in such a way that its elements approximate as closely as possible to the Chairman's paper.

V.2 Request–Offer approach

Whichever formula is adopted by its developed country (and developing country) partners, there would always be opportunity for seeking additional concessions from them through request—offer procedures. However, concessions can be sought under the request—offer procedure only in respect of tariff lines in which India is the principal supplier, or one of the two principal suppliers or has a substantial supplier interest. Generally a country with an import share of 10 per cent or more is considered to have at least a substantial supplier status. Countries having a share of 30 per cent or more have the status of a sole or joint principal supplier. Table 8 shows the coverage of the tariff lines in which India has principal or substantial supplier status in the four major developed countries.

Table 8: India as principal and substantial supplier to developed countries

Country	Total dutiable import value from India (Million US$)	Total no. of tariff lines of dutiable imports from India	Value of imports in million US$ with market share >30%	Tariff lines with market share> 30%	Value of imports in million US$ with share >10% and <30%	Tariff lines with market share >10% and <30%
Canada	504	1708	104	50	166	99
EC	7934	4235	1031	118	2219	253
Japan	1333	936	114	49	519	15
US	5499	2885	626	124	1004	89

Source: Integrated Database of WTO. The reporting year of the countries being 2001 except for Japan, for which its 2000.

It would be seen that India has substantial presence in these markets as a supplier with a share of 30 per cent or more. In the tariff lines where it has such a large share it can stake a claim as a principal supplier and try to get deeper reduction than what the application of the agreed formula can secure. In return, India will have to also grant additional concessions. In his proposals the Chairman has suggested that request-offer procedures must be utilised for deeper reduction of tariffs on individual products, where the reduction delivered by the application of the formula may not be enough. The opportunity for using this modality would depend on the choice of the formula. If the Chairman's formula were to be adopted there would be little need for India to use this modality in the negotiations with our major industrialised country trading partners. The application of the formula would already deliver the results for us in these markets. However, there would be some scope for India to use this procedure as far as the developing country trading partners are concerned. If the Chairman's suggestion to allow developing countries to exempt from binding altogether or not to apply formula cut in respect of 5 per cent of the tariff lines succeeds, it would open an avenue for India to trade away the exemption or exception from the application of the formula when opportunities occur for using request-offer procedures.

V.3 Sector approach

There are two variants of the sectorial approach: the mandatory approach as envisaged by the Chairman of the Negotiating Group on Non-Agricultural Market Access or the voluntary zero-for-zero or harmonisation approach, as was adopted in the Uruguay Round and in the Information Technology Agreement. As a part of the overall package the Chairman has suggested elimination by the developed and developing countries alike of tariff in seven sectors viz. Electronic & Electrical Goods; Fish and Fish products; Footwear; Leather goods; Motor Vehicle parts &components; Stones, Gems & Precious Metals; and Textiles & Clothing. Sectorial tariff elimination is a compulsory element for the reduction of tariff by all Members except the least developed countries. The developing countries would have the flexibility to bring down the duties in three phases while others would have to do so in one phase. This could give to developing countries 15 years time for phasing down the tariff if each phase is of five years duration.

At least five of these sectors are of great export interest to India and in two of them viz. footwear and textiles and apparel the bound/ applied tariffs are high in India's trading partners, developed and developing alike. In leather goods the tariffs are high in Japan, Korea and India’s ASEAN trading partners. India is emerging as a major exporter in motor vehicle components and here the tariffs are high in the ASEAN region. Thus tariff elimination in these areas would have great attraction for India.

However, we have to take into the account the fact that in India duties, albeit at a low level, would persist on some basic raw materials and intermediate goods. The Kelkar panel has recommended 5% for raw materials and 8% for intermediate products. Thus the basic chemicals for the processing of leather and textiles will attract tariff. Petrochemicals needed to manufacture man-made fibres would also attract 5% tariffs. Steel, which is the most important intermediate product for automotive products, will continue to be protected by a duty of at least 5 to 8%. This would imply that many capital goods, which are steel intensive, would also need to be protected. In the light of this, if India joins in the initiative for sectorial elimination, there would be negative protection in areas like automotive products, leather and textiles. For this reason India cannot be in a position to accept this element of the Chairman’s proposal in the form in which it was presented. India could find the bargain attractive if the developed countries agree to eliminate tariffs and the others are required to bring it down to the maximum tariffs to 5%.

Harmonisation or elimination initiatives such as those adopted in the Uruguay Round would of course be different. Here countries join the initiative on a voluntary basis if they have a substantial share of world trade. Such an initiative could succeed in the case of environmental goods, an area that has been mentioned in the Canada-EC-US paper. Whatever the ultimate decision is on the coverage it is unlikely that India would be found to be having a share in world trade that is significant enough for it to be under pressure to join the initiative. Another area mentioned in the joint paper is textiles and apparel. Here it is almost certain that success of the initiative would need India’s participation. For the reasons given above India should favour tariff harmonisation, whereby tariffs are brought down to the same levels in all countries. There could be a common level for all textile and clothing products or different levels for yarn, fabrics and clothing. Even better would be the scheme suggested in the mandatory approach of the preceding paragraph in which the developing countries are given the flexibility to maintain tariffs at a reasonable level while the developed ones eliminate them.

V.4 Coverage of Bindings

The Ministerial mandate in respect of non-agricultural products requires that product coverage must be comprehensive and without *a priori* exclusions. While the developed countries and some developing countries have already bound all or nearly all non-agricultural tariffs, India has bound only about 70 per cent of its six-digit tariff lines and several ASEAN countries are in the same position. While it would be difficult to argue for any country to keep a substantial number of tariff lines out altogether, India's first position must be that it is willing to take commitments on unbound lines as well but only on request-offer basis. It would be rational for India to demand that unbound tariff lines must be kept out of the purview of the application of the agreed formula. The balance of commitments at the end of the Uruguay Round was established with India not having taken tariff commitments in respect of 30 per cent of its non-agricultural tariff lines. If now India is expected to extend the coverage of its bindings, its trading partners must be willing to pay for it by means of additional concessions on products of interest to India.

If unbound tariffs are to be subjected to reduction by the application of a formula two aspects have to be taken into account. First these tariff lines are not part of the pre-existing contractual balance among the WTO Members, as no commitments were taken on them earlier. Second credit needs to be given to the Members concerned for the autonomous liberalisation that has been made by Members since the Uruguay Round. In India's case the 'peak rate' of tariff on non-agricultural tariffs has been brought down from 65 per cent prevailing in 1994-95 to 35 per cent in 2001-2002. If the applied level prevalent at the time the current negotiations were launched is taken as the base rate, it would be manifestly unjust for those Members that have been going beyond their existing commitments in reducing tariffs after the Uruguay Round. In order to give them credit for such liberalisation the minimum that could be done must be to take as the base rate the rate applicable at the time the Uruguay Round concluded (April 1994). In fact it could be argued that the Uruguay Round concluded on 15 December 1993, when the Chairman of the Trade Negotiations Committee declared that the negotiations were over. Locking in the current level of liberalisation is a good idea for imparting predictability and stability to the trading system, but in the process the system should not take away the right of the concerned Members to be compensated for the concessions. In suggesting that for unbound tariffs the base rate must be two times the applied rate in 2001, the Chairman has made a pragmatic suggestion that takes fully into account the considerations spelt out above.

India's suggestion to permit developing countries to exclude a proportion of tariff lines from the purview of reduction commitments in the Doha Round is also relevant for consideration of the question of coverage. As we noted above, the thrust of tariff liberalisation in India seems to have bypassed three groups of products (fish and fish products, iron and steel and motor vehicles), in which the levels are in excess of the ceiling of 20 per cent. Should India seek to exclude these products from the coverage of bindings in the current negotiations? There can be little justification for keeping these products out altogether from binding commitments as it is difficult to foresee that in the post reform era the Government of India would need to maintain complete freedom for raising tariffs on them. Even maintaining the tariffs at the current high levels is difficult to contemplate. It does not seem to be a good policy to maintain tariffs at the level of 20 per cent on a basic industrial raw material such as steel. In motor vehicles too it does not make sense to continue with duties at the level of 60 per cent. Fish and fish products are essential foodstuffs for a large segment of the population and there can be little justification to maintain high levels of tariffs on these products. For steel the main issue is giving time to the industry for restructuring. For motor vehicles there might be a need to shelter newly established units from competition for a few more years. Both these objectives can be accomplished neither by excluding them from bindings nor by excluding them from the application of the agreed formula, but by seeking a longer period of implementation.

V.5 Tariff Peaks, High Tariffs, and Tariff Escalation

If the Swiss formula with the tariff average or any low figure as the coefficient is accepted for the developed countries, the problem of peak tariffs, high tariffs, and tariff escalation would get resolved in these countries without further effort. There could be a problem if individual countries are allowed to make exceptions to the application of the formula. As noted in Part II above, making exceptions to the application of the formula has been the norm in the past negotiations, although participants have been required to compensate through deeper reductions in other products. But this is not good enough because invariably areas of interest to developing countries such as textiles, leather, and consumer electronic products are left with high tariffs. One way to rectify the situation is to insist that the selected formula must be applied without exception to all bound tariffs. Of course the Chairman's suggestion for mandatory tariff elimination in seven sectors of interest to the developing countries would be another way to achieve the objectives as high tariffs, peak tariffs and tariff escalation are prevalent particularly in textiles, leather and consumer electronic products.

V.6 Base Rate and Base Date

There is normally no problem with regard to the base rate in respect of the tariff lines that are already on a country's schedule and are therefore bound. In these cases, the bound rate is the base rate. In the current negotiations, some Members are proposing that if the current applied rate is lower than the bound rate, the former should be the base rate. This is a manifestly unfair proposition again from the point of view of the balance struck at the end of the negotiations in the Uruguay Round. India must, therefore, firmly reject this suggestion. The Chairman's suggestion for making the Uruguay Round bound rate as the base rate is based on past practice and is fundamentally sound.

Normally the rates bound during a round of multilateral trade negotiations are not further reduced and bound before the next round of negotiations. But this has happened after the Uruguay Round and in his submission (TN/MA/W/35/Rev.1) the Chairman has noted seven notifications by Members containing such reduced binding commitments.

India too made substantial commitments in the area of textiles and clothing. In the tariff lines in which the Uruguay Round bindings were further reduced and bound, according to the Chairman's suggestion the base rate would be the Uruguay Round bound rate. This also is a fair suggestion. To give one example, in HS 520411 (Sewing thread), the Uruguay Round bound rate was 40 per cent. This was further reduced to 20 per cent and bound with effect from 1. 1. 2005. In this case, according to the Chairman's suggestion, the base rate for the Doha Round would be 40 and not 20 per cent.

The question of base date and base rate in respect of unbound tariff lines is more troublesome. In the Tokyo Round, disagreements on the issue could not be resolved and it was left to each country to determine its own base rate/date. In the Uruguay Round, September 1, 1986 was agreed as the base date for unbound tariffs, as the meeting to launch the negotiations had taken place in that month. But the manner in which the developing countries made their contribution to tariff commitment ensured that this base rate did not become relevant for them. In the current negotiations we have already noted the suggestion of the Chairman of the Negotiating Committee that in the case of unbound rates the base rates would be two times the applied rate in 2001. We have dealt above with the proposals made for base rates in two situations, viz. where the tariff lines were bound during the Uruguay Round or earlier and where they remained unbound at the commencement of current negotiations. There can be a third situation as well, where the tariff line was not bound during the Uruguay Round, but a binding commitment was made before the commencement of the current round. This happened in India's case in several textile products in which, during bilateral negotiations with the EC and the US in 1995, it agreed to reduce and bind tariffs. For such cases the Chairman has proposed that "two times the MFN applied rate or the new bound rate, whichever is higher, for the year the liberalisation took place would be the basis" for the determination of the base rate. This is also a pragmatic suggestion that is also fair to the Members that have taken the autonomous liberalisation measure. If this suggestion is accepted, India would get somewhat greater flexibility in the application of the Chairman's formula to the textile items, as at the time India undertook the post-Uruguay Round commitment, the applied rate on many textile tariff lines was 65 per cent or above. Applying the Chairman's formula (with B=1) the new rate on tariff lines in which the applied rate in 1995 was 65 per cent would be in the vicinity of 27 per cent. The situation is however complicated by the fact that most of India's textile tariffs have an alternative specific component as well. Another complication arises from the fact that although India agreed to the new bindings bilaterally in 1995, it notified the bindings in 1999, when the applied rate was substantially lower.

V.7 Implementation Period and Staging

In the Tokyo Round, there was agreement on eight years being the norm for implementing the agreed reductions, while in the Uruguay Round there was agreement on five years. Departures from this norm were agreed for specific areas. In general, developing countries took longer to implement the agreed tariff reduction. In the Doha Round, there appeared initially to be some convergence on accepting five years as the norm, but the Chairman has refrained from giving any suggestion on the time frame. There seems to be agreement on a longer time frame for implementation by the developing countries. India could accept five years as the norm, but press for developing countries being allowed a longer period of up to 10 years at least for sensitive products. This would give us a longer period in respect of industries that are not internationally competitive at present. A longer time frame would give additional time to the steel industry for restructuring and to the motor vehicles industry to get fully established.

V.8 Non **Ad Valorem** *Duties*

Non *ad valorem* duties are not as hot an issue in the negotiations on market access for non-agricultural products as they are in agricultural products. Such duties, whether in the nature of specific or compound duties, cause concern because of the lack of transparency. More importantly, specific duties have the effect of impeding the imports of cheaper products as the *ad valorem* incidence varies inversely with the unit value. In India both the Jha (1983) and Chelliah (1992-93) committees on tax reform had suggested the conversion of non-ad valorem into ad valorem duties on efficiency considerations.

In the major markets, non *ad valorem* duties are not known to have a significant impact on non-agricultural products of export interest to us. Moreover, India introduced specific customs duties as an alternative to ad valorem duties (on the basis of the condition ‘whichever is higher’) on many textiles and clothing products, in the context of reduction of duties on these products. These tariffs were intended to provide an important safeguard for imports from low cost producers such as China.

The Chairman of the Negotiating Committee has proposed the conversion to ad valorem equivalent of all non-ad valorem tariffs. There is likely to be resistance to this from such Members as Switzerland, which rely considerably on such tariffs. India should not take a high profile on the issue of non ad valorem tariffs. In the unlikely event of consensus emerging in favour of conversion, India could ask for a time-limited exemption for developing countries. This would enable it to retain the textiles tariff regime at least for a limited period.

V.9 Special and Differential Treatment

In past negotiations, India and other developing countries have relied a great deal on the concepts of 'non-reciprocity' and 'special and differential treatment'. The concept served the developing countries well in the past when the objective of these countries was to fend off pressures for undertaking commitments to reduce tariffs. In fact, they made hardly any worthwhile tariff commitments in the Kennedy and Tokyo Rounds. Their contribution was better in the Uruguay Round but not enough to secure concessions from the developed countries in critical areas. The concept can be of little use when the objective is to secure reduction of tariff in the developed countries in products of export interest to developing countries. The utility of the concept of non-reciprocity as a bargaining tool for wresting concessions from the industrialised countries is extremely limited. The idea should be to tempt those countries with worthwhile offers into making concessions in return, rather than attempting to harangue them into reducing their duties on the basis of arguments about less than full reciprocity. This is all the more necessary because most of the products of export interest to the developing countries on which tariff barriers are still high are considered sensitive in those countries and the governments need something more than arguments to appease domestic protectionist interests. Since many developing countries did not make worthwhile tariff concessions in the past they have considerable accumulated reserves of concessions, which they could trade away during the current negotiations. It is not being suggested that India must not ask for special and differential treatment in the Doha Round. Some good suggestions have been made for special and differential treatment and we have referred to them above. Rather the suggestion is that India should ask for modest benefits under the rubric of special and differential treatment, such as what has been proposed above in this part of the paper.

VI Conclusions

India's continuing tariff reform gives India a tremendous bargaining ability in securing such tariff reduction from its trading partners, and India must be ready to use this ability in the Doha Round. Having reduced its import duties on non-agricultural products considerably from the level at which it had bound them in the Uruguay Round, and not having undertaken any binding commitment on 30 per cent of its tariff lines, India has a large repertoire of potential tariff concessions that it can offer in exchange for obtaining reciprocal concessions in multilateral trade negotiations. The wave of regional economic integration that is sweeping across the world and the fact that India has not received an invitation from any major industrialised economy to link up with them through such an arrangement provides another reason that should impel India to action in multilateral trade negotiations. The only option for non-preference receiving countries is to join in a multilateral endeavour to inject into the world trading system a strong dose of non-discriminatory trade liberalisation. Success in this endeavour would erode the preferential margin and alleviate the trade diversion potential of preferential arrangements. The stand that is proposed for specific aspects are summarised below:

- India can agree to, and in fact must press for the formula approach to be the core modality. And the formula to be preferred must be a non-linear harmonization formula such as the Swiss formula and not a linear formula as only a non-linear formula can reduce higher tariffs by a greater percentage. Equally importantly the coefficient must be linked to the tariff average of the individual country concerned as this is a good way of taking into account the dependence of high tariff developing countries on import tariffs for their revenues and at the same time to achieve tariff compression.

- Against the background of minimal contributions having been accepted from the developing countries in the past it would be reasonable for India to press for a differentiated formula, envisaging lower tariff cuts, to apply to the developing countries. Better still, such differentiation must be endogenised in the formula as can be accomplished by taking the tariff average of individual countries into account in the formula.

- India must maintain the stand that the agreed formula must be applied to all bound tariffs without exception as this is the only way in which it can be ensured that the experience of the past rounds is not repeated and the products of interest to the developing countries are not left out. Only by disallowing exceptions can India obtain a reduction of peak and high tariffs on which it has stressed so much in past discussions. It follows that India too must be willing to bring all products within the coverage of bindings. In the post-reform era India is unlikely to want to maintain tariffs at such high levels on any product that it should want to avoid binding it altogether.

- The Chairman's proposal for sectorial elimination of tariff on a mandatory basis is attractive to India as an exporting country. But the modality would have problems for it as its application would result in negative protection in the case of finished products in some of the sectors. In order for the proposal to be acceptable developing countries must be allowed to maintain tariffs at the level of 5 per cent. The same pattern of commitments could be acceptable if the non-mandatory sectorial approach is to be followed.

- India must be ready to supplement the formula approach by request–offer procedures for seeking deeper tariff reduction than what the formula delivers in products in which it has principal or substantial supplier interest in its trading partners.

- India's first position must be that unbound tariff lines must be out of the purview of the application of the agreed formula and subject only to negotiations on a request-offer basis. However, India could accept the application of the formula to these tariff lines if a reasonable allowance is made for the fact that the unbound tariff lines were not a part of the balance that was struck in the Uruguay Round, and credit is given as well for autonomous liberalization since then. These conditions are met to a large extent in the proposals made by the Chairman of the Negotiating Group before the Cancun Meeting. Bringing in unbound tariffs within the purview of the formula would cause some problems for India as the current applied levels of tariffs would have to be brought down considerably on fish and fish products, iron and steel and motor vehicles. However, economic good sense dictates that tariffs on these products must fall in line with the prevailing general rate in other products. The special needs of the industry such as restructuring in the iron and steel sector can be provided for by securing a longer implementation period.
- For bound tariffs, the base rate must be the level at which the binding was made in the Uruguay Round. For unbound tariffs, India must press for the rate prevailing in April 1994 to be the bound rate. The Chairman's suggestion for the base rate for unbound lines to be two times the applied rate in 2001 is also an effective way for giving credit for autonomous liberalization. The Chairman's suggestion for the base rate in the case of items that were not bound in the Uruguay Round but were bound before the current round (two times the applied level at the time of binding or the bound rate, whichever is higher) is also fair and pragmatic.
- India can accept five years as the norm for implementation of the agreed reductions but must press for the norm for developing countries to be ten years.

- India need not adopt a high profile on the issue of non-ad valorem tariffs. If there is an emerging consensus in favor of the conversion India should try to secure a time-limited exemption for developing countries.
- The issue of special and differential treatment should be used with discretion The idea should not be to make the contributions of India and other developing countries minimal because in the ultimate analysis, meaningful reciprocal concessions are politically imperative for the major developed countries to make substantial concessions. The concept of special and differential treatment could help to a modest extent in lightening the burden of commitments that India may have to undertake. However, it would be a mistake to depend upon it too much. In the past the concept served India well as in the days of high tariffs it helped in fending off pressures for reduction of tariffs. However, it is a poor bargaining instrument for eliciting concessions from the industrialised countries.

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