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OVERVIEW OF DEVELOPMENTS IN THE INTERNATIONAL TRADING ENVIRONMENT

Annual Report by the Director-General

1. Introduction

1. Trade and foreign direct investment (FDI) have continued to support growth in the world economy; indeed, according to the IMF, growth in real global GDP is expected to be roughly 5% in 2004[1], its strongest pace for some time. In particular, for the OECD group of countries, both imports and exports of goods and services grew at an annual rate of around 9% (in real terms) during the second quarter of 2004[2]. Trade has also grown rapidly in most developing countries. The United States and China have accounted for almost half of the increase in world trade and growth during the past year or so[3]. FDI declined in 2003 (the latest year for which data are available) but that to developing countries as a whole rose by 9%, most notably in Africa and Asia. China is now the leading destination for FDI, followed by France and the United States.

2. Strong growth in the United States and China, and their resulting demand for imports has provided a stimulus to export-led growth among their trading partners during the past few years. However, growth in Japan (until very recently) and the euro-zone has still been relatively slow, thereby contributing to global economic imbalances, including in international trade and capital flows. China, whose GDP grew by 9.7% annually in the second quarter of 2004[4] and which is now the fourth largest trader[5], has emerged as a major engine of growth in the world economy, accounting for a large share of the increase in international trade.

3. In September 2004, in its World Economic Outlook (WEO), the IMF raised its 2004 projections to 5% and forecasts strong growth for the next two years in developed and developing countries. The current recovery, which appears to be broad-based and robust, is seen by the IMF as the result of much improved macroeconomic policies during the past few years[6]. While the breakthrough in WTO negotiations achieved at the end of July 2004 should be a source of added optimism for the economic recovery and long-term growth, several developments impart a degree of downside risk to the global economic outlook.

4. The recent surge in oil prices remains a risk, although the anti-inflation credibility of central banks is such that this "is likely to prove less consequential to economic growth and inflation than in the 1970s".[7] These breached US$50 a barrel in late September, an increase of nearly US$15 since the

[1] IMF, 2004, *World Economic Outlook*, September, Chapter 1, p. 1.
[2] OECD Statistics Available online at: http://www.oecd.org/dataoecd/55/27/18628014.pdf.
[3] *The Economist*, "The Dragon and the Eagle", 30 September 2004.
[4] http://www.stats.gov.cn/english/statisticaldata/monthlydata/t20031110_402177688.htm.
[5] WTO, 2004, *World Trade Report*.
[6] IMF, 2004, *World Economic Outlook* September, Chapter 1, p. 6.
[7] Alan Greenspan, "Oil", Remarks to the National Italian American Foundation, Washington, D.C., 15 October 2004. Greater central bank credibility in controlling inflation is not the only factor that makes the trade-off between growth and the inflationary effects of increased oil prices less painful. In particular, the oil intensity of production has fallen markedly since the 1970s. Furthermore, an increasingly integrated global economy has fostered increased competition, which reduced the producers' scope for raising prices.

end of June and more than US$25 since the start of 2002. According to the International Energy Agency (IEA) and OECD, a sustained US$10 increase in the oil price reduces real GDP growth in OECD countries by 0.4 percentage points in the first and second years of higher prices.[8] The corresponding GDP losses in Asia and poor highly indebted countries, respectively, would be 0.8 and 1.6 percentage points; the loss of GDP in Sub-Saharan Africa would be more than 3 percentage points. The rise in energy prices could also contribute to inflationary pressures at a time when some central banks have already started to tighten monetary policy and raise interest rates in order to contain such pressures.[9]

5. An additional concern is that the effects of the monetary and fiscal policy stimuli in the United States on domestic demand may be waning. In the United States, the main engine of global growth during the past few years, the cyclically-adjusted budget has gone from a 1.1% surplus in 2001 to a forecast 3.2% deficit this year[10], personal saving fell to 0.9% of disposable personal income in August 2004[11] and consequently consumers remain heavily indebted. The outcome has been increasingly large structural trade and current account deficits; related bilateral trade imbalances could give rise to protectionist sentiment and constitute an irritant to international trade relations.[12] As a consequence of the "twin deficits" in the budget and current account, the United States economy may be becoming more vulnerable to internal or external shock. Such shocks include: sharp increases in oil prices; lower prices of assets such as housing; or a change in sentiment on the part of East Asian countries, especially Japan and China, making them reluctant to recycle their saving surpluses to the United States to finance its large "twin deficits", thus creating the potential for associated destabilising reversals in international capital flows. (In 2003, China, Japan and other countries in East Asia financed over half of the United States' current account deficit[13].) A slowdown in the United States could have adverse global repercussions.

6. There is also the question of a Chinese "soft landing".[14] This is generally believed to involve growth slowing to 7-8%, substantially less than the annual rate of 9-11% experienced during the past few years. Even a soft landing could cause some discomfort to China's trading partners. This is especially true in Japan and several other economies in East Asia, whose economic recoveries have depended heavily on exports to China as well as to the United States; a harder landing would be even worse. Needless to say, a slowdown in growth in China and the United States, the two largest oil consumers, would relieve demand pressure on oil prices (as well as other raw materials) and possibly help contain upward pressure on interest rates.

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[8] International Energy Agency, 2004, "Analysis of the Impact of High Oil Prices on the Global Economy", May.

[9] According to the IEA, inflation would rise by half a percentage point in OECD countries and the unemployment by 0.1 of a percentage point.

[10] Data from the U.S. Congressional Budget Office. Available online at: http://www.cbo.gov/showdoc.cfm?index=5802&sequence=2.

[11] http://www.bea.gov/bea/newsrel/pinewsrelease.htm, 6 October 2004.

[12] Interestingly, the Council of Economic Advisers (2004, p. 257), in last year's Economic Report of the President, maintains that "*bilateral deficits*, such as the U.S. trade deficit with China, reveal *nothing* about underlying economic forces in either country". It goes on to add that "[W]hile trade barriers are a cause for concern, there is no economic sense in which a bilateral deficit is either good or bad. It would be an extraordinary coincidence if all countries had balanced trade with each of their partners. One of the benefits of the international financial system is that it frees countries from these bilateral constraints; bilateral deficits and surpluses are a natural consequence of a trading world composed of many countries."

[13] IMF, 2004, *World Economic Outlook* September, Chapter 1, p. 6.

[14] Whereas China's overall trade position is close to balance, its investment boom has attracted large net inflows of FDI, particularly to export-oriented manufacturing industries. With a fixed exchange rate in relation to the U.S. dollar, the resulting accumulation of foreign reserves has caused rapid growth in the money supply and bank lending, thereby contributing to increased inflation, for example, the CPI index increased by 5.3% annually in August 2004.

7. The economic boom in China has played a major role in the economic recovery of Japan, whose exports to China last year accounted for two-thirds of its total export growth and one-quarter of its real GDP growth. If the increase in capital spending by exporters is also taken into account, China accounted for between one-third and one-half of Japan's GDP growth[15]. With the export-led recovery helping to solve Japan's structural problems, annualised real GDP growth of 4.2% in the second quarter of 2004 has raised hopes that a sustained recovery is under way following more than a decade of rather disappointing economic performance. However, if domestic demand in Japan (as well as some other East Asian countries) is not sufficiently strong, it will remain vulnerable to economic downturns abroad, especially in the United States and China.

8. The euro-zone also remains heavily dependent on external demand. This is especially true in the zone's largest economy, Germany, where growth in consumer demand continues to be sluggish so that the recovery is largely export-led.

9. A further cause for concern is the state of public finances in the six major industrialized economies (United States, Japan, Germany, United Kingdom, France and Italy[16]), where structural fiscal deficits and high levels of government debt (as a proportion of GDP) could be exacerbated over the longer term by mounting public expenditures associated with their aging populations. Several large developing countries (such as India) are also experiencing difficult fiscal situations[17].

10. Another possible element of downside risk in the IMF's current forecast of world economic growth is the state of the financial systems in some countries, especially in Asia. Much progress has been made in Asian countries, including those hardest hit by the Asian financial crisis, to strengthen their banking systems (with many now achieving capital-adequacy ratios well above the 8% required by the Bank for International Settlement), although still more needs to be done. In addition, their central banks have amassed some US$2 trillion in low-yielding foreign exchange reserves as a cushion against financial instability. However, the fact that authorities in some of these countries feel the need to prevent their currencies from rising and to maintain their current account surpluses and thereby accumulate such a high level of foreign reserves suggests that they may not yet be sufficiently confident about the ability of their financial systems to withstand sudden reversals in foreign capital flows.

2. Tariffs

11. As a result of successive rounds of multilateral trade negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO), tariffs on imported industrial goods have declined substantially. Indeed, once commitments made under the Uruguay Round (UR), are fully implemented, the overall import-weighted MFN tariff average on such products in industrialized countries will have fallen to less than 4%. This seemingly *low current level of tariff protection may give the impression that tariffs are no longer a major barrier to international trade,* especially as far as industrial products in industrialized countries are concerned, and are not, therefore, a major issue in the DDA.[18] However, even in industrialized countries, the existence of tariff "peaks" in certain sectors, notably textiles and clothing as well as agriculture, suggest that the associated domestic dead-weight and net welfare losses caused by tariff protection could be high. Such losses and costs to consumers are also likely to be high in developing countries, where overall tariff protection tends to be greater than in industrialized countries, thereby constituting not only an impediment to trade between industrialized and developing countries (North-South trade), but also to trade among developing countries (South-South trade). Additional

[15] *The Economist*, "The Sun eventually rises", 30 September 2004.
[16] IMF, 2004, World Economic Outlook, September, Chapter 1, p. 14, Table 1.4.
[17] IMF, 2004, World Economic Outlook, September, Chapter 1, pp. 35 and 38.
[18] Tariffs are not only a barrier to imports, but are also an implicit "charge" on exports to the extent that exports comprise imported inputs on which duties are levied.

unsatisfactory features of tariffs include the lack of tariff bindings together with considerable gaps between *applied* and *bound* rates, largely in developing countries, the use of opaque specific (as opposed to *ad valorem)* rates and tariff quotas, and tariff escalation.

12. Particular attention is focused on the so-called "Quad" group of major traders (namely Canada the European Communities (EC), Japan and the United States) as these Members' tariffs can have serious repercussions for their trading partners, especially developing and least developed countries (LDCs). This is also perhaps true, albeit to a lesser extent, of tariffs applied by four major developing countries, notably Brazil, China, India, and South Africa.[19] The use of tariffs by the Quad and these four developing countries to impede access to their markets can lead to welfare losses on a global scale as well as domestically, not least because they tend to hamper developing countries' efforts to achieve export-led growth.[20] These WTO Members also warrant special attention because they play a leading role in the current negotiations.

13. Some simple summary indicators capturing the level and structure of tariffs in the Quad are reported in Table 1 for 1995, prior to the implementation of the UR tariff cuts (or 1996, if data for 1995 were not available), and for the latest available year.[21] They are also reported under full implementation of the UR (and the ITA); the latter indicators are of interest because they provide a benchmark for the current WTO negotiations on tariffs. The same indicators for China, India, Brazil and South Africa are found in Table 2, insofar as data were available. Tariff indicators for those other Members with a Trade Policy Review in 2003/2004, namely Belize, Benin, Burkina Faso, Jamaica, the Republic of Korea, Mali, Norway, Rwanda, Singapore, Sri Lanka and Switzerland are found in Table Annex 1.

Table 1
Structure of MFN tariffs in the "Quad"
(Per cent)

	United States[a]			European Communities			Japan[b]			Canada		
	1996	2002	F.B.[c]	1995[d]	2004	F.B.[e]	FY 96	FY 04	F.B.[f]	1995[d]	2002	F.B.[g]
Bound tariff[h]												
1. Bound tariff lines (% of all tariff lines)	100.0[i]	100.0[i]	100.0[i]	..	100.0	100.0	98.9	98.9	98.9	..	..	99.7
2. Simple average bound rate	..	..	4.6	..	6.5	6.3	10.3	6.4	6.4	..	..	8.4
Agricultural products (HS01-24)	..	..	8.1	..	16.7	16.3	..	16.8	16.8	..	..	23.1
Industrial products (HS25-97)	..	..	4.0	..	3.7	3.6	..	3.9	3.9	..	..	5.8
WTO agricultural products	..	..	8.3	..	16.6	16.3	..	18.4	18.4	..	..	24.4
WTO non-agricultural products	..	..	4.0	..	4.1	4.0	..	3.7	3.7	..	..	5.7
Textiles and clothing	..	..	9.0	..	8.0	8.0	9.8	6.7	6.7	..	..	12.2
3. Tariff quotas (% of all tariff lines)	..	..	1.9	..	3.3	3.3	1.6	1.6	1.6	..	..	2.2
4. Duty free tariff lines (% of all tariff lines)	..	..	37.6	..	26.8	28.0	..	40.9	40.9	..	..	29.7
5. Non-ad valorem tariffs (% of all tariff lines)	..	..	10.8	..	9.9	10.1	..	6.3	6.3	..	..	5.1

Table 1 (cont'd)

[19] Since acceding to the WTO in 2001, China has overtaken Canada to become the world's fourth largest trader.

[20] There is a theoretical possibility that export growth might reduce economic welfare if such growth leads to a deterioration in the exporting country's terms of trade that is sufficiently strong to more than offset the primary gain from growth, a phenomenon known as "immiserizing" growth, which is rarely observed in practice. (See Bhagwati, Jagdish, 1958, "Immiserizing Growth: A Geometrical Note", *Review of Economic Studies* 25, pp. 201-205).

[21] The methodology used to construct these tariff indicators is outlined in Daly, Michael, and Hiroaki Kuwahara, 1998, "The Impact of the Uruguay Round on Tariff and Non-Tariff Trade Barriers in the Quad", *The World Economy* 21(1), pp. 207-234.

	United States[a]			European Communities			Japan[b]			Canada		
	1996	2002	F.B.[c]	1995[d]	2004	F.B.[e]	FY 96	FY 04	F.B.[f]	1995[d]	2002	F.B.[g]
6. Non-ad valorem tariffs with no AVEs (% of all tariff lines)	..	..	0.2	..	2.7	3.5	..	1.5	1.5	..	..	0.2
7. Nuisance bound rates (% of all tariff lines)[j]	..	..	6.7	..	6.8	6.4	..	1.0	1.0	..	..	1.1
Applied tariff												
8. Simple average applied rate	6.4	5.1	n.a.	10.2	6.5	n.a.	9.0	6.3	n.a.	13.2	6.8	n.a.
Agricultural products (HS01-24)	10.0	9.5	n.a.	23.7	16.6	n.a.	..	16.1	n.a.	28.6	21.2	n.a.
Industrial products (HS25-97)	5.7	4.2	n.a.	6.6	3.7	n.a.	..	3.8	n.a.	10.5	4.2	n.a.
WTO agricultural products	10.3	9.8	n.a.	24.5	16.5	n.a.	..	17.7	n.a.	30.3	21.7	n.a.
WTO non-agricultural products	5.7	4.2	n.a.	6.9	4.1	n.a.	..	3.7	n.a.	10.4	4.2	n.a.
Textiles and clothing	11.5	9.7	n.a.	10.4	8.0	n.a.	8.7	6.7	n.a.	18.4	9.9	n.a.
9. Domestic tariff "peaks" (% of all tariff lines)[k]	4.0	5.3	n.a.	4.0	5.8	n.a.	..	6.4	n.a.	1.4	1.6	n.a.
10. International tariff "peaks" (% of all tariff lines)[l]	8.9	6.3	n.a.	11.0	8.6	n.a.	..	7.4	n.a.	17.0	9.8	n.a.
11. Overall standard deviation of tariff rates	13.4	13.2	n.a.	16.5	11.5	n.a.	40.8	23.2	n.a.	30.0	24.4	n.a.
12. Coefficient of variation of tariff rates	2.1	2.4	n.a.	1.6	1.8	n.a.	..	3.7	n.a.	2.3	3.6	n.a.
13. Tariff quotas (% of all tariff lines)	1.9	1.9	n.a.	3.3	3.3	n.a.	1.6	1.6	n.a.	2.2	2.2	n.a.
14. Duty free tariff lines (% of all tariff lines)	18.2	31.2	n.a.	9.4	26.9	n.a.	34.9	41.6	n.a.	18.2	49.0	n.a.
15. Non-ad valorem tariffs (% of all tariff lines)	14.1	12.1	n.a.	10.2	9.9	n.a.	7.1	6.6	n.a.	7.4	3.9	n.a.
16. Non-ad valorem tariffs with no AVEs (% of all tariff lines)	3.1	0.0	n.a.	2.0	2.7	n.a.	..	1.4	n.a.	5.8	0.5	n.a.
17. Nuisance applied rates (% of all tariff lines)[j]	8.9	12.6	n.a.	1.0	6.8	n.a.	..	1.1	n.a.	1.2	2.2	n.a.

.. Not available.
F.B. Final bound.
n.a. Not applicable.

a The United States levies its *ad valorem* duties on the basis of the "f.o.b." ("free on Board") price, thereby excluding the costs of insurance and freight. By contrast, most other WTO Members, including the EC, Japan and Canada, levy *ad valorem* import duties on the "c.i.f." price, which includes these costs. As the c.i.f. price exceeds the f.o.b. price by the amount of insurance and freight costs, a tariff levied on the f.o.b. price affords less protection than one levied at the same rate on the c.i.f. price.
b Based on fiscal years.
c Based on 1998 tariff schedule.
d Pre-Uruguay Round tariff.
e Based on 1999 tariff schedule.
f Based on FY 2004 tariff schedule.
g Based on 2000 tariff schedule.
h Calculations are only based on bound tariffs.
i Two lines, applying to crude petroleum, are not bound.
j Nuisance rates are those greater than zero, but less than or equal to 2%.
k Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate (indicator 8).
l International tariff peaks are defined as those exceeding 15%.

Note: All calculations exclude "in-quota" rates. *Ad valorem* equivalents (AVEs) of non-*ad valorem* duties are used insofar as they are available. Where AVEs are not available, the *ad valorem* tariff component is used for compound and alternate rates.

Source: WTO Secretariat calculations, based on data provided by the Members.

Table 2
Structure of MFN tariffs in selected developing countries
(Per cent)

	China			Brazil			India			South Africa		
	1996	2002	F.B.[a]	2000	2004	F.B.[b]	1997/98	2001/02	F.B.[c]	1997	2002	F.B.[d]
Bound tariff[e]												
1. Bound tariff lines (% of all tariff lines)[e]	n.a.	100.0	100.0	100.0	100.0	100.0	67.0	73.3	73.3	96.3	96.2	96.3
2. Simple average bound rate	..	12.4	9.9	..	..	30.2	..	..	50.6	..	..	20.9
Agricultural products (HS01-24)	..	17.9	14.5	..	..	35.8	..	..	115.7	..	..	46.8
Industrial products (HS25-97)	..	11.4	9.1	..	..	29.5	..	..	37.7	..	..	18.1
WTO agricultural products	..	18.2	15.2	..	..	35.3	..	..	114.7	..	..	43.5
WTO non-agricultural products	..	11.5	9.0	..	..	29.6	..	..	36.2	..	..	18.1
Textiles and clothing	..	17.6	11.5	..	..	34.7	..	..	29.9	..	..	26.8
3. Tariff quotas (% of all tariff lines)	..	0.8	0.8	..	..	0.0	..	..	..	..	..	3.9
4. Duty free tariff lines (% of all tariff lines)	..	4.3	7.6	..	..	0.7	..	..	0.3	..	..	10.2
5. Non-ad valorem tariffs (% of all tariff lines)	..	0.0	0.0	..	..	0.0	..	..	6.4	..	..	0.0
6. Non-ad valorem tariffs with no AVEs (% of all tariff lines)	..	0.0	0.0	..	..	0.0	..	..	6.4	..	..	0.0
7. Nuisance bound rates (% of all tariff lines)[f]	..	1.9	2.4	..	..	0.0*	..	..	0.0	..	..	0.0
Applied tariff												
8. Simple average applied rate	23.6	12.3	n.a.	13.7	10.4	n.a.	35.3	32.3	n.a.	15.0	11.4	n.a.
Agricultural products (HS01-24)	35.4	18.0	n.a.	12.9	10.4	n.a.	33.8	41.7	n.a.	11.3	11.5	n.a.
Industrial products (HS25-97)	21.7	11.3	n.a.	13.8	10.4	n.a.	35.6	30.8	n.a.	15.4	11.4	n.a.
WTO agricultural products	33.8	18.2	n.a.	12.6	10.2	n.a.	35.2	40.7	n.a.	9.4	9.6	n.a.
WTO non-agricultural products	22.1	11.3	n.a.	13.8	10.5	n.a.	35.4	31.0	n.a.	15.7	11.6	n.a.
Textiles and clothing	32.8	17.5	n.a.	20.3	17.2	n.a.	43.7	31.3	n.a.	35.1	24.4	n.a.
9. Domestic tariff "peaks" (% of all tariff lines)[g]	1.1	1.8	n.a.	0.0	0.6	n.a.	0.2	1.3	n.a.	4.0	3.9	n.a.
10. International tariff "peaks" (% of all tariff lines)[h]	55.2	17.2	n.a.	41.3	26.8	n.a.	90.5	96.8	n.a.	39.4	34.9	n.a.
11. Overall standard deviation of tariff rates	17.4	9.1	n.a.	6.7	7.0	n.a.	14.5	13.0	n.a.	17.8	12.6	n.a.
12. Coefficient of variation of tariff rates	0.7	0.7	n.a.	0.5	0.7	n.a.	0.4	0.4	n.a.	1.2	1.1	n.a.
13. Tariff quotas (% of all tariff lines)	..	0.8	n.a.	0.0	0.0	n.a.	..	..	n.a.	4.2	3.8	n.a.
14. Duty free tariff lines (% of all tariff lines)	1.9	4.8	n.a.	1.5	10.4	n.a.	1.4	1.1	n.a.	42.4	43.4	n.a.
15. Non-ad valorem tariffs (% of all tariff lines)	0.0	0.7	n.a.	0.0	0.0	n.a.	0.2	5.3	n.a.	25.6	25	n.a.
16. Non-ad valorem tariffs with no AVEs (% of all tariff lines)	0.0	0.7	n.a.	0.0	0.0	n.a.	0.2	5.3	n.a.	25.6	25.0	n.a.
17. Nuisance applied rates (% of all tariff lines)[f]	1.0	1.9	n.a.	0.8	15.1	n.a.	0.0	0.0	n.a.	0.2	0.0*	n.a.

.. Not available.
n.a. Not applicable.
* Negligible.
F.B. Final bound.

a Based on 2002 tariff schedule.
b Based on 2004 tariff schedule.
c Based on 2001/02 tariff schedule. Averages do not include lines where different parts of the HS six-digit line were bound at different rates.
d Based on 2001 tariff schedule.
e Calculations are only based on bound tariff lines. Including fully bound and partially bound rates.
f Nuisance rates are those greater than zero, but less than or equal to 2%.
g Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate (indicator 8).
h International tariff peaks are defined as those exceeding 15%.

Note: Excluding in-quota rates. Calculations exclude specific rates and include the *ad valorem* part for compound and alternate rates.

Source: WTO Secretariat calculations, based on data provided by Members.

Bound MFN tariffs

14. Tariff bindings are a key element of trade liberalization as they reduce the uncertainty concerning Members' trade regimes. In addition to achieving higher levels of bindings on industrial products, all Members bound virtually all their tariff lines on agricultural items as a result of the WTO Agreement on Agriculture. The Quad have bound close to 100% of all their tariff lines. Full implementation of UR commitments will result in relatively low simple average bound rates for industrial products in developed countries, although wide differences exist across products. While the simple average of bound MFN rates under the UR will be in the range of 4.6% in the United States to 8.4% in Canada, the average for agricultural products is two to five times higher than that for industrial products. As regards industrial products, bound rates are among the highest for textiles and clothing, with the post-UR average ranging from 6.7% in Japan to 12.2% in Canada. Whereas Brazil, China, and South Africa have also bound most, if not all, of their tariff lines, India has bound less than three quarters. Final average bound rates (once the UR commitments are fully implemented) range from nearly 10% in China to over 50% in India.

Applied MFN tariffs

15. Applied MFN tariffs in the Quad are generally at, or close to, bound rates. The average for all products in 2002 ranged from 5.1% in the United States to 6.8% in Canada; the average for the Quad was 6.2%. However, these low average applied tariff levels disguise the fact that agricultural products and textiles and clothing, respectively, are subject to much higher average rates of 16.4% and 8.6%. These applied (as well as bound) MFN averages tend to underestimate the overall level of tariff protection. In particular, they do not include certain specific duties for which *ad valorem* equivalents (AVEs) are not available; such duties tend to conceal tariff "peaks". In the EC and Japan, for example, AVEs were not available for 2.7% and 1.5% of tariff lines subject to non-*ad valorem* duties (Table 1).

16. Tariffs tend to be much higher in developing countries; for example, the average applied MFN tariff rate for China (2002) was 12.3%, albeit roughly half the level in 1996 (Table 2). By the time its commitments are fully implemented, China's average bound rate will be 9.9%, which means that applied rates will need to be brought down to at most this level. The average applied MFN tariff rates in Brazil (2004) and South Africa (2002), respectively, were 10.4% and 11.4%. By contrast, the average in India (2001/02) was 32.3%, one of the highest among developing countries.[22] Whereas in entering China and India, imports of agricultural products face tariffs that are on average considerably higher than those applied to non-agricultural products, in Brazil and South Africa, agricultural products are subject to roughly the same or even lower tariffs than those applied to non-agricultural products. China, Brazil and South Africa, unlike India, also levy relatively high tariffs on textiles, clothing and footwear.

17. One possibly important reason for such high applied MFN tariff rates in India and some other developing-country Members is the fact that tariffs are also a major source of tax revenue. It follows that tariff reform can have important revenue implications in such countries and reductions in average applied tariffs depend heavily on tax reforms aimed at reducing reliance on border taxes for revenues.[23] However, the possible fall in the revenues resulting from across-the-board cuts in applied tariff rates can be mitigated by the elimination of exemptions and other concessions in Members' tariffs; moreover, to the extent that broad cuts in applied tariffs are reflected in lower domestic prices for imported products, the amount of revenue collected (from the tariff and internal indirect taxes) could rise insofar as demand for such products is sufficiently responsive. Financial support (from

[22] The simple average MFN rates do not include any exemptions or concessions that are also offered on an MFN basis and may significantly lower the effective tariff rate.

[23] WTO negotiations concerning cuts in tariffs involve bound MFN rates only; such cuts would affect tariff revenues only insofar as they lead to reductions in applied rates.

institutions such as the IMF or World Bank) might perhaps help developing countries to manage any loss of tax revenues arising from cuts in applied tariffs. A broad-based VAT would, in most cases, be a far less distorting source of tax revenue than tariffs, provided the administrative obstacles to such a tax can be overcome.

18. Applied MFN tariffs are often well below bound rates in developing countries, including India, Brazil and South Africa (but not China), thus providing considerable scope for applied tariffs to be raised and thereby imparting a degree of unpredictability to the tariff. This gap is the result of two factors: the negotiation of ceiling bindings and unilateral reductions in applied tariffs.

19. So-called "nuisance" tariffs (whose applied rates exceed zero, but are no more than 2%)[24] involve as many as 12.6% of all tariff lines in the United States and 6.8% in the EC, but only 1.1% in Japan. In Brazil, they cover 15.1% of all tariff lines. By contrast, in China, such tariffs cover only 1.9% of all tariff lines and are negligible in India and South Africa.

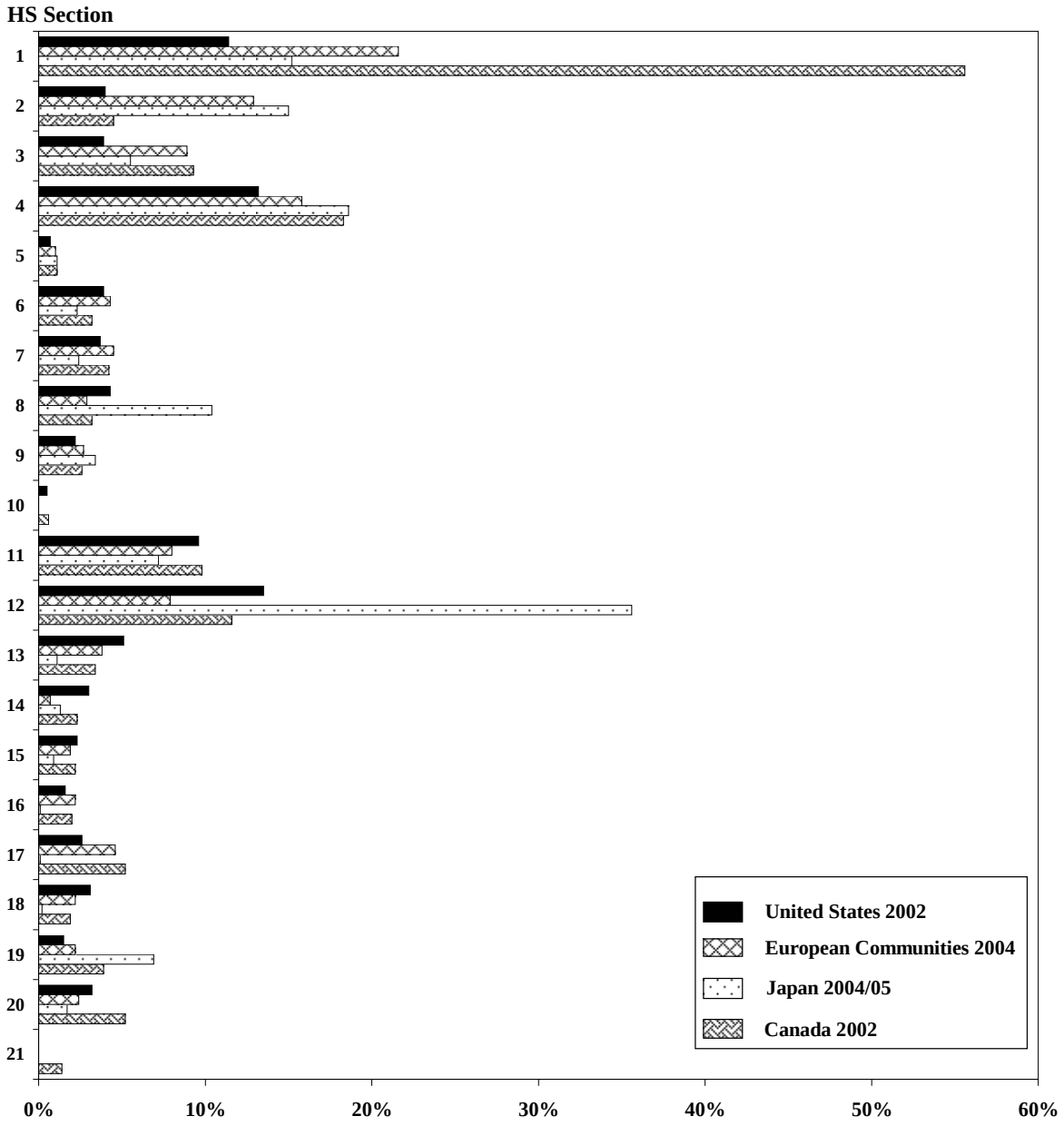
Tariff dispersion and "peaks"

20. Efficiency losses associated with tariffs depend not just on average applied MFN levels, but also on the dispersion in rates across products. For any given average tariff, the greater the dispersion in rates, the greater the likelihood that consumers' and producers' decisions are distorted by the tariff structure. Among the Quad, applied MFN tariff rates three or more times the national average (domestic "peaks") continue to protect certain sectors from imports. These "peaks" cover from 1.6% of tariff lines in Canada to between 5.3% and 6.4% in the United States, the EC, and Japan. By and large, tariff "peaks" are concentrated in agriculture and food products, partly due to "tariffication", as well as textiles and clothing, which tend to be labour intensive (Chart 1). Many of these products are of major export interest to developing countries; indeed, LDCs' exports are disproportionately affected by tariff "peaks" in the Quad.[25] Appropriately, the problem of tariff "peaks" features prominently in the DDA. In most developing (and least developed) countries, domestic tariff "peaks" tend to be less pervasive, largely due to these countries' higher overall levels of tariff protection. In China, for example, such "peaks" cover only 1.8% of tariff lines. In South Africa, the proportion is 3.9%, while they are negligible in India (1.3%) and Brazil (0.6%). Although "peaks" in these countries do arise in agriculture and food products as well as textiles and clothing, they are less pronounced than in the Quad (Chart 2).

[24] There is no agreed WTO definition of "nuisance" tariffs.

[25] The value of Quad imports subject to international tariff "peaks" (that is, rates exceeding 15%) was nearly US$93 billion in 1999, roughly 60% of which originated in developing countries. This represents about 5% of developing countries' total exports to the Quad. LDCs exports to the Quad subject to "peaks" accounted for 15% to 30% of LDC's total exports to the United States, EC and Canada. Up to US$22 billion of tariff revenue may be collected by Quad Members on those imports subject to such "peaks"; half of this amount is contributed by developing country exporters, and LDC exporters may pay up to US$200 million in tariff revenue notwithstanding their tariff preferences (See Francis Ng and Marcelo Olarreaga, 2002, "Tariff Peaks and Preferences" in B. Hoekman, A. Mattoo and P. English (editors), *Development, Trade and WTO* (The World Bank)). This situation may well have changed somewhat owing to unilateral preferences accorded by the United States and the EC, respectively, under AGOA and EBA.

Chart 1
Simple average MFN tariff rates for the "Quad", by HS Section

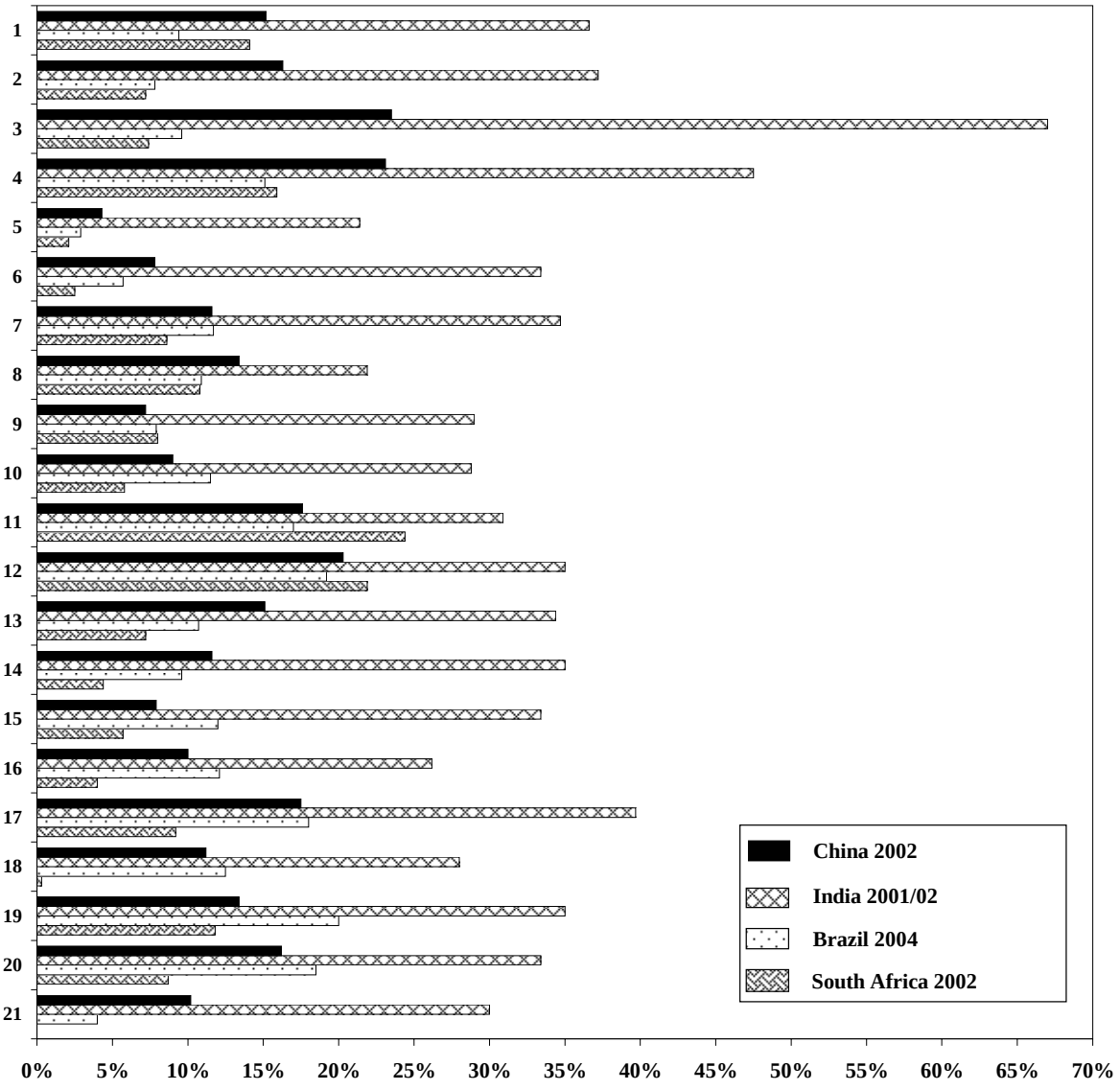


01 Live animals and prods	07 Plastic and rubber	13 Articles of stones	19 Arms and ammunition
02 Vegetable products	08 Hides and skins	14 Precious stones, etc.	20 Miscellaneous manufs
03 Fats and oils	09 Wood and articles	15 Base metals and prods	21 Works of art, etc.
04 Prepared food, etc.	10 Pulp, paper, etc.	16 Machinery, etc.	
05 Mineral products	11 Textiles and articles	17 Transport equipment	
06 Chemicals and prods	12 Footwear, headgear, etc.	18 Precision instruments	

Note: **Calculations include AVEs where available; where they are not available, the *ad valorem* part is used for alternate and compound rates. Excluding in-quota rates.**

***Source*:** **WTO Secretariat calculations, based on information provided by Members.**

Chart 2
Simple average MFN tariff rates for selected developing countries, by HS section



01 Live animals and prods	07 Plastic and rubber	13 Articles of stones	19 Arms and ammunition
02 Vegetable products	08 Hides and skins	14 Precious stones, etc.	20 Miscellaneous manufs
03 Fats and oils	09 Wood and articles	15 Base metals and prods	21 Works of art, etc.
04 Prepared food, etc.	10 Pulp, paper, etc.	16 Machinery, etc.	
05 Mineral products	11 Textiles and articles	17 Transport equipment	
06 Chemicals and prods	12 Footwear, headgear, etc.	18 Precision instruments	

Note: **Calculations exclude specific duties and include the *ad valorem* part for alternate and compound rates. Excluding in-quota rates.**

***Source*:** **WTO Secretariat calculations, based on information provided by the Members.**

21. In general, a movement towards lower and more uniform tariffs in developed and developing Members alike would tend to improve resource allocation and thereby raise economic welfare.[26] High and disparate tariffs foster inefficiency by penalizing efficient activities, including exports; by promoting a high-cost economy, they impair the competitiveness of exporters. Border taxes levied on imports are, in effect, shifted onto exports. Reducing tariff dispersion will tend to reduce these adverse effects.

22. It is estimated that if Quad Members were to accord LDCs duty-free access for products subject to tariff "peaks", LDCs' exports to these major markets would rise by between 30-60%, or by as much as US$2.5 billion; the latter is equivalent to an 11% increase in LDCs' total exports .[27] Part of this increase in LDCs' exports would be at the expense of other developing countries.

Non-*ad valorem* tariff rates

23. Tariff "peaks" are often concealed by non-*ad valorem* rates[28], an important feature of the Quad Members' tariff schedules.[29] This is particularly true for agricultural products, especially in the United States and the EC, where specific rates account for 12.1% and 9.9% of tariff lines, respectively, and will remain so even once the UR is fully implemented.[30] This is partly the consequence of the "tariffication" of agricultural NTBs, which were largely converted into specific or mixed[31] duties, rather than into pure *ad valorem* tariffs, and often combined with quotas. Non-*ad valorem* rates are also an important feature of the tariffs of India and especially South Africa, although in the latter they are expected to disappear once the UR is fully implemented. By contrast, the tariffs of China and Brazil appear to be relatively transparent in this regard, with only 0.7% of all tariff lines subject to non-*ad valorem* rates in China and none in Brazil.

24. Specific duties also tend to distort domestic production patterns more than *ad valorem* tariffs do, providing disparate levels of assistance for similar goods by taxing imports of cheaper products more heavily; this encourages domestic firms to produce cheaper goods that have higher protection from imports. To the extent that developing countries are exporters of relatively cheap products falling within the same national tariff line, such duties tend to impose a heavier burden on their exports; specific duties thus tend to afford higher levels of tariff protection (in *ad valorem* terms) against imports from developing countries than from industrialized countries. Specific duties may also be more regressive than *ad valorem* duties because they impose a heavier burden on cheaper products within the same tariff line. Furthermore, as *ad valorem* equivalents (AVEs) are inversely related to import prices, specific duties progressively cushion domestic producers against competition from lower-priced imports, thereby counteracting cuts in specific rates. Consequently, they counteract the relative price effects of exchange rate changes on countries' trade balances. The use of specific duties can lead to an increase in real tariff protection as the prices of traded goods decline (and to a fall in real protection as prices increase). Interestingly, Members have agreed in the framework of

[26] Strictly speaking, a uniform, non-zero nominal tariff minimizes the net welfare cost of such protection only if import demand elasticities are uniform across commodities and cross-price effects are negligible. Tariff uniformity may be desirable on administrative simplicity and political grounds, however. Chile and Mongolia provide examples of Members with low and quasi-uniform tariffs.

[27] Hoekman, Bernard, Francis Ng and Marcelo Olarreaga, 2002 "Reducing Agriculture Tariffs Versus Domestic Support: What's More Important to Developing Countries?", CEPR Discussion Paper No. 3576.

[28] The simple average of *ad valorem* equivalents (AVEs) for specific duties is 2½ to 20 times the simple average of *ad valorem* duties in the Quad.

[29] Norway and particularly Switzerland also rely heavily on specific duties; indeed, all Switzerland's duties are specific.

[30] To the extent that specific rates do conceal tariff "peaks" and estimates of their AVEs are not available, as in the EC, Japan, Canada, China, India and South Africa, the indicators of both the levels of tariff protection and the dispersion in rates are underestimated.

[31] Mixed (or alternative) tariff rates ensure a minimum (or maximum) level of protection through a choice between an *ad valorem* rate and a specific rate, e.g., 15% or US$5 per kilo, whichever is more (or less).

negotiations concerning non-agricultural market access that duties on non-agricultural products shall be "bound in *ad valorem* terms".

Tariff quotas

25. In consequence of the UR, and especially the "tariffication" of agricultural NTBs, tariff rate quotas as a proportion of all tariffs increased considerably in the United States, Japan and Canada; they were already significant in the EC prior to the UR. Thus, tariff quotas will account for between 1.6% of tariff lines in Japan to 3.3% in the EC, once UR commitments are fully implemented. By contrast, the tariffs of China and Brazil contains few, if any, tariff quotas. "Out-of-quota" rates (and even "in-quota" rates) in the Quad, often entail potentially prohibitive tariff "peaks". Tariff rate quotas were designed to take into account "current access" prior to the "tariffication" process and necessary to administer minimum access requirements under the UR. However, they have left considerable scope for discretion in the allocation of "in-quota" volumes, thereby retaining a number of the drawbacks associated with previous quantitative restrictions, reducing the benefits of "tariffication".[32]

Tariff escalation

26. A non-uniform tariff is often used to provide an "escalating" degree of tariff protection to encourage downstream processing. This may be attempted by levying relatively low duties on raw materials with progressively higher tariffs applied to more processed goods. The outcome is that the level of effective protection increases as goods undergo further processing.[33] Indeed, what may be mild escalation in nominal tariff terms can provide very high effective (net) assistance to downstream activities. Tariff escalation (often reflecting tariff "peaks") is a feature of industrial-product tariffs in the Quad (Table 3). Such escalation is present in the same sectors that are affected by "peaks", most notably textiles and clothing, food, beverages and tobacco, and non-metallic mineral products. Tariff escalation is also a feature of the tariffs of China, Brazil, South Africa and, to a lesser extent, India, especially in the case of textiles and clothing (Table 4). Not only is tariff escalation a potential impediment to the efficient allocation of resources in the importing country, it also constitutes an obstacle to local processing of domestically-produced primary products as well as of semi-finished goods in the exporting country; consequently, it can impede the industrialization of developing countries and LDCs seeking to export products with higher value-added, if not mitigated by the GSP or other preferences.[34]

[32] Information regarding tariff rate quota (TRQ) "utilization rates" and "administration" systems may be found in WTO documents TN/AG/S/2, TN/AG/S/5, TN/AG/S/6 and TN/AG/S/9.

[33] The effective rate of protection (ERP) measures the protection provided by the entire structure of tariffs, taking into account those levied on inputs as well as those on final products. It is defined as ERP = $(V_D - V_W)/V_W$, where V_D is the value-added in the given sector at domestic prices, which includes tariffs, and V_W is value added at world prices. If the nominal tariff on the final product is t, the share of each imported input i in the total value of the final product is a_i, and the nominal tariff on each imported input is t_i, then the effective rate of protection can be written as: ERP = $(t - \Sigma a_i t_i)/(1 - \Sigma a_i)$. Thus, if t = 10%, t_i = 5% for all inputs and Σa_i = 0.6, the ERP is nearly 20%. For a full discussion of this concept, see Corden, W.M., 1971, *The Theory of Protection*, London: Oxford University Press.

[34] In principle, LDCs will not face any tariff escalation once they are granted "duty-free and quota-free access" to the markets of developed countries, provided they can comply with associated preferential rules of origin.

Table 3
Tariff escalation in the "Quad" by 2-digit ISIC industry
(Per cent)

		United States 2002	EC15 2004	Japan 2004/05	Canada 2002
Food beverages and tobacco	First stage of processing	3.1	14.6	12.6	10.2
	Semi-processed	7.4	19.2	21.4	6.8
	Fully processed	12.4	19.3	20.2	34.1
Textiles and leather	First stage of processing	2.9	0.8	24.3	1.1
	Semi-processed	9.1	6.2	6.5	6.9
	Fully processed	10.0	9.2	11.4	13.5
Wood and furniture	First stage of processing	0.1	0.0	0.0	0.0
	Semi-processed	2.1	3.1	4.3	2.1
	Fully processed	2.2	2.1	2.1	5.1
Paper, printing and publishing	First stage of processing	0.0	0.0	0.0	0.0
	Semi-processed	0.5	0.9	0.3	0.4
	Fully processed	0.6	0.0	0.0	1.0
Chemicals	First stage of processing	1.9	1.5	2.4	1.5
	Semi-processed	4.3	4.7	2.8	3.0
	Fully processed	3.9	3.9	2.0	4.8
Non-metallic mineral products	First stage of processing	0.0	0.0	0.0	0.0
	Semi-processed	2.1	2.9	1.5	0.7
	Fully processed	5.6	4.1	1.1	3.8
Basic metal	First stage of processing	0.4	0.0	0.4	0.0
	Semi-processed	1.7	1.3	0.8	0.9
	Fully processed	2.5	0.0	3.0	3.7
Fabricated metal products and machinery	Semi-processed	2.7	1.6	1.5	1.5
	Fully processed	2.2	2.5	0.3	2.6
Other	First stage of processing	1.6	1.2	0.2	1.2
	Semi-processed	0.4	0.0	0.0	0.0
	Fully processed	3.6	2.7	2.5	4.8
Total industry	First stage of processing	2.3	8.6	10.3	3.9
	Semi-processed	4.7	4.8	4.7	3.9
	Fully processed	5.5	7.0	7.2	8.9
Overall escalation	First stage of processing	3.8	8.4	7.4	4.8
	Semi-processed	4.7	4.8	4.7	3.9
	Fully processed	5.5	7.0	7.2	8.9

Note: For countries with non-*ad valorem* rates AVEs have been used as available. In case of unavailability, the *ad valorem* part is used for compound and alternate rates. Excluding in-quota rates.

Source: WTO Secretariat calculations, based on data provided by Members.

Table 4
Tariff escalation in China, Brazil, India and South Africa, by 2-digit ISIC industry
(Per cent)

		China 2002	Brazil 2004	India 2001/02	South Africa 2002
Food beverages and tobacco	First stage of processing	15.3	8.1	36.3	10.7
	Semi-processed	28.1	11.2	36.6	10.3
	Fully processed	21.5	13.5	48.2	15.4
Textiles and leather	First stage of processing	13.0	8.3	25.9	5.0
	Semi-processed	15.1	15.6	28.4	22.1
	Fully processed	20.4	19.1	34.2	32.4
Wood and furniture	First stage of processing	0.0	2.0	12.5	0.0
	Semi-processed	5.7	7.3	31.1	6.2
	Fully processed	11.8	14.7	34.8	15.5
Paper, printing and publishing	First stage of processing	0.0	3.6	7.1	0.0
	Semi-processed	8.4	12.1	34.7	5.9
	Fully processed	11.5	11.9	29.4	7.7
Chemicals	First stage of processing	7.1	6.8	25.8	3.7
	Semi-processed	7.2	6.3	33.6	3.5
	Fully processed	10.7	6.6	33.5	7.9
Non-metallic mineral products	First stage of processing	2.3	6.0	33.0	0.0
	Semi-processed	10.7	7.3	34.1	4.9
	Fully processed	15.1	11.1	34.1	7.1
Basic metal	First stage of processing	2.8	2.4	23.8	0.0
	Semi-processed	5.3	9.6	33.0	3.2
	Fully processed	13.1	16.0	35.0	2.9
Fabricated metal products and machinery	Semi-processed	6.8	13.7	19.0	1.7
	Fully processed	11.2	13.0	29.1	5.2
Other	First stage of processing	14.5	8.6	35.0	2.5
	Semi-processed	8.9	12.0	35.0	4.3
	Fully processed	17.1	17.3	33.4	7.3
Total industry	First stage of processing	11.3	7.2	28.1	5.5
	Semi-processed	9.7	8.5	32.3	12.9
	Fully processed	14.0	12.5	33.0	11.2
Overall escalation	First stage of processing	11.2	6.7	29.4	4.7
	Semi-processed	9.7	8.5	32.3	12.9
	Fully processed	14.0	12.5	33.0	11.2

Note: Calculations exclude specific rates and include the *ad valorem* part for compound and alternate rates. Excluding in-quota rates.

Source: WTO Secretariat calculations, based on data provided by the Members.

GSP and similar preferences for developing and least developed countries

27. Applied tariff rates may be lower than MFN rates owing to non-reciprocal preferences granted to developing countries under the Generalized System of Preferences (GSP) and supplementary preferences for LDCs. Such preferences are prominent forms of special and differential (S&D) treatment aimed at increasing the export opportunities of developing and least developed countries.

28. Under the GSP, developed countries discriminate in favour of qualifying developing ones by granting them non-reciprocal tariff reductions below MFN rates for certain products. For example, average GSP rates are 3.7% in the United States, 4.5% in the EC, 5.1% in Japan and 5.4% in Canada (Table 5), 1.2 to 2 percentage points lower than the corresponding average applied MFN rates. Recent Trade Policy Reviews of other major providers of GSP preferences show that the differentials between MFN and GSP rates are considerably smaller for "sensitive sectors", such as agriculture and

textiles and clothing, both of which are frequently excluded from GSP and other unilateral preferences (see also section (4) below).

29. This exception to MFN treatment under the GATT was authorised through a ten-year waiver in 1971 and given permanent legal status in 1979 through the "Enabling Clause" of the Tokyo Round agreements. Such preferences are perceived to enhance the ability of developing countries' exporters to compete in developed countries' markets. More than 30 years after the GATT first authorised the GSP as a "temporary" measure, it appears to remain popular among developing countries as an important instrument for ensuring "special and differential treatment" within the multilateral trading system through improved access to developed countries' markets without reciprocal liberalization. Recently, the "Quad" and other industrialized countries have passed legislation providing improved, if not duty-free, access for LDCs for almost all products. More specifically, the U.S. enacted the African Growth Opportunities Act (AGOA) in May 2000 and the EC enacted the Everything But Arms (EBA) scheme in March 2001.[35] New Zealand (as of 1 July 2001), Norway (as of 2002) and Australia (as of 1 July 2003), have also granted LDCs duty-free access to their markets for all products.[36]

Table 5
MFN and developing country preferential tariffs
(Per cent)

	MFN	GSP [a]	LDC[b]
United States 2002	5.2	3.7	2.7
WTO agricultural products	10.4	8.4	6.2
Textiles and clothing	9.7	9.4	9.4
European Communities 2004[c]	6.5	4.5	1.7
WTO agricultural products	16.5	14.5	9.0
Textiles and clothing	8.0	7.2	0.0
Japan 2004/05	6.3	5.1	3.1
WTO agricultural products	17.7	16.7	15.3
Textiles and clothing	6.7	5.0	0.0
Canada 2002[d]	6.8	5.4	4.1
WTO agricultural products	21.7	20.8	18.2
Textiles and clothing	9.9	8.9	7.1
Australia 2001/02[e]	4.3	3.9	1.8
WTO agricultural products	1.3	1.0	0.0
Textiles and clothing	12.3	12.3	8.6
New Zealand 2002	4.1	3.5	0.0
WTO agricultural products	2.1	1.6	0.0
Textiles and clothing	9.5	9.0	0.0
Czech Republic 2001	6.1	5.1	..
WTO agricultural products	13.4	13.2	..
Textiles and clothing	6.6	6.2	..

Table 5 (cont'd)

[35] Under AGOA, 38 African countries currently qualify for preferential treatment; in order to qualify for AGOA, the country must already be eligible for GSP treatment. AGOA extends GSP for eligible sub-Saharan African countries until 1 September 2008. Available online at: http://www.agoa.gov/ [6 August 2003]. The EBA grants duty free and quota free access for all products from LDCs except arms and munitions and three agricultural products (bananas, rice and sugar); tariffs and quotas on the three agricultural products will be liberalized gradually (tariffs will be removed in 2006 for bananas and 2009 for rice and sugar).

[36] Announcement made by Hon. Mark Vaile, Minister for Trade on 27 May 2003. Available online at: http://www.trademinister.gov.au/speeches/2003/030527_development.html, [8 July 2003]. This follows publication by the Australian Productivity Commission (2002) of a report concluding that the removal of all barriers to trade with LDCs would have a small impact on Australia.

	MFN	GSP [a]	LDC[b]
Slovak Republic 2001	6.1	5.2	4.6
WTO agricultural products	13.2	13.0	13.0
Textiles and clothing	6.7	6.2	5.9
Norway 2004	7.2	5.5	0.0
WTO agricultural products	38.2	31.2	0.0
Textiles and clothing	3.4	1.1	0.0
Switzerland 2004	9.3	8.1	5.1
WTO agricultural products	36.2	34.2	24.1
Textiles and clothing	5.6	2.8	0.0

.. Not available.

a Generalized System of Preferences.
b Least developed countries Preferences.
c Data for EC's GSP and LDC are based on the 2002 tariff.
d Canada has provided duty- and quota-free access to imports of textiles and clothing products from LDCs as of 1 January 2003.
e As of 1 July 2003, Australia has removed all tariffs on LDCs.

Note: AVEs have been used as available. In case of unavailability, the *ad valorem* part is used for compound and alternate rates.

Source: WTO Secretariat calculations, based on data provided by Members.

30. However, as Table 5 and numerous empirical studies have shown, *interests in developed countries often curtail the benefits of the GSP so that the scheme is not as advantageous to developing countries as it appears*; the broad conclusion of these studies is that GSP has at best yielded only a "modest" increase in imports from beneficiary countries, with some of those gains due to trade diversion rather than trade creation.[37] Even in the cases of more recent supplementary initiatives, such as the AGOA and the EBA, some analyses suggest that market access will be only slightly improved for the countries concerned.[38]

31. There are several possible reasons for this outcome. First, such preferences are seldom generalized; they frequently exclude precisely those products (e.g. textiles and clothing) in which developing countries have comparative advantage, and moreover, where their exports tend to face tariff "peaks" in major markets. This is evident from preferential tariff rates for LDCs provided by the Quad and other countries in textiles and clothing and agriculture (Table 5). Further, they can be unilaterally revoked or modified at any time by the Member according such concessions, thereby leading to uncertainty. In particular, a developing country may be "graduated" out of a preference for a product just as it begins to achieve significant success in an export market, thereby discouraging efforts to expand exports.[39] Moreover, conditions may be attached to these preferences in order to obtain concessions from developing countries; these concessions may be in non-trade areas.[40] Even when eligibility is not a problem, full use of the GSP system and other recent initiatives is hampered

[37] See, for example, studies cited in Ozden and Reinhardt, 2003, "The Perversity of Preferences: GSP and Developing Country Trade Policies 1976-2000", World Bank Working Paper No. 2955, January.

[38] See, for example, Mattoo, Aaditya, Devesh Roy and Arvind Subramaniam, 2002, "African Growth and Opportunity Act and its Rules of Origin: Generosity Undermined?", World Bank Research Working Paper No. 2908, October; and Brenton, Paul, 2003, "Integrating the Least-developed Countries into the World Trading System: The Current Impact of EU Preferences under Everything But Arms", World Bank Policy Research Working Paper No. 3018, April.

[39] For example, since the GSP scheme of the United States was introduced in 1976, 36 of the 154 eligible countries have graduated.

[40] In some instances, the EC explicitly links its granting of preferences in addition to those provided by the GSP to beneficiary countries' adherence to labour and environmental standards (see for example, WTO, 2004 *Trade Policy Review – European Communities* (WT/TPR/S/136)). Likewise, U.S. trade laws allow the President to use GSP to promote labour standards and intellectual property rights; this has been extended to the AGOA Act.

by the complexity of the system and technical incapacity of developing countries' exporters. In particular, certain "rules of origin" must be satisfied by exporting countries; these rules usually involve a minimum amount of value added, which can be a deterrent to small countries with limited technological capacity.[41] Also, rules of origin often require beneficiaries to use inputs produced in the country granting the preference, with potential adverse effects on their exporters' competitiveness.[42] In addition, it would appear that Members according GSP preferences disproportionately substitute non-tariff barriers for tariffs where sensitive GSP-eligible products are concerned.[43] Last, developing countries' exports are often impeded by supply-side constraints, including lack of trade finance (possibly owing to market failure) and poor infrastructure.

32. Perhaps a more fundamental aspect of the GSP and similar preferences is the fact that there is some evidence that such *nonreciprocal preferences may have the effect of delaying trade liberalization by recipients*; indeed, developing countries removed from GSP tend to adopt more liberal trade policies than those remaining eligible.[44] The reason is that with trade barriers reflecting the Government's balancing of political support from import-competing and export sectors, the non-reciprocity feature of the GSP shifts the balance in favour of the import-competing sectors in developing countries; it does this by reducing one of the main incentives that developing countries' export industries have to oppose protectionist trade policies at home instead of securing the export sectors' support for more liberal trade policies. Further, given that GSP preferences tend to be devalued by negotiated multilateral reductions in MFN rates, they can provide the wrong signal to exporters in developing countries regarding their long-term comparative advantage and might even deter developing countries from agreeing to multilateral reductions in MFN rates. The new "GSP-plus" non-reciprocal preferences such as the EBA and AGOA may also create a systemic risk by excluding some countries that are already recipients of preferences under a different GSP arrangement; the resulting complex set of preferential trading arrangements arbitrarily exclude certain countries and reduce predictability and stability in the multilateral trading system.[45] This raises the question of what measures, if any, might be taken to help developing countries adjust to the erosion of the tariff preferences they currently enjoy.[46]

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[41] In Europe, for example, the estimated cost of collecting, managing and storing the information needed for origin verification and administration is about 3% of product prices. Moreover, the EC's preferential rules of origin tend to be more restrictive for products (such as beverages, tobacco, textiles, clothing and footwear) with high preferential margins. See WTO, 2004 *Trade Policy Review – European Communities* (WT/TPR/S/136), pp.50-51.

[42] Such sourcing may not be the cheapest available, thus raising the production costs of exporters and affording protection to preference-granting producers of the inputs.

[43] Clark, Don P. and Simonetta Zarilla, 1992, "Non-Tariff Measures and Industrial Nation Imports of GSP-Covered Products", *Southern Economic Journal* 59, October, 284-293.

[44] Ozden and Reinhardt, 2003, "The Perversity of Preferences: GSP and Developing Country Trade Policies 1976-2000, World Bank Working Paper 2955, January.

[45] In addition to countries such as Guyana and Kenya, other major "losers" from such trading arrangements are the large, poor, developing countries such as India, Pakistan and Indonesia. (See Page S. and A. Hewitt, 2002, "The New European Trade Preferences: Does 'Everything but Arms (EBA) Help the Poor?", *Development Policy* Review, 20(1), pp. 1-13). However, Pakistan was granted special EC and other preferences and debt relief and has now been added to the list of countries who receive additional "super GSP" preferences as part of the war on drugs; Indonesia, as a member of OPEC also receives its own preferences. With regard to additional preferences granted under the EC's GSP scheme as part of the war on drugs, the WTO Panel in EC-Tariff Preferences recently found that the EC measure is inconsistent with Article 1.1 of GATT 1994 because it failed to demonstrate that the measure is justified under the Enabling Clause or Article XX(6) of GATT 1994. The ruling was partially overturned by the Appellate Body in April 2004 (WTO document, WT/DS246/AB/R, 7 April 2004).

[46] According to the IMF, in most LDCs the welfare losses associated with preference erosion are likely to be relatively modest – less than 2% of LDCs' aggregate exports; hence, the countries most affected by the adverse effects of such erosion could be "comfortably" compensated through increased assistance. Such assistance would be especially important for those LDCs that are currently most heavily dependent on such

33. Developing countries might be better served by their becoming more fully engaged as WTO Members, with full obligations and rights under the WTO agreements, than by special GSP-style tariff preferences. Certain more temporary and targeted forms of special and differential (S&D) treatment might be appropriate, where these are designed: to address constraints on developing countries' institutional capacity to implement existing, or new, WTO Agreements; their different developmental priorities; or where additional time and possible assistance might be required to allow the appropriate sequencing of, and adjustment time for, various macroeconomic and structural reforms (including trade liberalization).

Bilateral and regional preferences

34. The proliferation of bilateral and regional agreements since the WTO was established in 1995 has eroded the scope of application of MFN tariffs, with the outcome that for a number of Members MFN tariffs tend to be the exception rather than the rule (see also Section 7 on Regional Trade Agreements). *This means that the preferences accorded by these Members to developing and least developed Members are not as generous as they appear*.

3. Agriculture -- the Most Distorted Sector

35. Agriculture plays a relatively important role in developing countries' economies, accounting for just over one quarter of their GDP and about half of their employment; by contrast, agriculture in OECD countries accounts for only around 2% of GDP and 7.3% (in 2001) of employment. With nearly three quarters of the world's poor concentrated in rural areas, mainly in developing countries, and depending heavily on agriculture for their livelihoods, trade liberalization in agriculture is crucial to the alleviation of poverty. In agriculture, the conversion of quantitative restrictions into tariffs ("tariffication") and the curtailment of subsidies were among the major achievements of the UR; tariffication of NTBs, in particular, paved the way for future reductions in agricultural tariffs.[47] Nonetheless, both tariffs and domestic support for agriculture are still relatively high, especially in many OECD countries. In the Quad, for example, applied MFN tariffs on agricultural products average more than four times those on non-agricultural products, thus impinging on the opportunities of developing and other countries to benefit from trade in such products. Total support to agriculture by OECD countries is close to US$1 billion per day, more than six times all development assistance. Much of this support is linked to production; this encourages higher output resulting in large surpluses, especially in several OECD countries where such support is most generous. Support linked to production in combination with export subsidies tends to lower world prices of agricultural products and leads to the displacement of developing countries' products, not just from subsidizing countries' markets but also from their own and third markets, to the detriment of poor farmers in developing and least developed countries. In general, agriculture remains the most protected, subsidized, and thus distorted, sector of many Members' economies, with far-reaching social and economic repercussions not just domestically but globally. Estimates by the World Bank and IMF suggest that the benefits from dismantling all border measures and eliminating subsidies affecting agriculture would be very large for industrialized and developing countries alike.[48]

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preferences (see "Communication from the IMF: Financing of Losses from Preference Erosion", WTO document WT/TF/COH/14, 14 February 2003).

[47] The Uruguay Round Agreement of 1994 resulted in agricultural policies being subjected to multilateral rules and disciplines for the first time. The Uruguay Round Agreement on Agriculture (URAA), replaced non-tariff import barriers by bound tariffs, opened previously closed markets, curbed export subsidies; categorized domestic programmes on the basis of their potential to distort trade, and disciplined the most trade-distorting forms of support. Agriculture was also affected by other agreements, notably SPS and TBT, whose aim was to forestall the use of such measures for purposes of protection.

[48] Estimates of the benefits top US$350 billion for the world (World Bank, 2004, *Global Economic Prospects*, p. 105). According to the IMF, the static global welfare gains from removing agricultural support

36. Agricultural support programmes are partly justified by those Members using them as being necessary to address non-trade concerns, notably income support for agricultural households, preservation of the environment and food security. While the view that such non-trade concerns are legitimate domestic objectives is widely shared among WTO Members, some attach more importance to these concerns than others. The debate, therefore, has been more about the magnitudes of total support to agriculture together with the appropriateness and effectiveness of various measures aimed at achieving these multiple objectives.

37. Clearly, domestic agricultural policies and international trade are closely intertwined, with protective border measures often necessary for the maintenance of domestic support programmes. In particular, a domestic support programme that holds the domestic price above the world level requires accompanying import restrictions, such as tariffs; the higher the domestic support price, the higher the accompanying tariff or its equivalent. Further, to the extent that domestic support programmes generate a surplus, export subsidies may be deemed necessary to help dispose of the surplus.

38. Total support to agriculture by OECD countries, as measured by the total support estimate (TSE), was US$350 billion in 2003[49], roughly the same amount as sub-Saharan Africa's annual GDP. The EC, Japan and the United States collectively account for approximately four fifths of such support (although as a percentage of the value of gross farm receipts, support is highest in Switzerland, Norway, the Republic of Korea, Iceland and Japan, respectively). Total support was the equivalent of 1.2% of GDP in the OECD area, compared to an annual average of 2.3% in the peak 1986-88 period. Agriculture's contribution to GDP in the OECD area is currently about 2%. In Japan, the Republic of Korea, Norway, and Switzerland, total support to agriculture is close to, or even exceeds, the sector's contribution to GDP.

39. Nearly three quarters of total support is provided to farmers. Such support, as measured by the producer support estimate (PSE), represented 32% of total farm receipts in 2003, slightly up from 31% in 2002 (but down from 37% in 1986-88). This small increase in overall OECD support was due, *inter alia*, to a rise in budgetary payments based on either overall farm income in the United States and Canada, or area/animal numbers in many European countries, particularly those in central Europe acceding to the EC on 1 May 2004. The PSEs for Japan, the EC, Canada and the United States were 58%, 37%, 21% and 18%, respectively. Thus, for every 100 yen a Japanese farmer earned in 2003, 58 yen were the result of transfers associated with agricultural support measures. Among OECD countries, support levels in 2003 were the lowest in New Zealand (2%) and Australia (4%).[50] Rice, sugar and milk are the most supported commodities, with transfers to producers close to, or exceeding, half of gross receipts. The prices received by OECD farmers in 2003, were on average 31% above world prices (compared with 56% in the mid-1980s), thereby shielding farmers in many countries from world market signals. At the same time, the prices paid by OECD consumers in 2003 were on average 38% higher than world prices. Whereas domestic prices paid by consumers were, on average, the same as those at the border in Australia, they were 9% higher in the United States, 47% higher in the EC, and more than double in Japan, the Republic of Korea, Norway and Switzerland. Overall, consumers in OECD countries were implicitly taxed at a rate of 24% as a result of market price support (MPS) policies.

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tariffs and subsidies would be US$128 billion annually; the dynamic gains (from higher investment and faster productivity growth) may well be several times larger. (IMF, 2002, *World Economic Outlook*, Washington, D.C, p. 85).

[49]OECD, 2004, "OECD Agricultural Policies 2004: At a Glance", AGR/CA/APM(2004)2, 19 April, Paris.

[50] While government support in Australia and New Zealand is low, these countries have relatively strict SPS regulations, thought necessary to ensure that their reputation as reliable exporters of high quality agricultural products is not jeopardized by pests and diseases, but which nonetheless tend to impede imports of such products.

40. Output-based support (market price support and output payments) and input subsidies remain the dominant forms of producer support in most OECD countries, together accounting for more than 76% of support to producers in 2003 (Table 6), compared to 91% in 1986-88. These measures are the most distorting forms of assistance as far as production and trade are concerned, contributing to over-production in the OECD area to the detriment of both those OECD Members where support is relatively low and of developing countries.[51] Such measures are also relatively ineffective in transferring income to farmers or in achieving environmental objectives. By contrast, there is only a very modest use of policies targeted at specific objectives and beneficiaries.

Table 6
Composition of Producer Support Estimate by measure, 2003
(Percentage share in PSE)

Measure	United States		European Communities		Japan		Canada		OECD	
	1986-88	2003	1986-88	2003	1986-88	2003	1986-88	2003	1986-88	2003
Market Price Support	47	38	86	57	90	90	49	48	77	62
Payments based on output	7	8	5	3	3	3	17	5	5	4
Payments based on area planted/animal numbers	27	5	3	27	0	0	17	6	7	16
Payments based on historical entitlements	0	13	0	1	0	0	0	17	0	4
Payments based on input use	16	19	5	8	4	4	16	6	8	9
Payments based on input constraints	2	5	1	4	3	3	0	0	1	3
Payments based on overall farm income	2	6	0	0	0	0	0	14	1	2

Source: OECD, PSE/CSE database 2004.

41. In 2003, OECD countries introduced a number of policy changes. The United States implemented the 2002 Farm Act, providing new forms of payment to producers for the purpose of stabilizing farm incomes. In the EC, agreement was reached on the 2003 reform of the Common Agricultural Policy, involving a significant further step in the direction of decoupling support from production decisions, to be implemented from 2004 onwards. At the same time, the Czech Republic, Hungary, Poland and Slovakia continued to prepare for accession to the EC which took place in May 2004, including through changes to producer payments, spending on infrastructure, and development of food safety systems. In Japan and the Republic of Korea (in the case of rice) and Norway (dairy products), efforts were made to improve the efficiency of domestic markets behind significant border protection. A decision was also reached in Switzerland on the new agricultural package that will be implemented over the period 2004-2007, continuing the long-term shift away from the most trade-distorting measures. Canada implemented its Agricultural Policy Framework, aimed at stabilizing

[51] Under the WTO Agriculture Agreement, domestic support measures that are considered to distort production and trade (with some exceptions) fall into the "amber" box which is defined in Article 6 of the Agreement as all domestic support other than that in the "blue" and "green" boxes. The "blue" box, the "amber box with conditions" contains payments under product-limiting programmes to limit production to reduce distortion by, for example, placing limits on production. "Green" box subsidies are those that do not distort production or involve minimal distortion. Whereas in the United States and Japan "amber" box subsidies accounted for somewhat less than one quarter of total domestic support in 1998 (the latest year for which such data are available), such subsidies accounted for more than half of total support in the EC and Canada.

farm incomes, and made emergency payments to compensate for losses related to BSE. Emergency payments, related to drought, were also provided in Australia.

42. Government intervention in agriculture is also extensive in many developing countries; whereas tariffs on agricultural products are often just as high in developing as in OECD countries, if not higher, subsidies tend to be used rather less, owing to their budgetary cost.[52]

43. Farm support programmes have multiple domestic objectives, including: income support for agricultural households; preservation of the environment, notably traditional rural life and amenities; food security; and food safety.[53] The last three of these objectives involve matters where markets alone may fail to achieve a socially desirable outcome due to the existence of "externalities" or "public goods".[54] Accordingly, one can distinguish between two broad types of agricultural policies; those intended to redistribute income and those aimed more at addressing market failure. In this regard, there would appear to be a serious mismatch between these objectives and the policy measures designed to achieve them, thus casting doubt on the appropriateness and effectiveness of such measures.

44. In particular, policy measures linked to production and consumption are relatively inefficient instruments for delivering income support to rural households. According to OECD[55], estimates of income transfer efficiency, no policy measure linked to agricultural activity succeeds in delivering more than half of the monetary transfers from consumers and taxpayers as additional income to farm households. The proportion is one quarter or less in the cases of market-price support and deficiency payments and less than one fifth for input subsidies. Notwithstanding this, roughly two thirds of agricultural support in OECD countries involves measures that keep product prices above levels that would otherwise prevail. An intrinsic feature of measures based on agricultural activity is that they cannot be targeted at relatively poor households. In the case of open-ended price support, the size of the transfer is directly proportional to the level of production. Consequently, *the bulk of the support that does reach farmers goes to the larger farms*, many of whom already have higher incomes. It is not surprising, therefore, that under the CAP, 70% of support (that is, market-price support plus payments to producers) is allocated to the largest 25% of the EC's farms[56]; in the United States, Canada and Japan, the corresponding amounts of support allocated to the largest 25% of farms are 89%, 75% and 68%, respectively. In contrast to the above measures, direct income payments are much more efficient in delivering income support, especially if they are de-coupled from agricultural activity; such payments can also be targeted more easily at those households felt to be most in need of assistance. If the current production-based support measures were replaced by direct income

[52] Some developing countries, including India, are heavy users of subsidies, notably those for inputs such as fertilizer, power and water.

[53] OECD, 2002, "Agricultural Policies in OECD Countries: A Positive Reform Agenda", 6 November 2002 (COM/AGR/TD/WP(2002)19/FINAL.

[54] An externality arises where a decision by one agent, whether a producer or consumer, has side-effects that impinge on others. For example, farms may produce excessive pesticide residues (negative externalities) as well as crops; they may also produce environmental as well as aesthetic benefits (positive externalities). In these cases, the market determined output may be too much because of unpaid external costs or too little owing to uncompensated external benefits. Public goods (or services), such as clean air or an attractive countryside, are those for which the use by one agent does not diminish the amount available to others. A public good may be a joint-output, and therefore an externality, of private production. As in the case of positive externalities, the market tends to result in too little public goods.

[55] OECD, 2002, "Farm household income issues in OECD Countries: a synthesis report", AGR/CA/APM(2002)FINAL, Paris.

[56] Farms are classified according to the size of their gross sales (for more details, see OECD, 2002, "A Synthesis of Emprical Studies of SPS Regulations and a Proposal for Future Work" (COM/AGR/TD/WP(2002)72, 27 August 2002, Paris.

payments, efficiency costs could be halved without reducing the incomes of farm households[57]; the savings would be even greater if support were targeted at lower income farm households through the income tax system or social security programmes. The more a policy measure pays to domestic farmers without affecting their production decisions, the greater the share of income retained by farm households and the smaller the impact on production and trade.

45. Governments also justify assistance for agriculture on the grounds that market-oriented agriculture would fail to take due account of externalities, particularly protection of the environment, a concern explicitly mentioned in the Preamble of the WTO Agreement on Agriculture. In their view, a certain level of domestic support and border protection is necessary to maintain agricultural production, especially in areas with low agricultural potential, and thus ensure provision of environmental externalities. This presumably reflects their belief that there is a very close relationship between agricultural production and the provision of positive externalities, including those associated with public goods. In fact, there is very little evidence on the extent of the externalities generated by agriculture, which makes it very difficult to measure the full benefits of government-support measures and thus to ensure that these benefits are not outweighed by their costs. Hence, it is also difficult to compare the effectiveness of different support measures in achieving their objectives.

46. The externalities generated by agriculture are not exclusively positive; there may also be some significant negative externalities, directly linked to production. Thus, protection and domestic support policies may encourage environmentally harmful agricultural practices, such as intensive farming, including high use of fertilizers and pesticides. The outcome is resource degradation and environmental stress, such as adverse effects on ground water, the soil and biodiversity. Further, by depressing incomes and exacerbating poverty in developing countries, such policies make it more difficult for farmers in these countries to move towards more environmentally sustainable practices.

47. Governments may also be concerned by the possible failure of market forces to ensure food security. However, as noted, in most OECD countries domestic food prices are already considerably higher than world prices (roughly one third higher in the EC and more than double in Iceland, Japan, the Republic of Korea, Norway and Switzerland). The burden of higher domestic food prices is borne disproportionately by low-income consumers, for whom food constitutes a relatively large share of total household expenditure. With most support linked directly to output and inputs and a high share of agricultural support thus going to larger farms, the outcome is significant transfers from low-income consumers to high-income farmers. Further, heavy reliance on domestic production exposes countries to the risk of domestic crop failure and the outbreak of livestock disease as well as to interruptions in the supply of key inputs (such as fuel) that are essential for food production. The effects of supply shocks can be mitigated more effectively by a combination of domestic production, maintenance of domestic production capacity, stockholding and access to a wide range of foreign suppliers.

48. More careful design and better targeting of agricultural policies would enable Governments to pursue their multiple objectives in a more cost-effective manner with minimal disruption to international markets for agricultural products. The DDA presents Members with the opportunity to achieve such reforms multilaterally, thereby benefiting industrialized and developing countries alike. According to the IMF, removal of agricultural support (tariffs and subsidies) as part of a comprehensive effort to lower trade barriers would raise global economic welfare by US$128 billion annually, the bulk of which appears to be due to the removal of tariffs. While nearly US$98 billion of this welfare gain would accrue to industrial countries, through more efficient production and lower food prices for many consumers, the benefits to developing countries would also be substantial, at

[57] OECD, 2002, "Agricultural Policies in OECD Countries; A Positive Reform Agenda", 6 November 2002 (COM/AGR/TD/WP(2002)19/FINAL).

some US$30 billion.[58] These benefits are particularly large for food-exporting regions, including sub-Saharan Africa, where many of the world's poorest live.

49. Despite the large overall gains from liberalization of agriculture, some developing countries may gain very little, or even be harmed, by liberalization of commodity markets. For example, there is some evidence that the long-run benefits of liberalization in the cocoa market, where changes have been most pronounced, accrue largely to consumers in developed countries at the expense of the exporting countries (owing to loss of implicit or explicit export taxes) and farmers in non-liberalizing countries – farmers in liberalized African markets are broadly neither better nor worse off.[59] Countries that are significant food importers may also be harmed by such liberalization. Therefore, not only should trade liberalization be accompanied by complementary policies, it may, in the case of some countries, require support from international agencies to redress unfavourable effects.

50. While agriculture is of great immediate importance to developing countries, pronounced declines in many commodity prices during the past decade have meant that, by and large, agricultural exporters face declining terms of trade, which can reduce the beneficial impact of growth on economic welfare in an open economy. If, as expected, this downward trend continues over the long term, *developing countries will have to export increasing volumes of such products in exchange for the same value of manufactured goods and services. Consequently, developing countries need to look beyond agriculture in the current negotiations*. Furthermore, for developing countries to benefit from lower protection of agriculture (and other sectors), they also need to overcome a wide range of supply constraints on their exports, including lack of finance and poor infrastructure; developed countries' barriers to market access may in cases pale in comparison with such supply constraints in developing and especially least developed countries.

4. Textiles and Clothing: Preparations for the end of quotas

Introduction

51. The expiry of the Agreement on Textiles and Clothing (ATC) at the end of 2004 will result in great benefits to efficient producers and consumers of such products. The approaching deadline for removal of quotas on the remaining 49% of items has given rise to a debate on whether countries (both importing and exporting) have made the necessary adjustments for a post-ATC regime. The question becomes particularly pertinent when one considers that the remaining quotas are also likely to relate to products considered most sensitive by the restricting countries. The removal of these remaining restrictions is thus likely to cause disruption, including possibly a surge in imports, that may lead to temporary restrictions, such as safeguards and contingency measures, and cause considerable disruption in current market shares and welfare gains and losses for exporters and importers.

52. The use of quotas and tariffs to regulate international trade in textiles and clothing for some four decades has led to various distortions in the market including: substantial "quota rents" for producers in developing countries, which they now stand to lose as a result of liberalization[60]; "quota

[58] According to a recent study, a 50% cut in tariffs would have a much greater positive effect on the exports and welfare of developing countries than a 50% cut in domestic support (Hoekman, Bernard, Francis Ng and Marcello Olarreaga, 2002, "Reducing Agriculture Tariffs Versus Domestic Support: What's More Important to Developing Countries?", CEPR Discussion Paper No. 3576.

[59] Whereas producer prices have tended to rise as a share of f.o.b. prices as intermediation costs and tax have declined, the downward shift in the aggregate supply curve in conjunction with inelastic demand results in lower world prices. Farmers thus get a larger share of a lower price (see Christopher Gilberts and Panos Varangis, 2003, "Globalization and International Commodity Trade with Specific Reference to the West African Cocoa Producers" in R.E. Baldwin and L.A. Winters (Editors), *Challenges to Globalization*, NBER).

[60] The distribution of quotas, which was left up to the exporting countries often takes place on the basis of past export performance and may not necessarily be allocated to the most efficient producers. The quota rent

jumping" as producers who filled their quotas moved to countries with, as well as without, available quotas, thus creating textiles and clothing industries in third countries; and preferential agreements that accord producers in certain countries added advantages over countries not party to similar agreements. The nearing of the deadline has also led to calls by some, including producers in developing and least developed countries, to postpone the integration by another two or three years to allow them more time to adjust. This call was by private sector groupings in several developing and developed Members. Such a call was neither made nor proposed within the WTO, where it would not have achieved consensus.[61] This section examines some of the adjustment costs and gains that are likely to be made as a result of the imminent liberalization of textiles and clothing.

Welfare implications of the end of quotas

53. Given the high degree of distortion in the market for textiles and clothing, it is difficult to evaluate the impact of quota liberalization on future patterns of production and exports. Nevertheless, some attempts have been made to quantify the potential comparative advantages for various Members.[62] These estimates vary depending on the assumptions of the model (e.g. partial or general equilibrium) and the tariff equivalents used. However, the majority of estimates suggest that the overall welfare impact of a removal of quotas will be positive and will result in consumer welfare gains. Nevertheless, consumer gains in the major importing markets will be mitigated by adjustment costs resulting from changes in production patterns. In particular, as quotas protecting producers in the major importers are removed, there will be adjustment costs associated with the shifting of labour and capital out of textiles and clothing and, eventually, into their sectors of comparative advantages.

54. Some studies have also focused on regional or individual country efficiency and welfare implications. Francois, Glisman and Spinanger (2000), for example, look at the implications for the EC.[63] They find that the EC would make welfare gains of €25.3 billion a year of which 97% would be from the removal of quotas and the rest from a reduction in tariffs. The main textiles and clothing producers in the southern part of the EC would experience a larger share of the welfare cost but consumer gains would compensate for these costs. The United States would also benefit by up to US$12 billion annually[64] and up to over US$7 billion.[65]

55. The experience for exporting countries is likely to be mixed. China's producers especially have become increasingly competitive, with their share rising in key markets from 13.8% in 2001 to 17.5% in 2003 in the United States, and from 8.1% and 9.8%, in the EC. However, it needs to be noted that during the most recent three years for which figures are available, China's combined exports of textiles and clothing as a share of total merchandise exports has been decreasing. China's clothing sector is seen as having great potential, and estimates of increased exports, in real terms, range from almost 250% to 330% over a ten year period following accession to the WTO[66]; and

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from the higher prices associated with the restricted market also mainly accrue to producers in exporting countries.

[61] Some Members have followed up the matter at the WTO.

[62] A literature review of these studies is provided for example in OECD, 2003, "Liberalizing Trade in Textiles and Clothing: A Survey of Quantitative Studies", OECD Trade Directorate, Working Party of the Trade Committee (TD/TC/WP(2004)23/FINAL), 13 August 2004.

[63] Francois, J. F., H.H. Glismann and D. Spinanger, 2000, "The Cost of EC Protection in Textiles and Clothing", Kiel Institute of World Economics, Working Paper No. 997, August.

[64] De Melo J. and D. Tarr, 1990 "Welfare Costs of U.S. Quotas in Textiles, Steel and Autos", *Review of Economics and Statistics*, 72: pp. 489-497.

[65] Reinert, K.A., 1993, "Textile and Apparel Protection in the United States: A General Equilibrium Analysis", *World Economy* 16: pp. 359-376.

[66] Ianchovichina, Martin and Fukase, 2000 "Assessing the Impléications of Merchandise Trade Liberalization In China's Accession to the WTO", the World Bank, June.

200% for textiles and clothing exports by 2020.[67] However, these estimates concerning China's impact on the global textiles and clothing sector should be seen in the broader context of China's emergence as a major engine of growth in the world economy, where it accounts for a large share of the increase in international trade. China's major competitors (such as India) benefit initially when the removal of quotas are delayed but the adjustment in terms of employment moving out of the textiles and clothing sector into other manufacturing sectors such as electronics eventually occurs when China is fully integrated. The International Textiles and Clothing Bureau, an alliance of 24 major developing country (or territory) exporters of textiles and clothing, has also expressed concern about reference by the EC to labour rights and sustainable development, especially with regard to bilateral trade agreements.[68]

56. Efforts have been made in the importing (principally industrialized) countries to adjust to changes over the past few decades in the textiles and clothing market.[69] This includes investment in new technology in textiles with the result that the industry has become more capital intensive and labour productivity has improved.[70] In the clothing sector, manufacturers have reorganized production processes to take advantage of their geographical proximity to markets. The reorganization in the United States has led to improvements in productivity, substantially greater in textiles than in clothing (almost 70% compared to 26%), during the period 1972-1992.[71] Nevertheless, it is widely expected that employment in the sector, which has been in a continuous decline since the early 1980s is likely to fall further as textiles and clothing industries adjust to more competitive imports. Although there are no similar empirical studies yet available, statements by several developing countries and international financial institutions indicate that there are on-going adjustments in several of these countries in a range of areas.

57. Manufacturers in both industrial and higher-labour-cost developing countries are also outward processing to lower cost countries.[72] Producers in the EC, for example, have taken advantage of

[67] Walmsley, Terrie, L. and Thomas W. Hertel, 2000, "China's Accession to the WTO: Timing is Everything", Centre for Global Trade Analysis, Purdue University, September.

[68] For example, the summary conclusions from the Conference organized by the European Commission on "The Future of the Textile and Clothing Industry in an Enlarged Europe" in March 2003, calls for clauses guaranteeing the respect of fundamental labour rights to be included in all EC trade agreements and for reinforcing GSP preferences by making preferences conditional upon the respect of basic labour rights; the ITCB also reacted to an European Commission discussion paper entitled "The Non-Trade Impacts of Trade Policy—asking questions, seeking sustainable development", which seemed to suggest that trade liberalization would result in a shift in production from developed to developing countries, leading to higher levels of water and air pollution and may also correlate with negative social developments (ITCB, 2001, "Integrating Sustainability Concerns into Trade Policy: Developing Countries alarmed at EU ideas", Press Release, 25 April. Available online at: http://www.itcb.org/Documents/ITCB-MI12.pdf, [29 June 2004]).

[69] In the United States, for example, employment in textiles and clothing fell by 50% between 1995 and 2003.

[70] Levinsohn and Petropoulos (2001) for example point out that in the United States the two industries have responded in very different ways. While textiles has responded by substantial capitalization and investment in newer technology, the apparel industry has moved much of the lower skilled parts of the industry, including through outsourcing encouraged by "production sharing" provisions in U.S. law, out of the United States (Levinson, J. and Petropoulos, 2001, "Creative Destruction or Just Plain Destruction? The U.S. Textile and Apparel Industries since 1972", NBER Working Paper No. 8348). Similar reorganization in the textiles and clothing industries appears to have taken place in the EC (Stengg, W., 2001, *The Textile and Clothing Industry in the EU—A Survey*, Enterprise Papers, No. 2, European Commission).

[71] The conclusion reached by Levinsohn and Petropoulos contrasts with earlier studies such as Cline (1989) who concluded that textiles and apparel protection had been relatively ineffective in promoting adjustment.

[72] IMF and World Bank, 2002, *Market Access for Developing Country Exports—Selected Issues*, 27 September. Countries in south east Asia such as Malaysia are also increasingly opening factories in countries with lower labour costs, such as China and Cambodia. In contrast, the same Malaysian company cited

lower costs of production as well as of preferential trade under the euro-Mediterranean agreements to develop outward processing.[73] In the United States there has been a large increase in trade with Mexico and the Caribbean Basin Countries, part of which is attributed to "production sharing" agreements to encourage outsourcing.[74] The importance of proximity to markets and the consequent development of regional relationships may dampen, to some extent, the import increases expected from countries such as China and India into the EC and North America. Such relocation activities have also taken place among the developing countries, especially from the higher cost east Asian and some African economies to lower cost countries in Africa that have increasingly opened up to FDI (Box 1.doc). The south-south relocation from higher-cost East Asian economies is principally to other economies within Asia. The relocation to Africa, under AGOA, while minimal in terms of global trade flows, resulted in dramatic export growth in recent years to the United States.

58. The United States, among the Quad, has imposed safeguards to protect the local industry from a surge in imports of specific textiles and clothing products. While the safeguards have provided some protection to producers of the specific products concerned, there have also been recent calls by industry groups in various countries to postpone altogether the phase-out of all remaining quotas until 31 December 2007. The "Istanbul Declaration", signed thus far by about 100 private-sector trade groups in 50 industrialized, developing and least developed countries, has requested that the WTO convene an emergency session to discuss such an extension.

59. In July 2004, Mauritius formally requested the Director-General to convene an emergency meeting of the Council for Trade in Goods (CTG) to "examine the unintended consequences of the abolition of quotas on LDCs and other vulnerable economies and to explore ways to protect least-developed countries and other vulnerable economies from the loss of trade and employment opportunities upon which their fragile economies depend". Similar requests were also addressed to the Director-General by Bangladesh and Nepal. On the basis of these requests, the Director-General convened informal consultations on the issues raised in the letters with a range of the membership on 3 August 2004. At the informal consultations, over which the Director-General presided, the proposal to convene an emergency meeting of the CTG to consider post-ATC adjustment issues was supported by the representatives of Bangladesh, Dominican Republic, Turkey, Sri Lanka and Nepal. Although there was broad support for and understanding expressed by participating delegations of adjustment challenges, there were also divergent reactions and opposition to convening an emergency session for a variety of reasons. Under the circumstances, the Director-General concluded, and delegations understood, that it would not be possible to proceed with an emergency session of the CTG. Participating delegations agreed with the conclusion by the Director-General that the relevant concerns and priorities raised by Members could be addressed, preferably, within the already scheduled session of the CTG on 1 October 2004. Post-ATC adjustment-related issues are now being considered by Members in the CTG.

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closed a factory it had set up in Bangladesh because of infrastructure problems ("China Puts Southeast Asian Factories in a Competitive Pinch", *Wall Street Journal*, 7 October 2003).

[73] Stengg, W., 2001, *The Textile and Clothing Industry in the EU—A Survey*, Enterprise Papers, No. 2, European Commission; and Nordås, H. K., 2004, "The Global Textile and Clothing Industry Post the Agreement on Textiles and Clothing,", WTO Discussion Paper, No. 5.

[74] Levinsohn and Petropoulos note that while imports under Section 807 (goods essentially re-imported after their components were first exported and assembled abroad with duty paid only on the value added) accounted for 5% of U.S. apparel and textile imports in 1987, ten years later their share was about a fifth of textile and clothing imports to the United States. (See Levinson, J. and Petropoulos, 2001, "Creative Destruction or Just Plain Destruction? The U.S. Textile and Apparel Industries since 1972", NBER Working Paper No. 8348 p. 7).

Box 1: South-south co-operation through investment

In addition to increasing trade between developing countries, there is also increasingly evidence of investment flows between developing countries. As the higher-income developing countries, notably in east and south-east Asia find that their labour costs are too high to compete with other exporters of like products, they have sought to invest in countries with lower input costs. Many of these low input cost countries are found in Africa and there is some evidence to show that FDI into some African countries, notably those that have reformed their economies over the last decade or so, has increased substantially.

An example of such successful FDI based development is Mauritius, which through relatively liberal FDI policies, incentives through export processing zones and preferential market access to major export markets has successfully developed a textiles and clothing sector. Mauritius in turn is now facing rising production (especially labour) costs and is increasingly delocalizing low-cost and low value added activities to neighbouring countries, such as Madagascar and Mozambique, to overcome these disadvantages (WTO, 2001; IMF, 2003). The export of certain low value added textiles and clothing products from Mauritius to Madagascar in recent years for example has increased substantially. The textiles sector in Mauritius is thus increasingly being transformed into a capital intensive, high skills based industry (IMF, 2003).

Several other countries in Africa have also lowered barriers to investment and pursued sound macroeconomic policies, attracting FDI. Some have also provided tax and other incentives to investors. The result has been increased investment by higher income developing countries in Africa and Asia, especially in labour intensive sectors such as textiles and clothing (Basu and Srinivasan, 2002).

In addition to incentives and cheap, productive labour, preferential access to major export markets appears also to have played a major role in directing such investment. For countries such as Botswana, Namibia, Lesotho and Swaziland, for example, membership of the Southern African Customs Union (SACU), the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) gives preferential access to a much larger market. Sub-Saharan African countries also have preferential access to major industrialized country markets through preferences such as the Generalized System of Preferences, the AGOA, the Lomé Convention and the EBA (provided they meet the rules of origin requirements). The reduction and eventual removal of preferences as MFN tariff rates (and quotas in the case of textiles and clothing) come down may therefore have adverse effects on such FDI flows.

Source: Basu, Anupam and Krishna Srinivasan, 2002, "Foreign Direct Investment in Africa—Some Case Studies", *IMF Working Paper WP/02/61*, March; IMF, 2003, *Mauritius: 2003 Article IV Consultation – Staff Report;* and WTO, 2001, *Trade Policy Review – Mauritius 2001*.

60. The removal of quotas serve to highlight the relatively high tariffs maintained by countries, including many developing, which also distort trade in textiles and clothing. Amongst the large developing countries shown in Table 2, for example, India maintains the highest average tariffs on textiles and clothing, some 31% in 2001/02, compared with 17.5% in China in 2002, 24.4% in South Africa in 2002 and 17.2% in Brazil in 2004. Tariffs on textiles and clothing are also higher in the Quad than overall MFN average rates. Table 1 shows that the average simple average MFN tariff on textiles and clothing range from 6.7% in Japan (FY2004) to 9.9% in Canada (2002); in comparison, the overall MFN average rate ranges from 5.1% in the United States to 6.8% in Canada. Depending on the country, a significant percentage of tariff lines in the textiles and clothing sector, moreover, carry non *ad valorem* rates (either specific, compound or alternate rates); as these tend to conceal relatively high *ad valorem* equivalents, their inclusion in the tariff analysis would likely raise the average tariff further. Among the Quad countries, for example, non-*ad valorem* tariffs make up 7.9% and 10.1% of the textiles and clothing tariffs in the United States and Japan, respectively; the share of non-*ad valorem* lines is much lower in Canada (1.2%) and the EC (0.2%). Among the developing countries, whose tariff is presented in Table 2, a relatively high share of tariff lines in textiles and

clothing are subject to non *ad valorem* rates in South Africa (75.5%) and India (32.7%).[75] A reduction in these tariffs, especially those maintained by the large developing countries, may be beneficial for south-south trade and may improve market access for the least developed countries. By contrast, exporters in competing countries with preferential (quota free) access to export markets are likely to see negative results as they lose their preferences (section below).

61. Among the main conclusions of a meeting on textiles and clothing organized by the European Commission was the suggestion that preferential access should be maintained or even enhanced for LDCs to ensure current market access.[76] Removal of quotas and the conclusion of regional and bilateral preferential agreements including with countries not classified as least developed, will result in an erosion of preferences. A related concern, therefore, is the adjustment required of LDCs, many of which have built up a textiles and clothing sector on the basis of guaranteed access through quotas and lower (or no) duties in export markets. The quota regime, by guaranteeing access to certain markets, allowed countries to develop their textiles and clothing sectors in a distorted market. LDCs and countries involved in preferential trade agreements with the major importers, moreover, had access to export markets on a preferential basis.

62. In addition to quota-free access, a number of countries provide preferential tariff treatment, for example, under the Generalized System of Preferences (GSP). In most cases, however, GSP programmes do not appear to provide greatly improved market access for textiles and clothing, often regarded as sensitive products and therefore not eligible for GSP preferences; the Quad, for example, provides improved market access for developing countries ranging between 0.3 percentage points for the United States to 1.7 percentage points for Japan (Table 5). Tariffs on imports of textiles and clothing from LDCs are significantly lower, with many countries providing them duty-free access (Australia, Canada, the EC, Japan, New Zealand, Norway, Switzerland); some Members, notably the EC and the United States, also have regional and issue-specific agreements, such as the EBA and AGOA, that provide improved access for some developing and least developed economies.

63. In addition to excluding sensitive sectors, several programmes also place rules of origin or sourcing requirements on eligible imports: for example, the United States' AGOA and CBTPA grant preferences to imports of textiles and clothing using U.S.-made textiles or yarn[77]; similarly for U.S. partners to the Central American Free Trade Agreement (CAFTA), Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and most recently the Dominican Republic. It is estimated that the latter will expand two-way trade in textiles and clothing between the United States and its partners, in great part due to the sourcing of U.S. inputs.

64. It is not clear how the textiles and clothing sector in LDCs will adjust to the new environment. Recent literature on this issue seems to confirm that as ATC barriers are removed, current preferences received by countries involved in free-trade areas or preferential agreements will be eroded and have a negative impact on their textiles and clothing exports. Ozden and Sharma (2004), for example, find that beneficiaries of the Caribbean Basin Initiative (CBI), with quota and duty free access to the U.S. market, could receive higher prices (on average by 24%) in categories that

[75] In most cases, either *ad valorem* equivalent rates have been used where available (mostly for the Quad countries), or the *ad valorem* part of the tariff line in the case of alternate rates; in the case of alternate rates, the use of just the *ad valorem* part of the tariff line may underestimate the tariff.

[76] Online information available at: http://trade-info.cec.eu.int/textiles/prog_en.pdf, [10 July 2003].

[77] The nature of the rules of origin may be partly a reason why LDCs especially have tended to make relatively little use of such agreements (Mattoo, Aaditya, Devesh Roy and Arvind Subramaniam, 2002, "Africa Growth and Opportunity Act and its Rules of Origin: Generosity Undermined?" World Bank Research Working Paper, No. 2908, October; Brenton, Paul, 2003, "Integrating the Least-developed Countries into the World Trading System: The Current Impact of EU Preferences under Everything But Arms", World Bank Policy Research Working Paper, No. 3018, April; and Brenton, Paul and Takako Ikezuki, 2004, "The Initial and Potential Impact of Preferential Access to the U.S. Market under the Africa Growth and Opportunity Act", World Bank Research Working Paper, No. 3262, April).

have not yet been integrated into the GATT.[78] Anecdotal evidence from other major LDC exporters such as Bangladesh, suggest similar concerns about the impact of the phase-out of quotas on exports.[79] Moreover, a comparative advantage in low-cost, labour-intensive assembly work does not necessarily result in increased exports, as these also require the very logistical and infrastructural facilities that remain inadequate in many developing and especially least developed countries. The potential erosion of these price advantages or rents with the full integration of textiles and clothing into the GATT suggests that countries cannot continue to rely on preferences and must plan their trade policies accordingly.

65. The removal of quotas, while providing better market access for Members of the WTO, will also disadvantage countries that remain outside the WTO as at 1 January 2005. These countries will remain subject to unilateral quotas and tariffs after 2005. The fear is that the textiles and clothing sector in a country such as Viet Nam, which competes with large exporters, such as China, would not be able to sustain exports when quotas on WTO Members, including China, are removed. Viet Nam has reached an agreement with the United States on quantitative restrictions from May 2003 to December 2004, extendable for additional one year periods for as long as Viet Nam is not a Member of the WTO.[80]

5. Contingency measures

Anti-dumping

66. The number of anti-dumping initiations by WTO Members rose between 1995 and 2001 but has since fallen, from 366 in 2001 to 310 in 2002 and further to 231 in 2003 (Chart 3). In the first half of 2004, 101 initiations were reported. In 2003 the initiations were mainly in the areas of chemicals and base metals; these two sectors have consistently been the most affected since 1995. Base Metals remained the most affected in the first half of 2004, followed by chemicals and plastics (Chart 4). The largest number of initiations since 1995 have been reported by India (383), followed by the United States (350), and the EC (287); in 2003, the most anti-dumping cases were initiated by India (46), the United States (37) and China (22), while in the first half of 2004, the United States reported the most initiations (21), followed by Turkey and the EC (13 each) and China (11). The initiations have been mainly targeted at China (386) and the EC and member states (386).

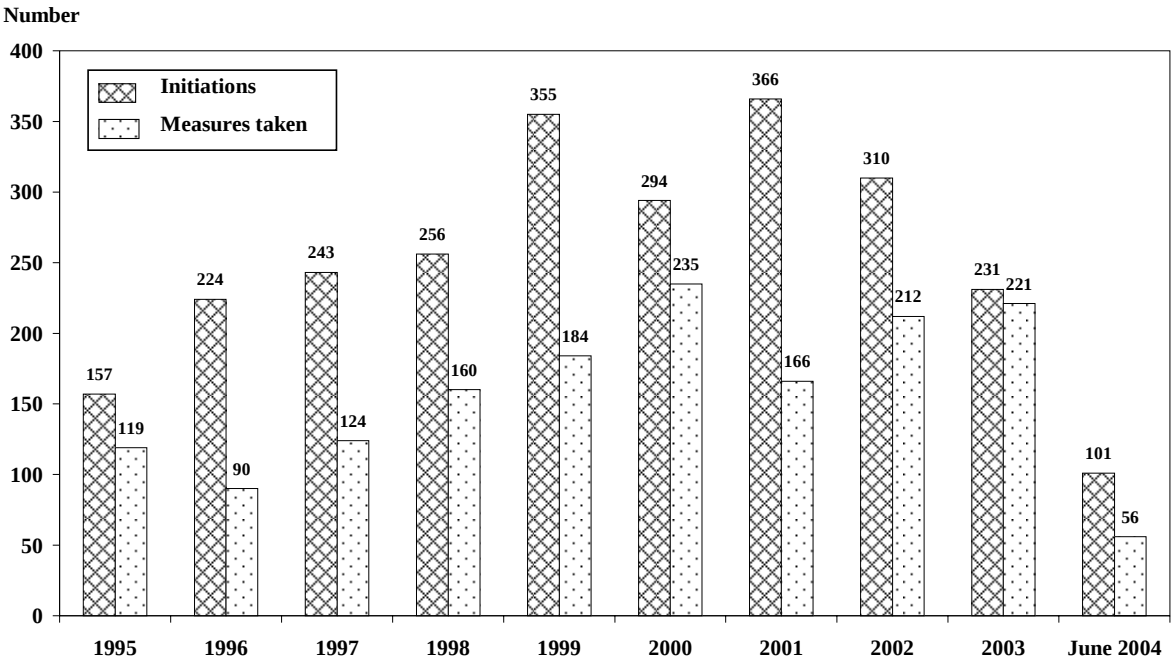
67. Approximately 60% of cases initiated result in measures being taken by Members. The number of new measures imposed peaked in 2000 (235 measure) before falling to 166 in the following year. It has since then risen to 212 and 221 measures in 2002 and 2003, respectively. In the first half of 2004, Members reported taking 56 measures. In 2003, the Members who notified the largest number of measures were India (53), China (33), Turkey (28), Thailand (20) and Argentina (19). In the first half of 2004, the EC, India, and the US reported the largest number of measure taken (six each), followed by Canada (5) and Australia, China, Peru and Turkey (four each). Overall, since 1995 India (279), the United States (211), the EC (193) and Argentina (139) have reported the largest number of anti-dumping measures. Those that have most frequently been targeted by the anti-dumping measures include: China (272), the EC and member states (213) and the Republic of Korea (110). At the end of 2003, a total of 1,388 anti-dumping measures were in force, compared to 1,285 at the end of 2002. As of 30 June 2004, the number of anti-dumping measures in force was 1,345.

[78] Özden, Çaglar and Gunjan Sharma, 2004, "Price Effects of Preferential Market Access: The Caribbean Basic Initiative and the Apparel Sector", World Bank Working Paper 3244, February.

[79] "End to Garment Quotas is Cloaking Bangladesh in Worries about the Future", *Wall Street Journal*, 20 November 2003; "China Puts Southeast Asian Factories in a Competitive Pinch", *Wall Street Journal*, 7 October 2003.

[80] WTO, 2004 (forthcoming), *Trade Policy Review – United States*, p. 122.

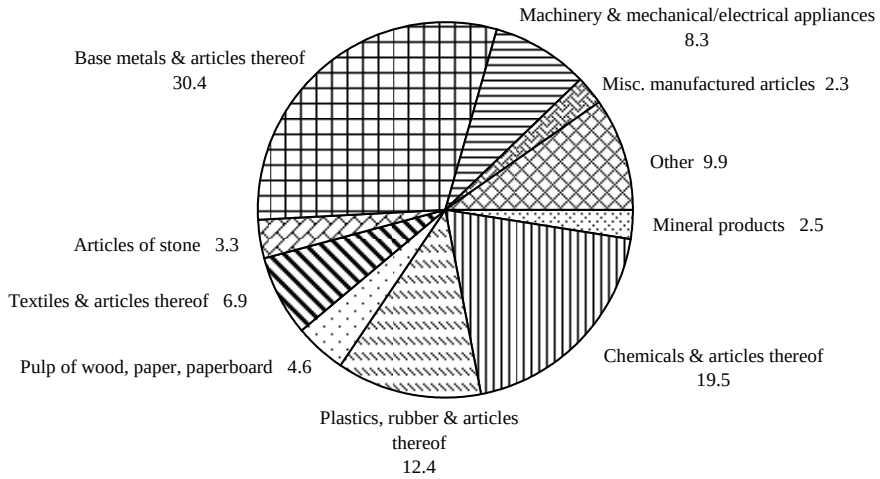
Chart 3
Anti-dumping: initiations of investigations and measures taken, 1995 to end-June 2004



Source **: WTO Secretariat.**

Chart 4
Anti-dumping initiations by sector, 1995 to end-June 2004

Per cent



Note: Other includes live animals & products (1.8%); vegetable products (1.3%); fats & oils (0.3%); prepared foodstuffs, beverages, tobacco (1.6%); raw hides & skins (0.1%); wood & articles (1.4%); footwear & headgear, etc. (0.8%); precious stones etc. (0.04%); transport equipment (0.8%); precision instruments (1.1%); and works of art (0.5%).

Source **: WTO Secretariat.**

Countervailing and safeguard measures

68. Countervailing measures tend to be used less frequently by Members than anti-dumping measures. During the period 1995-2003, 168 initiations were reported by Members (compared to 2,436 for anti-dumping). The number of initiations fell between 2001 and 2002 from 27 to nine, but rose in 2003 to 15 – there were six initiations in the first half of 2004. In contrast to anti-dumping measures, around 35% of which have been taken by developed country Members, around 75% of countervailing measures have been taken by developed Members. The main initiators overall since 1995 have been the United States (69) and the EC (42); in 2003 the United States (four) and Australia (three) initiated the largest number of cases, while in the first half of 2004, the US and Canada each initiated three cases. The sectors that have been most affected since 1995 include base metals (71 initiations), followed by prepared foods, beverages and spirits and tobacco (23), and plastics (17).

69. Almost 60% of investigations (104) since 1995 have resulted in countervailing measures being taken by Members. As for investigations, the United States (44) and the EC (21) have reported the largest number of countervailing measures; this was also the case for 2003 with the EC and the United States reporting three and two measures, respectively. In the first half of 2004, 4 measures were imposed, one each by the EC, Costa Rica, the United States, and Venezuela. Since 1995 over half (54) of the measures taken affected base metals.

70. The use of safeguards, although minor compared to anti-dumping and even countervailing measures, continues to be active. In 2003, Members notified 17 safeguard initiations, a decline from the 34 initiations in 2002 but higher than the 13 initiations notified in 2001.[81] The number of definitive safeguard measures notified decreased to 13 in 2003, from 15 in 2002. Members had notified only eight definitive safeguard measures in 2001. In 2004, as of 1 November, Members had notified nine initiations and six definitive measures. The main users since 1995 have been India (eight measures imposed) followed by the United States (six) and Chile, the Czech Republic, and the Philippines (five each). Most safeguard initiations occur with regard to agricultural/food products, chemicals, and base metals.

6. Services

Overview

71. Services account for an increasingly large share of world GDP. Their share in industrialized countries' GDP is around 70%, compared to some 50% in developing countries.[82] Three regions, the EC (15), North America and East Asia account for almost 80% of world trade in services.[83] However, developing countries' share of trade in services has been growing over the last decade, with an apparent comparative advantage in services in which labour is a major input, such as tourism. Nevertheless, increasingly, some are becoming suppliers of services that use high-skilled labour, notably communications and information technology. While developing countries are increasingly liberalizing their domestic economies, including the liberalization and regulation of related services such as transport, electricity, telecommunications, they are also seeking increased market access to promote their activities in communications and information technology related services.

72. The remainder of this section focuses on the four modes of international trade in services as defined under the GATS: Modes 1 and 3 (cross border supply and commercial presence), which are the two largest modes of supply (accounting for over three quarters of total trade in services); Mode 2 (consumption abroad); and Mode 4 (temporary movement of natural persons). Mode 4, despite accounting for a negligible share of total services trade, has been the source of much recent

[81] WTO Secretariat.
[82] Data from the WTO's Economic Research and Statistics Division.
[83] WTO International Trade Statistics, 2004 (forthcoming), Table A8 and Table A9, Geneva.

discussion, particularly on the part of developing countries seeking increased market access under the GATS for this mode of supply.

Modes 1, 2 and 3

73. Although calculations of world trade in services are imprecise, it is estimated that Mode 1 (cross border supply) accounts for around 28% of total trade in services.[84] Commitments under Mode 1 vary under the GATS, with 32% and 40% of developing and transition economies making full commitments with regard to market access and national treatment respectively, while the shares for developed economies are lower at 26%; the highest share of full commitments appear to have been made by acceding economies (over 50%). Partial commitments are higher for industrial economies 45% for both market access and national treatment compared to 32% and 25% for developing and transition economies.[85]

74. Members appear to have scheduled the least number of limitations under Mode 2 (consumption abroad). Around half of all market access and national treatment commitments under this Mode are without limitation, significantly higher than for Mode 3, the largest mode of delivery of services (see below). There also appears to be little difference between the level of full commitments made by developed and developing country Members under Mode 2. Partial commitments were made in 40% (for market access) and 38% (national treatment) of cases. An estimated 14% of international trade in services is conducted through this Mode.

75. Mode 3 (commercial presence) is the largest of the four Modes of delivery, accounting for around 56% of total services trade, but nevertheless is subject to a significantly higher number of limitations than Modes 1 and 2. Mode 3 is, however, subject to more bindings (full and partial) than Mode 1. Amongst developed Members, 11% and 19% made full commitments with respect to market access and national treatment, compared to 18% and 37%, respectively for developing and transition economies. Partial commitments are made by 88% and 80% of developed economies for market access and national treatment; the corresponding figures are 78% and 56%, respectively, for developing and transition economies. In general, it appears that limitations are particularly frequent in infrastructure-related sectors such as telecommunication services, financial services and transport services. These are sectors that until relatively recently tended to be dominated by large incumbent public-sector companies; recent Trade Policy Reviews, however, show that these sectors have undergone major reform and liberalization both in developed and developing economies and the GATS schedules may in fact be more restrictive than the actual practice. The types of limitations include market access restrictions on the number of suppliers (e.g. in banking and telecommunications) and foreign investment limitations, and national treatment limitations such as nationality, residence, authorization, and tax restrictions.[86]

Mode 4: Temporary movement of natural persons

76. Very few commitments have been made by Members on the movement of natural persons (Mode 4). Mode 4 accounts for barely 1% of trade in services.[87] This, in addition to the current restrictiveness of barriers and other regulations, would suggest that liberalization in this Mode of delivery would lead to considerable growth in trade in services through the temporary movement of natural persons. This is also a Mode of delivery that is important for a number of developing and least developed countries, many of which remain highly dependent on workers' remittances for

[84] Data from the WTO's Economic Research and Statistics Division.
[85] WTO document S/C/W/99, 3 March 1999.
[86] WTO document S/C/W/99, 3 March 1999.
[87] The estimates by the WTO's Economic Research and Statistics Division are based on compensation of foreign employees as shown in the balance of payments (obtained from balance-of-payments statistics from the IMF and Foreign Affiliates Trade Statistics from the OECD).

foreign exchange earnings.[88] Many developing countries are also a source of relatively low cost and high skilled labour which is increasingly being sought out by companies through "outsourcing" (Box 2). These countries are therefore increasingly looking for further liberalization and market access for their nationals.

Box 2: Business process outsourcing

Business process outsourcing (BPO) services, or outsourcing, have been described as one of the most rapidly expanding business services. In India, for example, it is estimated that IT enabled services such as outsourcing expanded by 65% in 2003. Precise figures are not available on trade in BPO services but it is estimated that a number of developing countries, including India, Israel, Dominica and Brazil have experienced growth of over 20% per year since the mid 1990s and other developing countries such as Mauritius, Nicaragua, Barbados and China have also seen rapid growth in this sector (Mattoo and Wunsch 2004). While India is often cited as the main provider of such services, outsourcing to other developing countries especially given regional proximity and language advantages, has also picked up rapidly; companies in the EC, for example, find language, technical and cost advantages in outsourcing to countries in Central Europe. According to the OECD, the main factors driving outsourcing include cost and efficiency advantages, as well as the increased specialization of companies and external sourcing of increasingly technically sophisticated supplies of goods and services (OECD, 2000). Indeed, evidence from research on the impact of such outsourcing on IT hardware suggests that the benefits to consumers were considerable, contributing to a decline by 10-30% of IT hardware prices during the 1990s. A decline in prices and increased productivity make a contribution to overall GDP growth and therefore the generation of further employment in the economy (Mann, 2003).

The growth of outsourcing activities has created considerable controversy, especially with regard to its impact on employment in the industrialized counties. In the United States, for example, a proposal was made in the Senate to ban outsourcing of some types of federal government work; other suggestions include regulation and tax measures to try to reduce outsourcing activities. There is inadequate evidence, however, on the number of jobs lost through such outsourcing activities. In fact, recent research suggests that employment in occupations deemed vulnerable to outsourcing appears to have been stable or recovering in recent years. Employment in the United States has been affected more by rising productivity rather than outsourcing activities. The United States also remains a major exporter of services and the ability of U.S. firms to improve productivity further will most likely yield even stronger job demand in the United States for workers with IT proficiency and skills (Mann, 2003).

Calls for a ban or regulation of outsourcing activities have also created concerns in the major suppliers of such services, most notably developing countries. They argue that such bans are intended to deny developing countries the benefits of their comparative advantage in BPO services

Source: Mann, Catherine, L. (2003), "Globalization of IT Services and White Collar Jobs: The Next Wave of Productivity Growth", *International Economics Policy Briefs*, Institute for International Economics, December; Mattoo, A. M. and S. Wunsch, "Pre-empting Protectionism: The WTO and Outsourcing", *World Bank Policy Research Working Paper no. 3237*, March; OECD [STI]

77. Current GATS commitments in Mode 4 are significantly more restrictive than for the other three Modes. For example, no industrialized country has scheduled a "no limitations" entry for its Mode 4 commitments and only 1% of market access commitments by developing countries are fully liberal.[89] Schedules also appear to be skewed in favour of higher rather than lower skilled labour with

[88] According to research undertaken by the World Bank, remittances by workers in 2001 were estimated at around US$72.3 billion (World Bank, 2003, *Global Development Finance, 2003*, pp. 157-8).

[89] In contrast it is estimated that in Mode 2, one out of every two entries is based on full commitments (WTO Secretariat, 2002, "GATS, Mode 4 and the Pattern of Commitments: Background Information" prepared for the Joint WTO-World Bank Symposium on the Movement of Natural Persons (Mode 4) Under the GATS, WTO, Geneva, 11-12 April).

many countries specifying quotas and/or economics needs tests.[90] Exceptions to national treatment include residency requirements and non-eligibility for subsidies in addition to restrictions on foreign ownership of real estate. Also, the movement of intra-corporate transferees higher up in the hierarchy is given preference, thus linking market access to Mode 3 (commercial presence).[91] For many developing countries which are not large foreign investors, this type of access is not as interesting or feasible. Instead, they look to liberalization of the movement of natural persons not necessarily linked to Mode 3.

78. It is not only countries that have comparative advantage in Mode 4 that are keen to ease restrictions to trade in services through this Mode. While they seek greater openness in the temporary movement of service providers unrelated to commercial presence abroad, multinational corporations are seeking an easing of restrictions to intra-corporate movement of personnel. Judging from the modal structure of current commitments, Mode 4 seems to be as sensitive an issue for developing, as for developed, countries.

79. Obtaining further commitments from Members, developed and developing, in Mode 4 is constrained by several barriers. These fall mainly into domestic regulations, often not related to trade policy, including immigration policy, quotas on foreign providers, either explicit or implicit, the recognition (or non-recognition) of qualifications, and distinctions between the treatment of domestic and foreign workers and between temporary and permanent immigrants (for example with respect to taxes or access to social security).[92] Among the Quad countries, which have the largest potential markets for delivery of services through Mode 4, GATS schedules do contain commitments permitting the temporary movement of labour under certain circumstances. For example, the United States in its GATS Schedule permits the entry of intra-corporate transferees (defined as managers, executives and specialists) without the need for an economic needs test, up to three years, extendable by up to two additional years. The EC permits access for temporary movement of persons without requiring compliance with an economic needs test provided that the juridical person has obtained a service contract for a period not exceeding three months through an open tendering procedure, for a period of not more than three months in any 12-month period (24 months for the Netherlands) or the duration of the contract, whichever is less.[93] Canada permits entry for a maximum period of 90 days or the duration of the contract, whichever is less, once during a 12-month period for business visitors, and up to three years for natural persons of other Members that have been employed by juridical persons of that Member for a period of not less than one year.[94] Japan permits entry by a natural person employed by a juridical person of a Member (other than Japan) for a period of not less than one year immediately preceding the date of application for entry, for up to five years for certain activities.[95]

80. Several of these schedules have been improved in the initial conditional offers presented during the current round of services trade negotiations. Improvements generally include an increase

[90] Only around 17% of horizontal entries include low skilled persons ("business sellers" and "other") (WTO Secretariat, 2002). Some countries do have specific quotas for unskilled labour, for example seasonal labour and preference for labour from certain traditional sources.

[91] As at April 2002 for example, an overview of horizontal GATS commitments showed that some 280 out of 400 entries scheduled relate to executives, managers and specialists of which around 170 explicitly refer to intra-corporate transferees (WTO Secretariat, 2002).

[92] See for example, Chaudhuri, S., A. Mattoo and R. Self (2004), "Moving People to Deliver Services: How Can the WTO Help?" World Bank Policy Research Working Paper No. 3238, March.

[93] The activities covered are: legal services; accounting services; taxation advisory services; architectural services, urban planning and landscape architectural services; engineering services, integrated engineering services; computer and related services; and research and development services (WTO documents GATS/SC/31, 15 April 1994 and GATS/SC/Suppl.2, 28 July 1995).

[94] WTO documents GATS/SC/16, 15 April 1994 and GATS/SC/16/Suppl.2, 28 July 1995.

[95] WTO document GATS/SC/46, 15 April 1994.

in the period-of-stay for business visitors and for Managers and Specialists, although these offers constitute only the first step in a multi-stage process of submission of offers.

81. Services trade through contract based workers (i.e. those who move temporarily to fulfil a service contract as opposed to intra-corporate transfers) may be more desirable for both the host and origin countries. For the host country, such movements are likely to be of a shorter time duration than intra-corporate transfers, with important implications for immigration and social security and health policies, whereas for the source country, short-term contracts are likely to result in gains through remittances but may not result in "brain drain". It has also been suggested that it may be easier to liberalize access through such short-term contractual services rather than on longer term employment based movement.[96]

82. A few countries already provide such a distinction in their GATS schedules and new offers. The EC for example, distinguishes between independent professionals who are permitted to stay for a maximum period of six months (previously three months in its GATS Schedule) and those employed by firms based abroad. Canada permits such professionals to stay for an initial period of one year to complete their contracts with the possibility of extensions. Other countries such as India which has an interest in obtaining further market access for professionals, have also suggested that a special category of visa, a "GATS Visa" could be considered. The GATS visa would be issued more rapidly than other categories of visas, be time limited, cover independent service suppliers and intra corporate transferees and be backed up by a bond, with the possibility of using sanctions in cases of abuse.

7. Regional trade agreements

83. The number of regional trade agreements (RTAs) has continued to rise in 2004 making preferential, discriminatory trade relations an ever more established and perhaps irreversible feature of the international trading system. The rush to forge RTAs over the last decade, appears to have gained further pace in the wake of the impasse experienced at Cancún on the DDA. Between January and August 2004 alone, 21 RTAs were notified to the WTO, increasing the total number of notified preferential agreements in force to 206[97]; in addition to these, around 30 agreements were signed between 2003 and 2004 and awaiting entry into force, and approximately 60 RTAs are in the negotiations/proposal stage. The intensification of RTA activities has been recorded across all world's regions even though it has been more pronounced in the Western Hemisphere and Asia-Pacific. The most notable developments of this latest phase of RTA proliferation include the expansion in the number of cross regional RTAs, of developed-developing country RTAs and the emergence of agreements among developing countries.

84. In Europe, 2004 was a year of both RTA expansion and consolidation. The accession to the EC of ten new members on 1 May expanded the European internal market to 28 countries[98], encompassing 450 million citizens and accounting for roughly 18% of world trade. The EC enlargement also consolidated the extensive network on intra-European RTAs built over the years by considerably reducing the number of existing agreements.[99] This process of expansion and consolidation is due to continue in the coming years as countries are added to the list of candidates for

[96] Chaudhuri, S. , A. Mattoo and R. Self, 2004, "Moving People to Deliver Services: How Can the WTO Help?", World Bank Policy Research Working Paper, No. 3238, March.

[97] This number totals notifications made under GATT Article XXIV, GATS Article V, and the Enabling Clause as well as accessions to existing RTAs; for a complete list of RTAs notified to the GATT/WTO see http://www.wto.org/english/tratop_e/region_e/region_e.htm

[98] The EC *plus* three EFTA member states.

[99] The accession of Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic, and Slovenia terminates the bilateral agreements between the new members and the EC, whilst it repeals the trade-related aspects of all existing agreements among the new members as well as those between the latter and third parties with which the EC already has preferential agreements.

EC accession.[100] In South Eastern Europe, the EC has been negotiating a Stabilization and Association Agreement (SAA) with Albania and has concluded the feasibility study for an SAA with Bosnia and Herzegovina.[101] At the sub-regional level, a network of bilateral FTAs being developed under the auspices of the Stability Pact has been concluded and is progressively being implemented.[102] A similar process is under way between the EC and countries in North Africa and the Middle East, which aims to the establishment of a Euro-Mediterranean Free Trade Area by 2010;[103] the grid of EC's bilateral agreements has almost been completed, thus replacing first generation, non-reciprocal co-operation agreements between the EC and these countries.[104]

85. Negotiations on the FTA between the EC and the countries of the Gulf Co-operation Council (GCC) are in progress, with offers having been exchanged on both goods and services trade. EC negotiations for an FTA with MERCOSUR have intensified with improved offers on services, government procurement, investment and goods (including agriculture) being exchanged. In South East Asia, further discussions have been held on the "Trans-regional EC-ASEAN Trade Initiative" (TREATI), which aims at the expansion of trade and investment flows between the two regions, though no FTA appears to be yet on the agenda. The EFTA States, however, having concluded an FTA with Singapore in 2003 have been exploring the possibility of FTA negotiations with Thailand and with the Republic of Korea. With respect to EC relations with the ACP (African, Caribbean and Pacific) countries, negotiations on Economic Partnership Agreements (EPAs)[105] were officially opened in 2004 with Eastern and Southern Africa (ESA), the Caribbean Forum of ACP States (CARIFORUM) and with the Southern African Development Community (SADC). EPAs negotiations with the Pacific ACP States are scheduled to be launched in 2004.[106]

86. In the Western Hemisphere, the United States has lived up to its ambitious preferential trade agenda announced in 2003 by signing FTAs with Australia, Morocco and, as part of the Dominican Republic – Central American Free Trade Agreement (DR-CAFTA), with Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua; it has concluded negotiations with Bahrain;[107] it has advanced negotiations with the South African Customs Union (SACU); opened negotiations with three members of the Andean Community (Colombia, Ecuador and Peru) and with Panama; and announced its intention to open FTA negotiations with Thailand.

87. RTA developments in Latin America suggest increasing efforts towards consolidation and deepening of the network of RTAs among South and Central American countries. MERCOSUR

[100] Croatia received candidate status in June 2004, thus joining Bulgaria, Romania and Turkey.

[101] Two such agreements have been concluded to date with the Former Yugoslav Republic of Macedonia (FYROM) and Croatia respectively. Members of the European Free-Trade Association (EFTA) are pursuing a similar set of negotiations.

[102] The Stability Pact process involves Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYROM, Romania, and Serbia and Montenegro. A Memorandum of Understanding on trade facilitation and liberalization in 2001 commits these countries to conclude a network of bilateral FTAs among themselves. At a later stage, Moldova became associated with this process.

[103] The Mediterranean partners are Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia and Turkey. Cyprus and Malta were partners to the process before acceding to the EC.

[104] The Association Agreement between the EC and Egypt entered into force on 1 June 2004, while negotiations with Syria are in progress.

[105] EPAs are reciprocal FTAs supposed to replace the existing Cotonou Agreement between the EC and the 77 ACP countries.

[106] EPA negotiations with Central Africa (CEMAC) and West Africa (ECOWAS) were opened in October 2003.

[107] The FTA with Bahrain and Morocco fall under the Middle East Free Trade Initiative proposed by President G. W. Bush in May 2003, which foresees a plan of graduated steps to expand and deepen economic ties between the United States and Middle Eastern nations through Trade and Investment Framework Agreements (TIFAs), Bilateral Investment Treaties (BITs), and comprehensive Free Trade Agreements (FTAs).

members have been working towards the objective of a fully fledged customs union,[108] and have concluded a framework agreement with three members of the Andean Community, which aims to the gradual establishment of an FTA.[109] Recently, Mexico has signalled its intention to apply for associate membership in MERCOSUR.[110] Latin American countries have also been very active in FTA negotiations with partners further afield. Mexico has concluded negotiations with Japan; Chile with the Republic of Korea; Panama is negotiating with Singapore; MERCOSUR with India, and a MERCOSUR-China FTA is being considered. At the continental level, negotiations for the Free Trade Area of the Americas (FTAA) are ongoing; however, it appears that not much progress has been made since the last Ministerial Meeting (the eighth) in Miami in November 2003.[111]

88. The debate over RTAs in the Asia-Pacific further intensified in 2004. Singapore has signed an FTA with Jordan, has launched negotiations with the Republic of Korea and with Panama, and is considering negotiations with Bahrain, Egypt and Sri Lanka.[112] Japan has agreed an FTA with Mexico, and it has launched negotiations with the Republic of Korea, Malaysia, the Philippines and Thailand in order to strengthen its ties with ASEAN countries: in parallel, a working group is studying the feasibility of an FTA between Japan and ASEAN as a whole. The Republic of Korea, besides its negotiations with Japan and Singapore and the agreement concluded with Chile, has been holding joint-study talks with ASEAN on plans for an FTA. Thailand has opened negotiations with New Zealand, signed an FTA with Australia, and is considering FTAs with the EFTA States and with the United States. As for China, negotiations on the FTA with ASEAN are in progress, while feasibility studies are being undertaken on FTAs with Australia and New Zealand. Further, in July, it signed a framework agreement on economic co-operation with the countries of the GCC. At the broader regional level, ASEAN, China, Japan and the Republic of Korea are discussing plans for an East Asian Community as a new framework for regional co-operation. Australia and New Zealand's participation in the ASEAN leaders' summit in November may involve discussions on a possible FTA with ASEAN.

89. In South Asia, India has been the main focus of RTA activities. With its SAARC counterparts,[113] it has signed the South Asian Free Trade Agreement (SAFTA), designed to revamp the SAPTA, and a Framework Agreement under the name BIMST-EC (Bangladesh, India, Myanmar, Sri Lanka, Thailand – Economic Co-operation); it is also engaged in FTA negotiations with ASEAN and Thailand, having signed Framework Agreements with both, and is negotiating a Comprehensive Economic Cooperation Agreement (CECA) with Singapore. India has also signed a partial scope agreement with MERCOSUR, as a preliminary step to an FTA. Further FTA negotiations are in the pipeline.

90. Developments in the global RTA landscape in 2004 reaffirm the resilience of preferential trade relations as a major force in international trade. In the wake of uncertainty of the multilateral trade negotiations under the DDA, RTAs are being embraced by many WTO Members as trade policy instruments and, in the best of cases, as complementary to the multilateral trading system.[114] While

[108] MERCOSUR has focused on the elimination of the exceptions to the common external tariff, the entry into force of the Protocol of Montevideo on Trade in Services, and the entry into force of the Protocol of Olivos for the Settlement of Disputes.

[109] These are Colombia, Ecuador and Venezuela. Free-trade with Bolivia and Peru is regulated under the agreements concluded between MERCOSUR and Bolivia and Peru, respectively.

[110] Bolivia, Chile and Peru are already associate members of MERCOSUR.

[111] Paragraph 7 of the Ministerial Declaration envisages countries taking different levels of commitments which may result in a multi-layered FTAA regime of economic integration among the 34 countries.

[112] Singapore has ongoing negotiations with Canada, India, Mexico, and P3 (Trilateral FTA comprising Chile and New Zealand)

[113] South Asian Association for Regional Co-operation (SAARC) comprising Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

[114] For some WTO Members, preferential trade represents over 90% of their total trade.

the promotion of free trade at a preferential level may exert leverage for openness and competitive liberalization in international trade relations, thus benefiting the multilateral process, this strategy carries certain inherent risks. More significantly, proliferation of RTAs and the development of complex networks of preferential trade are altering global trade patterns and undermining transparency and predictability in international trade relations, pillars of the WTO system. This has implications for all third parties to RTAs through, *inter alia*, trade and investment diversion, diminished attention to the multilateral system, and the creation of vested interests in FTA partners which will resist dilution of preferential margins at the multilateral level.

91. Notwithstanding these risks, WTO Members are allowed to participate in regional initiatives, albeit subject to a number of criteria and procedures.[115] The Committee on Regional Trade Agreements (CRTA), the body entrusted with verifying the compliance of RTAs with the relevant WTO provisions, continued its examination of RTAs in 2004.[116] However, the CRTA made no further progress on its mandate of consistency assessment, due to long-standing institutional, political and legal difficulties. Since the establishment of the WTO, Members have been unable to reach consensus on the format, and the substance, of the reports on any of the examinations entrusted to the CRTA.

92. The negotiations on RTA rules launched at the Fourth Ministerial Conference in Doha aim at clarifying and improving the relevant disciplines and procedures under existing WTO provisions with a view to resolve the impasse of the CRTA, exercise better control of RTA dynamics, and minimize the risks related to the proliferation of RTAs. These negotiations, which are taking place within the Negotiating Group on Rules, had progressed meaningfully on transparency issues by the time of the Cancún Ministerial. The resumption of negotiations in 2004 has furthered the Group's work on transparency to the point that one of the procedural improvements considered by the Group (to ask the Secretariat to prepare factual presentations of RTAs under examination) has been forwarded to the CRTA for testing, on a preliminary and voluntary basis. The Group has also enlarged the scope of its negotiations to include systemic issues, which may suggest increasing concern by Members about the possible effects of RTAs on third parties and on the multilateral trading system as a whole.

8. Dispute Settlement

93. The Dispute Settlement Mechanism, set up in 1995, is often cited as one of the major achievements of the multilateral rules-based system. The number of cases brought before the dispute settlement mechanism has continued to increase. Between 1 January 1995 and 22 October 2004, 317 cases had been filed with the Dispute Settlement Body (DSB), of which 129 have resulted in panels covering 159 disputes. The majority of cases[117] are brought to the DSB by the industrialized countries, 204 as complainant and 191 as respondents. Developing countries have brought 136 cases as complainant and 122 cases as respondents. The main areas of complaint[118] have been: GATT 1994 (230 requests of which 89 are on national treatment, 80 on MFN treatment and 71 on quantitative restrictions)[119], subsidies (57), agriculture (52) and anti-dumping (54).

[115] Contained in GATT Article XXIV, for agreements covering trade in goods, and in GATS Article V, for agreements in the area of trade in services. The 1979 Decision of the GATT Council on Differential and More Favourable Treatment (Enabling Clause) governs the conclusion of preferential arrangements among developing countries (trade in goods only).

[116] As of July 2004, the CRTA had a total of 158 agreements under examination.

[117] Based on 314 cases (as at 17 September 2004.

[118] Based on 315 cases (as at 30 September 2004).

[119] There is some double counting as some of the cases brought under Article III of the GATT 1994 are also brought under Article I.

94. The LDCs have, in general, not used the dispute settlement mechanism although some have participated as third parties in disputes[120]; in addition, Bangladesh was the first LDC to request consultations under the mechanism in January 2004.[121] Assistance is being provided to LDCs that do wish to use the mechanism, notably through the Advisory Centre on WTO Law (ACWL). The ACWL was formed in October 2001 to help developing, and especially LDC Members, to make more effective use of the WTO's dispute settlement mechanism; all countries designated by the United Nations as least developed that are Members of the WTO are entitled to its services. It charges modest fees. Since July 2001, the Centre has provided legal advice to LDCs on a number of issues, including the implications of paragraph 6 of the Doha Ministerial Declaration on the TRIPS Agreement and Public Health; the WTO consistency of certain subsidies; the viability of initiating a dispute under Article VI of the GATT 1994; and the viability of resort to Article XVIII of the GATT 1994.

95. Among the main users of the WTO dispute settlement mechanism, the EC, the United States, Canada and Japan have been the largest. Up to 17 September 2004, the United States brought 78 complaints and was respondent in 83; the EC and its member states brought 64 complaints and were respondent in 63; Canada was involved in 26 cases as complainant and 12 as respondent; and Japan was complainant in 11 cases and respondent in 13. A significant number of cases (55 or 17%) have occurred between the two largest users, the United States and the EC. Among the developing countries, the largest users continue to be Brazil (22 cases as complainant and 12 as respondent), India (16 cases as complainant and 16 as respondent), and Argentina (9 and 15 cases, respectively, as complainant and respondent).

96. Panel reports had been circulated (up to 22 October 2004) in 90 cases of which 59 were appealed. Of these 90 cases, 30 were initiated by developing countries, 57 by industrialized countries and three by a combination of both. With regard to the two largest traders, the EC initiated 17 cases as sole complainant and seven jointly with others; the United States initiated 15 cases as sole complainant and seven jointly. The United States and the EC were also the largest respondents with regard to cases for which panel reports have been circulated: 34 and 16 cases, respectively. Developing countries were respondents in 26 cases for which panel reports have been circulated.

97. Of the cases that go through WTO dispute settlement procedures, a large number tend to be resolved through bilateral consultations between the Members. For those cases that go beyond consultations to formal panels it appears that most go to the appeal stage. In cases where Members have failed to agree through consultations on implementation of the DSB's recommendations and rulings, recourse to the dispute settlement procedures under Article 21.5 of the Dispute Settlement Understanding (DSU) has been sought. Members have, in general, implemented the recommendations and rulings made by panels and by the Appellate Body in the "reasonable period of time" determined under Article 21.3 of the DSU. However, in a few cases under the Compliance Review Procedure of the DSU, compliance by Members has been contested and has resulted in authorization by the DSB to suspend concessions and obligations against the non-complying Member. The cases that have resulted in such an authorization since the formation of the WTO are:

- EC ban on meat and meat products (complaints by the United States and Canada)

- EC banana regime (complaints by the United States and Ecuador)

[120] Least developed countries that have participated in disputes as third parties include Bangladesh, Benin, Chad, Madagascar, Malawi, Senegal and Tanzania.

[121] Bangladesh requested consultations with India on 28 January 2004 regarding the latter's imposition of anti-dumping duties on imports of lead acid batteries from Bangladesh (WTO document, WT/DS306/1, 2 February 2004); in February 2004, the EC requested to join these consultations (WTO document WT/DS306/2, 16 February 2004).

- Brazil export financing for aircraft (complaint by Canada)
- United States Foreign Sales Corporations (FSCs) (complaint by the EC)
- Canada export credits and loan guarantees for aircraft (complaint by Brazil)
- United States 1916 Anti-Dumping Act (complaint by the EC)

98. The United States and Ecuador decided not to retaliate, because of a change in the EC banana import regime. In the case of the United States 1916 Anti-Dumping Act, an arbitration decision was circulated on 24 February 2004 although the EC has not as yet requested authorization to suspend concessions and obligations.[122] In the case of the FSC dispute, the EC suspended concessions and obligations on 1 March 2004 on a number of products imported from the United States. Such countermeasures consist of an additional customs duty of 5% to be enforced on 1 March 2004, followed by an automatic, monthly increase by 1% up to a ceiling of 17% to be reached on 1 March 2005 if the United States had failed to comply with the ruling by then.[123]

[122] WTO document WT/DS136/ARB, 24 February 2004. The United States notified the Secretariat that it was working continuously with the United States Congress to enact legislation and would confer with the EC and Japan to reach a mutually satisfactory resolution of the matter (WTO document, WT/DS/136/14/Add.26, 7 May 2004). In a subsequent notification, the United States notified the Secretariat that it had urged the U.S. House of Representatives to support legislation to repeal the 1916 Act at the earliest opportunity (WTO document WT/DS136/14/Add.28, 9 July 2004).

[123] European Commission Press Release IP/04/282, "US Foreign Sales Corporations (FSC): EU starts countermeasures on U.S. products", Brussels 1 March 2004, [Online]. Available at: http://Europe.eu.int/rapid/pressReleasesAction.do?reference=IP/04/282&format=HT..., [1 June 2004].

Table Annex 1
Structure of MFN tariffs in least-developed countries reviewed in 2003/04
(Per cent)

		Benin		Burkina Faso		Mali		Rwanda	
		2003	U.R.[a]	2003	U.R.[a]	2003	U.R.[a]	2003	U.R.[a]
	Bound tariff[b]								
1.	Bound tariff lines (% of all tariff lines)	40.4	40.4	40.9	40.9	42.1	42.1	100.0	100.0
2.	Simple average bound rate	..	29.5	..	43.1	..	29.6	..	89.1
	Agricultural products (HS01-24)	..	60.1	..	95.1	..	57.5	..	76.2
	Industrial products (HS25-97)	..	14.6	..	18.4	..	16.9	..	91.3
	WTO agricultural products	..	61.5	..	97.6	..	58.8	..	74.8
	WTO non-agricultural products	..	11.9	..	13.7	..	14.4	..	91.4
	Textiles and clothing	..	16.8	..	16.8	..	16.8	..	71.9
3.	Tariff quotas (% of all tariff lines)	..	0.0	..	0.0	..	0.0	..	0.0
4.	Duty free tariff lines (% of all tariff lines)	..	1.3	..	1.2	..	1.2	..	0.8
5.	Non-ad valorem tariffs (% of all tariff lines)	..	0.0	..	0.0	..	0.0	..	0.0
6.	Non-ad valorem tariffs with no AVEs (% of all tariff lines)	..	0.0	..	0.0	..	0.0	..	0.0
7.	Nuisance bound rates (% of all tariff lines)[c]	..	0.0	..	0.0	..	0.0	..	0.0
	Applied tariff								
8.	Simple average applied rate	14.6	n.a.	14.6	n.a.	14.6	n.a.	18.0	n.a.
	Agricultural products (HS01-24)	17.7	n.a.	17.6	n.a.	17.5	n.a.	14.2	n.a.
	Industrial products (HS25-97)	14.1	n.a.	14.1	n.a.	14.1	n.a.	18.6	n.a.
	WTO agricultural products	16.9	n.a.	16.8	n.a.	16.7	n.a.	13.2	n.a.
	WTO non-agricultural products	14.2	n.a.	14.3	n.a.	14.2	n.a.	18.8	n.a.
	Textiles and clothing	19.9	n.a.	19.8	n.a.	19.8	n.a.	20.7	n.a.
9.	Domestic tariff "peaks" (% of all tariff lines)[d]	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.
10.	International tariff "peaks" (% of all tariff lines)[e]	41.1	n.a.	41.3	n.a.	41.2	n.a.	39.3	n.a.
11.	Overall standard deviation of tariff rates	6.9	n.a.	6.9	n.a.	6.9	n.a.	10.6	n.a.
12.	Coefficient of variation of tariff rates	0.5	n.a.	0.5	n.a.	0.5	n.a.	0.6	n.a.
13.	Tariff quotas (% of all tariff lines)	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.
14.	Duty free tariff lines (% of all tariff lines)	0.0	n.a.	0.0	n.a.	0.0	n.a.	4.9	n.a.
15.	Non-ad valorem tariffs (% of all tariff lines)	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.
16.	Non-ad valorem tariffs with no AVEs (% of all tariff lines)	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.
17.	Nuisance applied rates (% of all tariff lines)[c]	0.0*	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.

.. Not available.
n.a. Not applicable.
* Negligible.

a Based on 2003 tariff schedule.
b Calculations are only based on bound tariff lines.
c Nuisance rates are those greater than zero, but less than or equal to 2%.
d Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate (indicator 8).
e International tariff peaks are defined as those exceeding 15%.

Note: MFN tariff calculations are based on effectively applied rates (including taxes) for Benin, Burkina Faso and Mali.

Source: WTO Secretariat calculations, based on data provided by the Members.

Annex 1 (cont'd)
Structure of MFN tariffs in selected countries reviewed in 2003/04
(Per cent)

		Switzerland			Norway			Belize		Jamaica	
		2000	2004	F.B.[a]	2000	2004	F.B.[a]	2004	F.B.	2004	F.B.
	Bound tariff[b]										
1.	Bound tariff lines (% of all tariff lines)	99.0	100.0	100.0	100.0	100.0	100.0	97.1	97.1	100.0	100.0
2.	Simple average bound rate	12.4	12.0	12.0	27.5	29.5	29.5	60.1	60.1	53.2	53.2
	Agricultural products (HS01-24)	47.3	47.5	47.5	130.8	128.2	128.2	101.9	101.9	91.5	91.5
	Industrial products (HS25-97)	2.9	2.4	2.4	4.6	4.2	4.2	52.6	52.6	44.4	44.4
	WTO agricultural products	48.9	49.4	49.4	154.1	150.2	150.2	101.8	101.8	97.4	97.4
	WTO non-agricultural products	2.9	2.3	2.3	4.1	3.6	3.6	51.8	51.8	43.7	43.7
	Textiles and clothing	7.6	5.6	5.6	10.6	8.6	8.6	57.0	57.0	49.7	49.7
3.	Tariff quotas (% of all tariff lines)	3.5	3.4	3.4	..	0.4	0.4	0.0	0.0	0.0	0.0
4.	Duty free tariff lines (% of all tariff lines)	15.2	16.4	16.4	41.9	43.8	43.8	0.0	0.0	0.6	0.6
5.	Non-ad valorem tariffs (% of all tariff lines)	82.8	83.7	83.7	15.4	15.3	15.3	0.0	0.0	0.0*	0.0*
6.	Non-ad valorem tariffs with no AVEs (% of all tariff lines)	5.0	5.5	5.5	15.4	6.4	6.4	0.0	0.0	0.0*	0.0*
7.	Nuisance bound rates (% of all tariff lines)[c]	36.5	38.4	38.4	2.3	3.0	3.0	0.0	0.0	0.0	0.0
	Applied tariff										
8.	Simple average applied rate	8.9	9.3	n.a.	8.1	7.2	n.a.	11.3	n.a.	8.6	n.a.
	Agricultural products (HS01-24)	33.1	34.8	n.a.	33.6	33.7	n.a.	20.5	n.a.	20.6	n.a.
	Industrial products (HS25-97)	2.4	2.3	n.a.	2.4	0.8	n.a.	9.4	n.a.	6	n.a.
	WTO agricultural products	34.3	36.2	n.a.	38.7	38.2	n.a.	17.9	n.a.	18.1	n.a.
	WTO non-agricultural products	2.3	2.2	n.a.	2.3	0.9	n.a.	10.0	n.a.	6.7	n.a.
	Textiles and clothing	6.2	5.6	n.a.	8.1	3.4	n.a.	11.6	n.a.	8.7	n.a.
9.	Domestic tariff "peaks" (% of all tariff lines)[d]	6.3	5.9	n.a.	4.6	5.0	n.a.	7.8	n.a.	6.4	n.a.
10.	International tariff "peaks" (% of all tariff lines)[e]	8.8	8.6	n.a.	8.7	5.7	n.a.	27.2	n.a.	28.5	n.a.
11.	Overall standard deviation (SD) of tariff rates	33.1	42.5	n.a.	33.9	44.1	n.a.	11.4	n.a.	12.4	n.a.
12.	Coefficient of variation (CV) of tariff rates	3.7	4.6	n.a.	4.2	6.2	n.a.	1.0	n.a.	1.4	n.a.
13.	Tariff quotas (% of all tariff lines)	3.5	3.4	n.a.	..	0.4	n.a.	0.0	n.a.	0.0	n.a.
14.	Duty free tariff lines (% of all tariff lines)	17.2	17.7	n.a.	65.5	83.9	n.a.	9.6	n.a.	60.5	n.a.
15.	Non-ad valorem tariffs (% of all tariff lines)	82.8	82.3	n.a.	11.9	10.4	n.a.	0.7	n.a.	0.0	n.a.
16.	Non-ad valorem tariffs with no AVEs (% of all tariff lines)	5.0	5.2	n.a.	2.9	2.3	n.a.	0.7	n.a.	0.0	n.a.
17.	Nuisance applied rates (% of all tariff lines)[c]	39.1	39.0	n.a.	2.9	1.2	n.a.	0.0	n.a.	0.0	n.a.

.. Not available.
n.a. Not applicable.
* Negligible.
F.B. Final Bound.

a Bound on 2004 tariff schedule.
b Calculations are only based on bound tariff lines.
c Nuisance rates are those greater than zero, but less than or equal to 2%.
d Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate (indicator 8).
e International tariff peaks are defined as those exceeding 15%.

Note: Excluding in-quota rates. Calculations exclude specific rates and include the *ad valorem* part for compound and alternate rates.

Source: WTO Secretariat calculations, based on data provided by the Members.

Annex 1 (cont'd)
Structure of MFN tariffs in selected countries reviewed in 2003/04
(Per cent)

	Korea, Rep. of			Sri Lanka			Singapore		
	1996	2004	F.B.[a]	1998	2003	F.B.[b]	1999	2003	F.B.[c]
Bound tariff									
1. Bound tariff lines (% of all tariff lines)[d]	91.0	91.5	91.5	36.7	..	36.6	70.5	70.6	70.6
2. Simple average bound rate	27.6	17.2	17.0	..	..	31.2	9.7	7.5	6.9
Agricultural products (HS01-24)	72.4	61.1	61.1	..	..	49.5	16.8	11.0	9.6
Industrial products (HS25-97)	20.0	10.0	9.7	..	..	19.7	7.9	6.5	6.2
WTO agricultural products	71.3	61.1	61.1	..	..	49.8	17.7	11.1	9.5
WTO non-agricultural products	19.8	9.7	9.5	..	..	19.9	7.8	7.3	6.3
Textiles and clothing	28.5	18.5	18.5	..	..	12.5	14.8	10.9	9.9
3. Tariff quotas (% of all tariff lines)	1.7	1.7	1.8	..	..	0.0	0.0	0.0	0.0
4. Duty free tariff lines (% of all tariff lines)	2.0	14.2	14.4	..	..	0.5	14.9	18.5	22.6
5. Non-ad valorem tariffs (% of all tariff lines)	0.5	1.0	1.0	..	..	1.8	1.3	1.3	1.3
6. Non-ad valorem tariffs with no AVEs (% of all tariff lines)	0.5	1.0	1.0	..	..	1.8	1.3	1.3	1.3
7. Nuisance bound rates (% of all tariff lines)[e]	0.6	2.1	2.1	..	..	0.0	0.1	3.7	0.0*
Applied tariff									
8. Simple average applied rate	14.4	12.8	n.a.	11.8	9.8	n.a.	0.0	0.0	n.a.
Agricultural products (HS01-24)	51.8	47.9	n.a.	27.0	21	n.a.	0.0	0.0	n.a.
Industrial products (HS25-97)	7.7	6.6	n.a.	9.4	7.9	n.a.	0.0	0.0	n.a.
WTO agricultural products	56.2	52.2	n.a.	27.6	21.3	n.a.	0.0	0.0	n.a.
WTO non-agricultural products	7.7	6.7	n.a.	11.5	8.0	n.a.	0.0	0.0	n.a.
Textiles and clothing	7.8	9.8	n.a.	6.9	5.2	n.a.	0.0	0.0	n.a.
9. Domestic tariff "peaks" (% of all tariff lines)[f]	2.4	2.5	n.a.	0.3	0.3	n.a.	0.0	0.0	n.a.
10. International tariff "peaks" (% of all tariff lines)[g]	8.7	8.9	n.a.	26.5	21.9	n.a.	0.0	0.0	n.a.
11. Overall standard deviation of tariff rates	57.5	52.0	n.a.	14.2	12.4	n.a.	0.0	0.0	n.a.
12. Coefficient of variation of tariff rates	4.0	4.1	n.a.	1.2	1.3	n.a.	0.0	0.0	n.a.
13. Tariff quotas (% of all tariff lines)	1.7	1.7	n.a.	0.0	0.0	n.a.	0.0	0.0	n.a.
14. Duty free tariff lines (% of all tariff lines)	2.0	13.3	n.a.	19.8	10.0	n.a.	99.9	99.9	n.a.
15. Non-ad valorem tariffs (% of all tariff lines)	0.5	0.6	n.a.	0.6	1.2	n.a.	0.1	0.1	n.a.
16. Non-ad valorem tariffs with no AVEs (% of all tariff lines)	0.5	0.6	n.a.	0.6	1.2	n.a.	0.1	0.1	n.a.
17. Nuisance applied rates (% of all tariff lines)[e]	2.7	2.7	n.a.	0.0	27.1	n.a.	0.0	0.0	n.a.

.. Not available.
n.a. Not applicable.
* Negligible.
F.B. Final bound.

a Based on 2004 tariff schedule.
b Based on 2001 tariff schedule.
c Based on 2003 tariff schedule.
d Calculations are only based on bound tariff lines. Including fully bound and partially bound rates.
e Nuisance rates are those greater than zero, but less than or equal to 2%.
f Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate (indicator 8).
g International tariff peaks are defined as those exceeding 15%.

Note: Excluding in-quota rates. Calculations exclude specific rates and include the *ad valorem* part for compound and alternate rates. Final bound calculations are only based on bound tariff lines.

Source: WTO Secretariat calculations, based on data provided by the Members.

Table Annex 2
Tariff escalation by 2-digit ISIC industry
(Per cent)

Country/ Year	Stage of process[a]	Food, beverages & tobacco	Textiles & leather	Wood & furniture	Paper, printing & publishing	Chemicals	Non-metallic mineral products	Base metal	Fabricated metal products & machinery	Other	Total industry
North America											
United States	1	3.1	2.9	0.1	0.0	1.9	0.0	0.4	n.a.	1.6	2.3
2002	2	7.4	9.1	2.1	0.5	4.3	2.1	1.7	2.7	0.4	4.7
	3	12.4	10.0	2.2	0.6	3.9	5.6	2.5	2.2	3.6	5.5
Canada	1	7.9	1.0	0.0	0.0	1.5	0.0	0.0	n.a.	1.2	3.9
2002	2	6.8	7.0	2.1	0.4	2.9	0.7	0.9	1.3	0.0	3.9
	3	34.3	13.5	5.2	1.0	4.7	3.8	3.0	2.6	4.8	8.9
Mexico	1	22.2	12.7	13.0	4.8	12.5	8.0	10.1	n.a.	14.2	15.1
2001	2	27.1	17.9	18.6	13.3	11.3	17.7	12.9	13.7	13.0	13.2
	3	34.5	31.4	21.9	14.9	13.5	18.3	23.0	15.4	20.8	18.5
Latin America											
Argentina	1	9.5	11.4	5.0	6.6	9.2	9.0	5.2	n.a.	11.6	9.3
2000	2	14.1	18.8	9.9	14.6	10.1	10.3	13.2	16.7	14.2	12.0
	3	16.5	22.4	17.9	15.2	12.1	14.2	19.0	14.1	20.4	15.0
Belize	1	22.4	5.4	7.0	5.0	7.3	5.0	5.6	n.a.	26.4	14.8
2001	2	16.5	5.0	12.4	4.9	5.5	6.0	4.4	5.0	5.0	5.8
	3	19.5	17.3	17.4	11.8	10.3	10.9	5.0	9.7	14.5	12.7
Brazil	1	8.1	8.3	2.0	3.6	6.8	6.0	2.4	n.a.	8.6	7.2
2004	2	11.2	15.6	7.3	12.1	6.3	7.3	9.6	13.7	12.0	8.5
	3	13.5	19.1	14.7	11.9	6.6	11.1	16.0	13.0	17.3	12.5
Chile	1	6.0	6.0	6.0	6.0	6.0'	6.0	6.0	n.a.	6.0	6.0
2003	2	8.2	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.1
	3	5.9	6.0	6.0	5.7	6.0	6.0	6.0	5.7	6.0	5.9
Costa Rica	1	10.2	2.9	6.6	1.7	2.5	6.0	1.9	n.a.	8.4	6.2
2000	2	12.7	8.5	8.2	3.8	2.2	3.1	3.0	2.5	3.0	4.3
	3	19.8	12.9	12.8	8.9	6.1	8.2	1.0	4.2	9.5	8.2
Dominican Rep.	1	13.0	1.8	3.0	3.0	2.8	20.0	3.0	n.a.	8.2	7.3
2002	2	14.0	2.0	4.7	3.1	3.9	5.1	6.1	9.0	2.8	4.4
	3	17.1	17.3	14.9	12.5	9.0	11.1	14.0	7.2	16.4	10.8
Guatemala	1	9.8	1.9	0.0	0.0	2.8	5.0	0.0	n.a.	8.8	5.6
2001	2	10.4	14.3	7.0	3.4	1.3	2.3	2.0	1.7	1.3	5.1
	3	12.9	18.9	12.5	7.7	6.4	7.2	0.0	4.0	9.4	8.1
Guyana	1	23.3	5.4	7.0	5.0	7.0	5.0	5.6	n.a.	26.4	15.2
2002	2	16.7	5.1	9.7	4.9	5.8	5.9	5.6	5.0	5.0	6.1
	3	25.6	17.3	14.3	11.4	11.1	10.8	5.0	10.2	15.4	13.8
Honduras	1	10.2	1,7	0.0	0.0	1.9	5.0	0.0	n.a.	8.2	5.6
2002	2	10.8	10.3	7.3	4.9	1.4	2.3	1.9	1.7	1.3	4.4
	3	12.4	13.2	12.5	7.4	5.7	7.1	0.0	3.6	9.3	7.0
Haiti	1	2.6	4.5	0.0	0.0	0.0	15.0	0.0	n.a.	8.7	2.3
2002	2	4.7	5.3	0.0	0.5	0.7	1.4	1.3	0.8	0.0	2.0
	3	6.5	5.2	6.1	1.5	3.4	5.2	0.0	1.7	4.2	3.3
Jamaica	1	23.3	0.5	3.0	0.0	4.0	5.0	1.1	n.a.	16.1	12.4
2004	2	11.0	0.0	6.6	0.0	1.5	1.7	1.4	0.0	0.0	1.5
	3	19.2	16.6	13.0	10.2	9.1	8.2	0.0	5.9	12.1	10.5
Venezuela	1	14.2	10.9	5.0	6.3	8.0	10.0	2.8	n.a.	10.9	10.4
2002	2	17.7	17.5	12.1	12.3	7.4	9.3	11.1	8.5	15.0	10.9
	3	18.7	19.2	16.6	15.1	10.9	14.7	15.0	11.0	15.6	13.4

Table Annex 2 (cont'd)

Country/ Year	Stage of process[a]	Food, beverages & tobacco	Textiles & leather	Wood & furniture	Paper, printing & publishing	Chemicals	Non-metallic mineral products	Base metal	Fabricated metal products & machinery	Other	Total industry
Western Europe											
European	1	14.6	0.8	0.0	0.0	1.5	0.0	0.0	n.a.	1.2	8.6
Communities 15	2	19.2	6.2	3.1	0.9	4.7	2.9	1.3	1.6	0.0	4.8
2004	3	19.3	9.5	2.1	0.0	3.9	4.1	0.0	2.5	2.7	7.0
Norway	1	16.5	0.0	0.0	0.0	0.0	0.0	0.0	n.a.	0.1	8.0
2004	2	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.1
	3	49.8	6.3	0.0	0.0	0.2	0.0	0.0	0.0	0.0	8.5
Switzerland	1	7.8	3.9	5.1	1.6	0.8	0.1	0.4	n.a.	0.4	4.3
2004	2	37.9	5.1	3.0	7.8	0.9	2.7	1.8	1.3	4.5	4.5
	3	43.1	5.6	2.4	4.3	2.2	2.6	1.9	1.1	2.2	9.7
Eastern Europe											
Bulgaria	1	11.8	3.1	0.0	0.0	4.5	0.0	0.0	n.a.	2.3	7.8
2003	2	22.7	12.7	5.0	8.9	7.3	9.7	4.8	7.8	0.6	8.8
	3	27.4	19.7	13.8	9.4	9.2	13.4	0.0	6.7	8.0	13.5
Czech Republic	1	0.9	0.2	0.6	0.0	1.9	0.0	0.3	n.a.	0.4	0.9
2001	2	17.6	4.6	2.7	7.6	3.8	8.2	3.8	4.7	8.7	4.9
	3	16.3	8.4	5.6	6.4	4.0	6.5	2.6	4.0	4.8	7.4
Slovak Republic	1	0.8	0.2	0.5	0.0	1.9	0.0	0.3	n.a.	0.4	0.8
2001	2	14.4	4.6	2.7	7.1	3.7	8.3	3.8	3.9	8.7	4.7
	3	16.2	8.5	5.6	5.8	3.9	6.5	2.6	4.0	4.8	7.4
Slovenia	1	4.3	1.8	1.2	0.4	3.9	0.0	0.1	n.a.	6.2	3.5
2001	2	16.2	9.6	4.6	8.7	7.7	5.4	6.9	6.8	10.0	8.3
	3	20.0	16.4	14.2	13.6	8.8	9.9	5.0	9.9	13.5	13.1
Middle East											
Bahrain	1	4.8	9.5	7.0	5.0	6.4	10.0	5.0	n.a.	8.9	6.2
2000	2	2.8	10.0	5.2	5.2	5.3	5.1	5.0	5.0	5.0	6.2
	3	11.4	8.7	8.8	7.3	7.0	7.1	5.0	9.3	7.8	9.0
East Asia											
Brunei	1	0.0	0.3	12.0	0.0	0.0	0.0	0.0	n.a.	1.2	0.3
Darussalam	2	0.0	0.1	19.4	0.0	0.1	0.0	0.0	0.0	0.0	0.4
2000	3	0.0	1.5	3.6	0.0	2.8	0.9	0.0	8.8	2.7	5.2
China	1	15.3	12.5	1.2	0.0	7.1	0.0	2.8	n.a.	14.8	11.3
2002	2	28.1	15.1	5.7	8.4	7.2	10.7	5.3	6.9	8.9	9.7
	3	21.5	20.4	11.7	11.5	10.8	15.1	13.0	11.2	16.9	14.0
Hong Kong, China	1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.a.	0.0	0.0
2002	2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indonesia	1	3.7	5.5	2.0	2.6	4.1	0.0	2.9	n.a.	7.4	4.0
2002	2	4.7	8.3	1.7	4.8	5.2	3.9	7.3	5.0	5.0	6.1
	3	13.0	12.2	9.6	4.4	7.1	6.4	10.0	6.6	10.4	8.6
Japan	1	12.6	24.3	0.0	0.0	2.4	0.0	0.4	n.a.	0.2	10.3
2004/05	2	21.4	6.5	4.3	0.3	2.8	1.5	0.8	1.5	0.0	4.7
	3	20.2	11.4	2.1	0.0	2.0	1.1	3.0	0.3	2.5	7.2
Korea, Rep. of	1	60.0	5.2	4.4	0.1	6.6	5.0	1.7	n.a.	5.9	27.9
2004	2	93.6	8.8	6.1	0.9	6.4	7.3	3.1	6.7	0.0	9.2
	3	34.4	11.4	5.3	0.6	7.1	7.9	8.0	6.0	6.8	10.1
Malaysia	1	1.4	0.3	12.0	0.0	7.6	0.0	0.3	n.a.	0.0	3.0
2001	2	5.3	13.4	2.2	6.4	7.1	22.0	9.3	3.3	7.5	7.7
	3	4.5	17.0	13.4	15.0	7.5	19.9	18.8	16.9	11.2	13.6

Table Annex 2 (cont'd)

Country/ Year	Stage of process[a]	Food, beverages & tobacco	Textiles & leather	Wood & furniture	Paper, printing & publishing	Chemicals	Non-metallic mineral products	Base metal	Fabricated metal products & machinery	Other	Total industry
Singapore	1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.a.	0.0	0.0
2003	2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Thailand	1	17.3	3.7	1.0	1.0	8.8	1.0	1.0	n.a.	10.2	9.6
2003	2	24.6	15.7	10.3	11.8	4.9	14.7	7.3	12.3	17.5	9.5
	3	29.6	28.5	20.8	20.6	14.8	18.6	20.0	12.7	16.8	18.1
South Asia											
Bangladesh	1	19.0	16.2	6.0	0.0	11.9	25.0	5.7	n.a.	25.1	14.2
2000	2	24.8	26.5	16.0	25.5	16.2	29.7	19.2	27.1	25.0	20.7
	3	29.5	36.3	30.2	28.1	24.4	25.2	25.0	18.5	32.3	24.1
India	1	36.4	25.1	17.0	7.1	25.4	35.0	23.8	n.a.	35.0	28.1
2001/02	2	36.6	28.5	31.1	34.7	33.6	34.1	33.0	21.7	35.0	32.3
	3	48.3	34.2	34.8	29.4	33.2	34.1	35.0	29.2	33.5	33.0
Maldives	1	16.6	18.9	15.0	25.0	21.3	25.0	21.3	n.a.	25.0	19.7
2002	2	14.5	17.6	15.0	11.5	14.8	19.5	21.2	22.5	10.0	16.8
	3	18.9	24.7	20.7	19.8	23.4	24.2	20.0	24.0	21.7	23.2
Pakistan	1	12.1	10.1	8.0	6.1	13.2	5.0	14.7	n.a.	14.7	11.8
2001	2	19.2	23.7	19.1	24.0	13.9	23.8	15.4	21.7	25.0	17.5
	3	29.9	29.2	28.4	23.5	21.1	25.6	30.0	21.2	22.0	23.6
Sri Lanka	1	16.2	4.1	6.8	2.0	2.9	0.0	2.0	n.a.	8.0	8.3
2003	2	18.7	1.1	4.1	10.1	4.1	8.0	5.0	6.2	13.8	4.4
	3	26.3	10.6	23.5	12.9	10.5	17.9	2.0	8.7	13.9	12.1
Oceania											
Australia	1	0.3	0.1	2.0	0.0	1.7	0.0	0.3	n.a.	0.3	0.7
2001/02	2	0.4	9.8	3.9	3.9	1.7	1.9	3.0	2.1	4.2	4.1
	3	2.2	14.5	3.9	3.4	3.4	4.0	0.0	3.4	3.0	5.1
New Zealand	1	0.5	2.2	0.0	0.0	0.9	0.0	0.0	n.a.	1.2	0.8
2002	2	2.6	2.8	3.1	5.2	1.2	0.5	2.3	1.2	4.9	2.2
	3	3.0	14.8	4.9	4.1	3.3	3.7	5.0	3.8	3.9	5.6
Africa											
Benin	1	15.6	9.0	7.5	7.5	8.9	7.5	7.5	n.a.	10.3	11.3
2003[b]	2	17.3	18.7	12.0	9.9	8.7	19.4	11.9	20.8	11.3	12.6
	3	19.5	21.6	20.4	16.4	14.6	18.9	22.5	13.4	20.0	16.2
Burkina Faso	1	15.4	9.0	7.5	7.5	9.0	7.5	7.5	n.a.	10.3	11.3
2003[b]	2	17.4	18.3	12.5	10.1	8.6	19.4	12.3	20.8	11.3	12.5
	3	19.6	21.6	20.2	16.7	15.0	19.0	22.5	13.3	20.8	16.3
Burundi	1	34.7	13.8	13.3	10.0	10.3	40.0	10.0	n.a.	40.0	21.5
2003	2	35.3	33.3	12.0	10.7	10.5	10.3	16.6	10.0	10.0	18.4
	3	36.2	37.6	36.2	25.8	25.9	27.9	40.0	19.2	31.3	26.1
Gabon	1	23.1	11.6	22.0	10.0	9.8	30.0	10.0	n.a.	23.3	16.2
2000	2	22.8	18.1	29.7	11.0	10.6	21.6	14.4	9.2	7.5	14.6
	3	25.8	27.9	27.4	18.2	17.0	22.8	30.0	15.9	27.0	20.2
Gambia	1	15.5	14.4	10.0	18.0	9.0	18.0	4.4	n.a.	18.0	13.2
2003	2	16.1	13.0	10.2	16.6	8.9	10.5	12.1	8.8	18.0	11.3
	3	16.8	17.7	18.0	12.7	12.7	14.2	18.0	11.1	17.4	13.6
Ghana[b]	1	15.8	15.1	16.0	12.2	10.2	15.0	15.6	n.a.	21.3	14.4
2000	2	18.8	16.6	19.6	19.3	10.8	11.3	11.0	11.7	20.0	13.1
	3	23.8	29.9	24.6	16.9	22.5	14.6	20.0	7.6	18.4	15.5
Madagascar[b]	1	24.0	7.0	5.0	5.0	7.0	30.0	5.0	n.a.	21.1	14.4
2000	2	18.3	22.2	14.7	9.5	5.6	8.4	8.4	13.3	7.0	11.9
	3	23.8	28.4	20.5	22.5	17.8	18.5	30.0	13.7	24.7	19.0

Table Annex 2 (cont'd)

Country/ Year	Stage of process[a]	Food, beverages & tobacco	Textiles & leather	Wood & furniture	Paper, printing & publishing	Chemicals	Non-metallic mineral products	Base metal	Fabricated metal products & machinery	Other	Total industry
Mali	1	15.4	9.0	7.5	7.5	8.7	7.5	7.5	n.a.	10.3	11.2
2003[b]	2	17.1	18.5	11.9	10.3	8.6	19.4	12.0	20.8	11.3	12.5
	3	19.3	21.6	20.2	16.6	14.8	19.0	22.5	13.3	20.7	16.2
Mauritania	1	16.2	2.6	0.0	0.0	2.7	20.0	5.5	n.a.	10.6	8.3
2001	2	10.9	12.6	9.3	6.9	4.6	9.7	8.3	7.5	5.0	8.0
	3	14.5	18.3	17.5	11.7	11.5	14.8	20.0	9.0	18.1	12.3
Mauritius	1	10.5	6.3	0.0	0.0	2.0	0.0	0.0	n.a.	16.7	6.4
2001	2	18.9	0.8	1.8	0.0	3.8	5.9	12.3	0.0	7.5	5.5
	3	29.4	64.7	54.7	43.4	32.2	29.5	80.0	17.6	33.8	30.4
Marocco	1	39.0	9.6	31.0	21.5	17.0	25.0	20.7	n.a.	31.9	26.8
2002	2	47.9	37.5	35.0	45.3	28.1	31.8	24.5	27.8	45.0	32.5
	3	62.0	46.4	47.2	41.9	30.7	38.2	44.2	20.9	35.1	34.3
Mozambique	1	22.3	3.8	2.5	7.5	3.4	7.5	2.5	n.a.	13.8	11.3
2000	2	17.7	21.4	7.5	10.3	3.8	7.3	5.6	7.5	23.1	9.5
	3	29.9	27.4	21.4	18.3	15.2	11.5	30.0	10.7	25.9	16.6
Niger[b]	1	15.3	9.0	7.5	7.5	8.9	7.5	7.5	n.a.	10.3	11.3
2002	2	17.1	18.5	11.9	10.3	8.6	19.4	12.0	20.8	11.3	12.5
	3	19.4	21.6	20.2	16.6	14.9	19.0	22.5	13.3	20.7	16.3
Rwanda	1	10.3	8.0	13.3	12.9	12.2	15.0	5.0	n.a.	10.6	10.4
2003	2	11.6	15.0	14.7	10.5	10.4	16.7	14.1	18.3	15.0	12.7
	3	22.5	28.2	26.6	23.8	20.4	25.6	30.0	21.9	27.4	23.4
Senegal[b]	1	15.7	9.0	7.5	7.5	8.9	7.5	7.5	n.a.	10.1	11.5
2002	2	16.9	19.1	12.5	10.0	8.6	19.4	12.1	20.8	11.3	12.6
	3	19.4	21.7	20.2	16.6	14.9	19.0	22.5	13.3	20.0	16.2
South Africa	1	10.8	4.7	0.0	0.0	3.5	0.0	0.0	n.a.	2.5	5.5
2002	2	10.3	22.0	6.2	5.8	3.3	4.9	3.2	2.4	4.3	12.9
	3	15.5	32.3	15.6	7.7	7.7	7.1	0.0	5.2	7.2	11.2
Zambia	1	19.3	14.6	21.0	5.0	6.5	25.0	2.8	n.a.	18.1	13.7
2002	2	19.1	14.0	22.8	10.0	6.0	13.1	7.1	18.3	12.5	8.8
	3	20.7	24.1	23.3	18.1	15.8	14.3	15.0	12.7	20.0	16.5

n.a. Not applicable.

a 1 = First stage of processing; 2 = Semi-processed; 3 = Fully processed.
b Including taxes.

Note: For countries with non-*ad valorem* rates AVEs have been used as available. In case of unavailability, the *ad valorem* part is used for compound and alternate rates.

Source: WTO Secretariat calculations, based on data provided by the Members.