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WTO, NAMA Negotiations and Implications for Developing Countries; The Case of Pakistan Economy

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This paper focuses on assessment of global trade negotiations on industrial tariffs known as NAMA (Non-Agricultural Market Access) and possible implications of various formula approaches on revenue, employment and output structure of Pakistan economy. The paper begins with a brief overview of the NAMA framework, followed by a review of empirical evidence; this is followed by estimation and implications of formulas on the economy of Pakistan. The results confirm negative impacts on output, revenue, and employment in key sectors if the reduction is large and sudden. It is recommended as how the negotiations could accommodate both the immediate needs of Pakistan economy and longer-term interests of developing countries.

Key words: NAMA, Trade, Tariff Negotiations, WTO, and Formula

1.0 Introduction

The aim of NAMA negotiations is to reduce both tariffs and no-tariff barriers to trade that impede the market access for industrial products[i]. The theoretical model underlying the NAMA proposal for tariff cuts and other trade liberalization measures is based on assumptions about resource mobility, technological learning and other mechanisms of income-redistribution. The basic principles of the NAMA negotiations are that free trade lower tariffs and NTBs-non-tariff barriers will ultimately lead to welfare gains. If import surges, consequent possible reduction in domestic output and employment could lead to trade deficit and balance of payment difficulties for the poor countries- mostly are already indebted and less likely to increase their exports and earn hard currency to finance their external debts. If the developed countries simultaneously reduce the tariff, the chances of catching up markets for poor countries in the developed world are very low. In most of the advanced countries demands for commodities fluctuate, sometimes depressed prices, and escalation of non-tariff barriers and other restrictions are very common.

The WTO members agreed to continue their focus on a non-linear formula applied on a line-by-line basis that would take fully into account special needs

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and interests of the developing and least-developed countries. Several formulas are suggested. In Swiss formula final tariff is made a function of both the initial tariff and a coefficient, and tariff cuts are greater for higher tariffs and smaller for lower tariffs. The Girard formula decides the extent of tariff reduction that all the WTO members must follow. The Swiss formula with dual coefficient was proposed by the USA with the suggestion to have two coefficients one for the developed countries and the other for the developing countries. Pakistan suggested a coefficient 30 for the developing and 6 for the developed countries. Brazil-India-Argentina (BIA) formula is like the Girard formula but with a different coefficient for the developed and developing countries. The comparison and analysis of formulas however show that the Swiss formula is better than the Girard formula to reduce tariff.

The Swiss type formula for bound tariff lines is:

$$T_1 = \frac{B * t_a * t_o}{B * t_a + t_0}$$

Where, t_1 is the final rate, to be bound in *ad valorem* terms; t_0 is the bound base rate; *ta* is the average of the current bound rates, *B* is a coefficient, its value(s) to be determined by the participants.

For unbound tariff lines the formula is

$$t_{A1} = \frac{B * xt_A * t_A}{B * xt_A + t_A}$$

where, t_{A1} is the average for newly bound lines; xt_A is the marked up tariff average of MFN applied rates as on the base date by x; t_A is the tariff average of MFN applied rates as on the base date, *B* is a coefficient, its value(s) to be determined by the participants.

Amidst of resistance of developing countries on NAMA, what kind of likely implications will have on output, employment and revenue or critical sectors of Pakistan economy. No attempt is made to estimate the implications of proposed reduction in industrial tariffs on the economy of Pakistan. The studies mentioned below simulates various scenarios, including one on universal free trade drawing on different formula proposals, a scenario of ambitious liberalization, and a simple formula designed primarily to reduce tariff peaks and escalation on selected regions see e.g. (Fernandez de Cordoba *et al.* 2004a, 2005,2006)[ii]. This study is designed to measure the implications of cuts in industrial tariffs for the economies like Pakistan. First, the impact on imports, exports, production and employment in sectors possibly is affected by tariff cuts and increased market access. Second, the implications for government revenues from trade taxes, particularly where such taxes account for an important part of the budget, besides impacts on sectors and time flexibilities for tariff cuts. The study also used the Pakistan formula of different coefficients to evaluate the impact on Pakistan economy.

2.0 Literature Review

Historically, today's developed countries heavily relied on tariffs for revenues collection and subsequently for protection at various stages of their development See, e.g. (Bairoch, 1993), (O'Rourke 2002), (Chang, 2002, 2005), (Vamvakidis, 2002), (Rodrik and Rodriguez, 1999), (Bosworth & Collins, 2004), (UNIDO, 2003) among others. (World Bank, 2006) Independent Evaluation Group (IEG) revealed that over three decades the global lender has failed to do enough to protect those in poverty from the affects of increased trade liberalization.

Theoretically, the impact of a tariff reduction depends on number of factors such as the size of the tariff reduction, the response of imports to tariff change, the relative importance of import tariffs as a source of government revenue, the response of other tax bases to the tariff reduction and how those tax bases will impact on total revenue, the number of tariff line items that are above and below the maximum revenue tariff, the level of initial tariff, and the share of those imports subject to high tariffs in total imports etc. It is widely acknowledged that there are substantial gains from trade that result from participation in free trade areas, but when revenue, employment is accounted for, it is not clear what the net welfare effect will be. (Bhagwati *et al*. 1998) have stated that loss of tariff revenues from inter participant trade can exceed the net gains usually identified in the Harberger-Johnson triangles thus resulting in an overall welfare loss according to (Nicholls *et al*., 1999). (Brown *et al*., 2001) calculated Uruguay Round's combined liberalization increased global economic welfare by $75 billion, of which almost $70 billion went to developed countries, $5 billion to Newly Industrialized Economies (NIEs; Korea, Singapore and Taiwan), and none to developing countries taken together.[iii] Some of the similar exercises claim large benefits (For a survey of these studies see Anderson, 2004). (World Bank, 2004) liberalization of both agricultural and manufacturing trade by both developed and developing countries would generate some $290 billion in global economic gains, of which $160 billion would go to developing countries and $132 billion to developed countries.

Other estimates are less sanguine about the potential benefits to developing countries from liberalization of trade in industrial products (Brown *et al*., 2001). Mainstream models (despite biased towards free trade) estimate the benefits of trade liberalization are able to come up with only modest sums (for an excellent critical review of these estimates, see (Ackerman, 2005). The estimates vary widely, depending on the methodology and the data used, but even the most optimistic estimate by an OECD study puts the global welfare benefits from complete merchandise (agriculture and manufacturing) trade liberalization at US$1,212 billion[iv]. A more cautious World Bank study (World Bank, 2003b[v], estimates the benefits at US$518 billion. For example two World Bank-sponsored studies put the figures at US$287 billion (Anderson et al., 2005) or even US$84 billion (Hertel and Keeney, 2005), which is less than 7 per cent of the above-cited OECD estimate.

3.0 Methodological Approach

A simulation exercise is conducted to find out the implications of tariff cuts. The Uruguay Round bound rates, unbound tariff lines and the list of sensitive products (the list submitted by Pakistan in its formula approach), major imports and major high tariff imports have been taken to simulate the tariff reduction under the non-linear Swiss cut formula with different coefficients. Revenue implications of the sensitive list-import products of Pakistan have also been calculated. The calculation is based on the simple average of three-year imports of Pakistan in the list of sensitive products. Different coefficients have been applied to derive the revenue implications for this list. Different level of revenue collection implications have been calculated at the existing tariff rates from 50 to 125 percent and (in some cases much higher) on these products with different suggested Swiss coefficients.

While calculating average value, both the bound rates and applied rates have to be given equal weight. The countries that have less than 35 percent binding coverage are expected to bind all non-agricultural lines and bind the tariffs at a level not to exceed 27.5 percent. For the developing countries a longer implementation period is granted[vi]. A few more amendments are suggested relating to newly acceded members and non-tariff barriers. This formula talks about capping the average tariff value to a certain extent. This can cause serious harm to Pakistan, since Pakistan's tariff rates are relatively high. Second, the procedure for calculating the average tariff value to be used in the formula is not very clear. Although, simulations on the basis of this new method for Pakistan has been tested.

With the removal of Industrial tariffs, the government would incur a huge tariff revenue loss. This could directly impact other domestic policies of the government. In other words, the economy would then be forced to cut down its development expenditure for social service sectors like education, health, employment generation, infrastructure development, and so on.

4.0 Findings and Discussions

4.1 Impact of Different Formula Approaches on Revenue, Output and Employment

By using Swiss formula results show that with unit value of B coefficient taken arbitrarily, Pakistan's base rate averages would fall drastically. For Pakistan, the bound average falls from 39 percent to 18 percent — a reduction of about 54 percent see (table 1).

Table 1: Impact of NGMA[vii]-CD Formula on Industrial Tariff (percent) of Pakistan

	Base Rate	Proposed Bound	Percentage
Pakistan	39.02	17.9	54.2

Source: Author's own calculations

From the list of Pakistan's major imports, high tariffs are machinery and transport equipment that constitutes almost 25 percent of our major imports. The tariff rate on these two items is very high. Coefficient of 30 applied on the non-linear Swiss formula, the percentage reduction of tariff is calculated as 35 percent on machinery and around 61 percent on transport equipment; see table 2. The table 3 shows the decrease in level of revenue at different coefficients and specific level of imports. The sensitive products are taken 10.5 percent of total imports of three years average.

Table: 2: Revenue Implications of Different Coefficients for Imports of Pakistan, Year (2000-1-2004-05)

	Import Value	**Tariff revue**
Item	2000-01=2004-05 Average	2000-01-2004-05 Average
Petroleum & product	777315.4	101051
Chemicals	405147.2	67166.086
Fertilizers	56177.8	2808.89
Iron &Steel	122143.8	17443.022
Machinery	496436.4	59351.418
Transport equipment	198059.2	65033.454
	Revenue decline with coefficient 30	**% change in Revenue**
Item	2000-01=2004-05 Average	2000-01-2004-05 Average
Petroleum & product	100614.92	-1.806
Chemicals	66796.962	-2.268
Fertilizers	2804.2165	-0.672
Iron &Steel	17360.382	-1.974
Machinery	38093.031	-150.402
Transport equipment	25362.278	-1.806
	Revenue decline with coefficient 16	**Percentage change in Revenue**
Item	2000-01=2004-05 Average	2000-01-2004-05 Average
Petroleum & product	98907.99	-8.904
Chemicals	65360.174	-11.256
Fertilizers	2785.6762	-3.444
Iron &Steel	17037.508	-9.744
Machinery	37707.248	-153.132
Transport equipment	24936.431	-258.93

Table 3: Revenue Implications for Sensitive List of Imports[viii]

(Rs. In billion)

Bound Rates at Different Coefficients	percent Revenue reduction at average*	Revenue implications in Billion Rs. At 6.5 billion $ imports	Total Revenue implications at different level of imports			
			32 b$ imports	45.5 b$ imports	52 b$ imports	58.5b$ imports
15percent	50.51 %	5.8	29	40.6	46.4	52.2
20percent	36.99 %	4.3	21.5	30.1	34.4	28.7
25percent	24.57 %	2.8	14	19.6	22.4	25.2
30percent	13.08%	1.5	7.5	10.5	12	13.5

Source: Author's own calculations

* The average is calculated from the sensitive list of total yearly imports based on 1999-2001 (6.5 billion dollars) yearly, out of which 10.5percent are sensitive products imports.

Table 4: Sector Contribution to Production, Employment, Exports and Contribution to GDP

Sector	Production	Employment	Exports	Contribution to GDP
Electronics	288834 sets	Around 10,000 (Including Cottage Sector)	Nil	10-15percent
Leather Footwear	50 million pairs+120 million pairs in unrecognized sector	200,000 persons	7 percent share in total exports (Market share in world is 1.4percent)	5 percent in manufacturing GDP
Leather manufactures	Many industrial units operating in Pakistan	2, 50,000 Nos.	7 percent of total Pakistan's exports	1 percent total GDP, 6 percent manufacturing GDP
Textiles	14,410,000 (VALUE IN '000' US$)	38 percent of total industrial workers	68percent of total exports	10.5 percent of total GDP; 46 percent of total manufacturing
Auto Industry	*416,189/	160,000	Nil	Rs. 24.81 B / $ 0.43 B

Source: Pakistan Investment Guide, 2004 (Expert Advisory Cell).

* Six major players only, the production is of all kinds of cars, LCVs, buses, trucks and tractors – production of motorbikes is not included.

Table 4 shows the contribution of various sectors to GDP. It has been found that electronics industry is contributing 10-15percent to GDP, a significant number of direct and indirect employments. Leather and footwear sector is contributing 5percent to GDP; its share in total exports is around 7percent of GDP, more than 200,000 employment opportunities. Leather manufactures is contributing 1percent to total GDP, 7percent of total exports, more than

2,50,000 jobs and a large number of industrial units are being operated around Pakistan. The contribution of textile sector is 10.5percent to total GDP and 46percent of total manufacturing, 68percent of total exports and 38 percent of total industrial workers, 31percent of total investment and more than 100 billion rupees contribution to taxes. Auto industry sector is contributing almost half percent of the GDP; more than 160,000 jobs are related to this sector.

Table 5: Full and Partial Binding of HS 6-Digit Subheadings for Non-Agricultural Products

Member	**Full binding**	**Partial binding**	**Unbound**	**Full binding**	**Partial binding**	**Unbound**	**Binding coverage**
	Number of Subheadings			Percent of all Subheadings			
Bangladesh							3
India	3073	24	1339	69.3	0.5	30.2	69.8
Nepal +	4500	1	32	99.3	0.0	0.7	99.3
Pakistan	**1638**	**2**	**2796**	**36.9**	**0.0**	**63.0**	**37.0**
Sri Lanka	1233	22	3181	27.8	0.5	71.7	28.3

+ Comments are in HS 2002 nomenclature.
Source: WTO secretariat, statistical indicators related to the unbound tariff lines; TN/MA/S/14

Pakistan, which has presently bound only 37 percent of its non-agricultural lines, would have to bring the rest of the commodities under the bound list.

Table 6: Distribution of MFN-applied Duties for Unbound Tariff Lines by Duty Ranges and the Corresponding Import Flows (MFN-applied duties and imports refer to 2001 unless indicated otherwise)

				Tariff rates (percentage)									
Member	**Number of HS 6 digit subheadings**		**All unbound tariff lines**	**Duty free**	**0 ≤ 5**	**5 ≤ 10**	**10 ≤ 15**	**15 ≤ 20**	**20 ≤ 30**	**30 ≤ 50**	**50 ≤ 100**	**> 100**	**Non advelorem**
Bangladesh (1999)	**4305**	**TL***	344	694	40	1235	38	1013	1776				8
		Imp											
India	**1339**	**TL**	1339	8	9	9	8	8	77	1205		15	
		Imp	18457	151	139	13194	123	0	335	4494		19	
Nepal (2002)	**32**	**TL**	47		1	2	2		4	4	21		13
		Imp											
Pakistan	2795	TL	3030		304	1005		565	1100	2	16	27	11
		Imp											
Sri Lanka	**3181**	**TL**	3810	1508	780	962	2		558				
		Imp	2690	1354	434	557	2		343				

Note: Includes ad valorem duties and ad valorem equivalents where available import figures are stated in US$ million.
*Tariff line
Source: WTO secretariat, statistical indicators related to the unbound tariff lines, TN/MA/.

Table 6 gives the distribution of MFN-applied duties for these unbound lines. These duties are categorized in different ranges.

4.2 Macro Economic and Fiscal Impact

Table 7 shows the percentage share of taxes on international trade and transactions in the total central government revenue for the five South Asian countries.

Table 7: Share of Taxes on International Trade and Transactions in Central Government Budget Revenues of Selected Countries.

	2000	2001	2002	2003	2004
Bangladesh (year ending June 30)		31.1	29.9	25.1	
India (year ending March 31)		15.6	15.4	15.3	
Nepal (year ending July 15)		23.7	23.0	23.5	
Pakistan (year ending June 30)			**6.7**	**9.2**	**10.9**
Sri Lanka (year ending June 30)	11.1	10.9	11.9		
Developed countries					
Australia (year ending June 30)		2.4	2.7	2.6	
United states (year ending Dec 31)			1.05	1.1	

Source: Table prepared by authors based on data collected from the IMF, Government finance statistics' Year-Book 2004.

As it is obvious from table 7 figures indicate that a reduction in industrial tariff can lead to a huge tariff revenue loss for Pakistan and also lower their earnings from the trade of industrial products.

Table 8 shows that Pakistan has substantial amount of tax revenue on international trade ranging from 50 billion in 1990-91 to 137 billion in 2005-06.

Table 8: Tax Revenue on International Trade

(Rs. In Billion)

Year	Tax revenue on international trade	Share of Indirect Tax (percent)	Development Expenditure (PSDP)	Tariff revenue as percentage of Development expenditure in %	Development Expenditure (as percent of GDP
1990-91	50	54.9			
1994-95	77	47			6.5
1995-96	89	46.8			
1996-97	86	43.7			
1997-98	74.5	39.1	104	71.6	
1998-99	65.3	33	98	66.6	
1999-2000*	61.6	26.4	95	64.8	2.4
2000-01	65	24.3	89	73.03	
2001-02	47.8	18.3	126	30.95	
2002-03	59	18.9	129	45.73	2.2
2003-04	89.9	25.4	160	56.18	3.1
2004-05	117.2	28.5	227	51.62	3.5
2005-06(P)	137	27.8	326 (MBE)	42.02	4.2

MBE: Modified budget estimates

*The GDP was rebased wef. 1999-2000, so figures thereafter may not be comparable with earlier years, Economic Survey, Ministry of Finance, and Government of Pakistan 2005-06.

4.3 Level of Non-Agriculture Tariffs and Bound Rates

The simple average of South Asian bound rates ranges from 19 to 35 percent. India has 69.8 percent of binding coverage at an average rate of 34.3 percent. The simple bound average of Pakistan is 35.3 percent for all lines, while 37 percent of its non-agricultural products are bound. The simple MFN applied average of bound lines in the year 2001 was 20.2 percent and for unbound lines it was 19.7 percent.

Table 9: Some Comparative Indicators for Bound and Unbound Non-Agriculture Tariff Lines (MFN applied duties and imports refer to 2001 unless indicated otherwise).

		Bound tariff lines			Unbound tariff lines	
Members	**Binding coverage**	**Final bound**	**MFN applied duties**	**Imports**	**MFN applied duties**	**Imports**
	In percent	**Average-percent**		**Mill US$**	**Average-percent**	**Mill US$**
Bangladesh 1999	3	35.7	12.9		22.0	
India	69.8	34.3	28.7	29,131	34.4	18,457
Nepal (2002)	99.3	23.7	13.4		68.7	
Pakistan	**37.0**	**35.3**	**20.2**		**19.7**	
Sri Lanka	28.3	19.3	6.8	1,979	6.6	2,690

Note: tariff averages are simple averages based on ad valorem duties, including ad valorem equivalents.
Source: WTO secretariat, statistical indicators related to the unbound tariff lines, TN/MA/S/14.

Table 9 provides the tariff profile of selected South Asian and developed economies (for comparison) for non-agriculture products for the latest available years mentioned therein.

It can be analyzed from table 10 that a significant proportion of Pakistan's exports have been denied market access in various developed countries.

Table 10: Pakistan's Exports Facing Peak Tariff in Principal Trading Partners (PTP)

Countries	**Level of Tariff Classification**	**Total no. of National Tariff lines**	**Total no. of Tariff lines subject to peak tariff (i.e. 12 percent)**	**Percent of lines with peak tariffs**
US	8-digit	10668	775	7.26
Japan	9-digit	9310	1126	12.09
EEC	8-digit	10254	1185	11.56
Australia	8-digit	6120	691	11.29
Canada	8-digit	11570	988	8.54

Source: TRAINS, WITS Online edition.

Table 11 gives the detailed frequency distribution of the proposed bound rates. The value of B is arbitrarily chosen as 1.

Table 11: Frequency Distribution of Proposed Bound Rates as per ABI Formula for Bound Non-agriculture Products

Base Rate-percent (Final Bound Rate as on 1.1.2001)	**Proposed Bound Rates-percent**
0	0.00
3	2.75
5	4.35
10	7.69
20	12.49
25	14.27
30	15.77
35	17.05
40	18.15
55	20.71
60	21.39
100	29.94
150	27.20
Average 33.2 percent	15.8

For unbound items, the marked up average is at around 13.6 percent. This implies that Pakistan can fix individual tariffs of unbound products at around 14 percent. Here the tariff average (t_a) of bound items for the year 2004 was around 35.9 percent. The value of x was randomly taken as 2.[ix]

Table 12: Impact of Swiss Formula on Developing Countries' Bound Averages

Country	Base Average (percent)	Proposed Bound Rate average (percent)
India	43.5	10.4
Pakistan	**39.02**	**10.07**
Sri Lanka	15.9	5.6

Source: (Rajesh Mehta & Pooja Agarwal, 2005).

The results are more or less similar to those with the NGMA formula. Table 13 summarizes the impact of different formulae on South Asian countries, along with the present level of the latest MFN tariffs.

Table 13: Impact of Pakistan Formula on Developing Countries' Bound Averages

Country	Base Rate average (Percent)	Proposed Bound Rate average (Percent)	Percentage decline in base rate
India	42.3	16.5	61.0
Pakistan	**45.1**	**17.4**	**51.8**
Sri Lanka	32.7	14.8	28.3

Notes: Bound rates are collected for non-agriculture products not included in the WTO Agreement on Agriculture. For unbound items, 30 percentage points are added to the value of applied MFN rate of 2001 to each unbound line before the application of the formula. Specific duties are not taken into consideration. Only ad valorem duties and the percentage component of mixed duties are used for calculation purpose.
Source: Rajesh Mehta & Pooja Agarwal

Table 14: Comparison between Present Applied and Proposed Tariff Averages (percent)

Countries	Applied MFN	NGMA	ABI (Bound)	ABI (Unbound)	Pakistan	Swiss
India	14.5	20.4	15.8	22.9	16.5	10.4
Pakistan	16.6	17.9	17.04	13.4	17.4	10.07
Sri Lanka	6.8	5.8	8.3	4.8	14.8	5.6

Source: (Rajesh Mehta & Pooja Agarwal, 2005)

It is obvious from table 14 that Pakistan is not comfortable with the tariff reduction caused by NGMA, ABI and the Pakistan formula, as its present tariff averages are already around these proposed averages.

4.4 Sector Elimination Approach: Impact

If the tariffs are eliminated for the sectors, which are of strategic importance (See table 15).

Table 15: Sector Approach for Seven Sectors: Number of Items (at 8-digit HS-96) in Which Pakistan can Eliminate Tariff

Sectors	**Possible definition as per HS chapters**	**Total number of lines**	**No. of TL sensitive to India's imports**	**TL: Not sensitive to import**
Fish and fish products	3,15,16	134		134
Leather goods	42	54		54
Textile and clothing	50-63	2220	324	1896
Footwear	64	62	1	61
Stone, Gems and precious metals	71	88	1	87
Electronics and electrical goods	85	555	45	510
Motor vehicle parts and components	87	138	47	71
Total		**3251**	**418**	**2813**

*We have excluded 125 commodities which fall under the ITA agreement and whose binding is already fixed at zero. Source: http://www.cbr.gov.pk

4.5 Implementation Process

According to the NGMA proposal, the developed countries shall eliminate tariffs at the end of the first phase and the developing countries shall do this in three equal phases. The reduction in the tariff rates by the developing countries should be spread over all the five phases[x].

Table 16: Hypothetical Application of the Implementation Period Proposal for Developing Country Assuming Hypothetical Bound Tariff Rate

(in percentage)

Product	Final bound Tariff (T2)	Initial bound tariff (T1)	Tariff after Phase I (Ta)	Tariff after Phase 2 (Tb)	Tariff after Phase 3 (Tc)	Tariff after Phase 4 (Td)	Tariff after Phase 5 (Te)
			T1-X*	Ta-X	Tb-X	Tc-X	Td-Y**
	14.8	100	87.22	74.44	61.66	48.88	14.8

Source: (Prabhash Ranjan, 2005), 'Tariff negotiations in NAMA and South Asia-July agreement and beyond', CENTAD Oxfam GB, April 2005.
* X = 60 percent of (T1-T2)/4, where T1 is the initial bound rate and T2 is the final bound tariff.
** Y = 40 percent of (T1-T2), where T1 is the initial bound rate and T2 is the final bound tariff.

Such an implementation period will give enough policy flexibility to the developing countries to pursue their social and development needs and at the same time, also realistically fulfil their international obligations.

Table 17: Hypothetical Application of the Implementation Period Proposal Under the Sector Initiative for Pakistan by MTN Category[xi]

(in percentage)

Product	Initial Tariff rate (T1)	Final Tariff rate* (T2)	Tariff after Phase 1	Tariff after Phase 2	Tariff after Phase 3	Tariff after Phase 4	Tariff after Phase 5
Textile	21.9	13.5	20.64	19.38	18.12	16.86	13.5
Fish and fish products	100	14.8	87.22	74.44	61.66	48.88	14.8

Source: (Prabhash Ranjan, 2005), 'Tariff negotiations in NAMA and South Asia-July agreement and beyond', CENTAD Oxfam GB, April 2005.
*The final tariff rate has been calculated by using the Girard formula, where B = 1 for textiles and clothing both for India and Pakistan, and B = 0.5 for fish and fish products both for India and Pakistan. Second issue relates to the rate at which the unbound tariff lines should be bound.

Table 17 clearly shows how this implementation period will give adequate flexibility and time to Pakistan to bring down its tariff levels in a consistent

manner. No drastic reduction in tariff rates will take place and hence the adjustment costs would be bearable.

5.0 Summary and Recommendations

On the basis of simulations the profound implications for the Pakistan economy are calculated. The result demonstrates that with unit value of B coefficient taken arbitrarily, Pakistan's base rate averages falls drastically. The bound average falls about 54 percent. This formula is sensitive to coefficient; Pakistan's average applied rates will come down to 17.7 percent. The decline is 17.04 percent on ABI formula bound rates, 13.4 percent on ABI unbound, 17.4 percent on the Pakistan formula, 10.07 percent on the Swiss formula. The rate of decline of Pakistan average MFN applied rate is highly sensitive to different coefficients. When the non-linear Swiss cut is applied, the revenue losses is around 50 percent on the average as Pakistan has revenue losses of around 50 percent on all imported items while applying the non-linear Swiss cut. The average reduction in revenue is estimated around 17 percent on the major imports of Pakistan. Following implications are arising, first, the formula for tariff reduction needs to be such that the peak tariffs are reduced at a higher percentage and tariff escalation is narrowed. Second, the lower rates resulting from such reductions benefit the exports of the developed countries; the credit should be given for the unilateral tariff reduction. Third, it needs to be ensured that the rules relating to relative "reciprocity" are fully respected in the negotiations.

The extent of liberalizing should be in accordance with their level of development, trade, economic situation, and national policy objectives. Finally, the ground rules should further recognize that the developing countries might have the option to reduce duties on selected tariff headings and, if necessary, exclude certain sectors and sub-sectors from the liberalization process. It should also be open to them to offer tariff bindings at rates that are higher than the reduced rates. The period for Pakistan to implement tariff reductions should be not less than 10 years whereas for the developed countries it should be four years. A zero-for-zero approach should be resisted.

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Endnotes:

[i] NAMA (Non Agricultural Market Access) refers to all products not covered by the Agreement on Agriculture in WTO.
[ii]. Employment drops 36 percent in the motor vehicle sector of South Asia (excluding India) and 25 percent in the non-ferrous metals sector of India. Under a more moderate scenario, in Pakistan employment in the leather and textile sectors, skilled and unskilled labour, and drops more than 30 per cent and in India nearly 21 per cent, while in developing countries the losses tend to be more than 10 per cent.
[iii] Brown et al. (2001, p. 32, table 1), and See Dorman (2001) for a critical assessment
[iv] (OECD, 2003, as cited in HM Treasury/DTI, 2004)
[v] as cited in HM Treasury/DTI, 2004)
[vi] For implementation process refer the section implementation process in this chapter
[vii] Negotiating group on Market Access
[viii] Sensitive list consisted of all those products which have higher tariff rates ranges from 50 to 125 percent, mostly these products lies in the HS code 32, 39, 40, 44, 48, 72-74, 84-89, 64, 96 etc.
[ix] See Rajesh Mehta (2005),
[x] (Prabhash Ranjan, 2005), 'Tariff negotiations in NAMA and South Asia – July agreement and beyond' CENTAD Oxfam GB, April 2005.
[xi] Using the methodology described in above Table has made the calculations in this table.