NAMA: A Tool of Development or De-industrialization?

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Abstract

The author argues that although the collapse of the Doha "Development" Round in early summer of 2006 was triggered by the refusal of the United States to agree to the reduction of the ceiling on the amount of domestic subsidies paid to the US farmers, there were some fundamental reasons behind the failure of the talk related to the contradictions in design and implementation of WTO rules to detrimental interests of developing countries. He uses the example of NAMA to highlight the inconsistencies between the objectives and spirit of the agreed Doha Text and the subsequent proposals made by developed countries during the process of negotiations. He shows that these inconsistencies are, in fact, a reflection of the inherent double standards in GATT/WTO rules. On the basis of experience of successful industrializers and the failure of recent across-the-board and universal trade liberalization prescribed by neoliberals, he proposes the necessary changes in WTO rules in order to make them conducive to industrialization and development.

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This paper has drawn heavily on the authors' recent studies, particularly: *Trade Policy at the Crossroads; the Recent Experience of Developing Countries*, Palgrave, Macmillan, 2005; "Towards an Alternative Perspective on Trade and Industrial Policies", *Development and Change*, 36(6), 2005: 1143-62, reprinted by the Third World Network; *Is Industrial Policy Relevant in the 21st Century,* Arab Planning Institute, May 2006 (www.arab-api.org/c_beirut06_6.pdf) and "Beware of NAMA's Slippery Slope to De-industrialization", *SUNS*, 15 June 2006. A shorter version of this paper is appearing in the forthcoming issue of *Challenge*. The author can be contacted by e-mail: M.Shafaeddin@Gmail.com.

Introduction

The purpose of this article is to argue that the proposals made by developed countries on NAMA (non-agricultural market access) is in clear contradiction with the stated objectives and spirit of the Doha Round-or so-called Doha "Development" Round, but it is consistent with existing GATT/WTO rules which suffer from numerous contradictions to detrimental interests of developing countries. It is true that the collapse of the Round[1] in early summer of 2006 was triggered by the refusal of the United States to agree to the reduction of the ceiling on the amount of domestic subsidies paid to the US farmers. Nevertheless, there are some fundamental reasons behind the failure of the negotiations, related to the contradictions in design and implementation of WTO rules and the inconsistencies between the agreed Doha Text and the subsequent proposals made by developed countries. We will concentrate on the issues related to NAMA (non-agricultural market access) as illustration and as a specific case of inconsistencies.

To proceed, we will first refer briefly to some general contradictions in GATT/WTO rules. Subsequently, the objectives of the Doha Round in the specific area of NAMA will be outlined and the inconsistencies of the proposals made by developed countries during the negotiation with these objectives will be highlighted. The third section will report the historical evidence on the impact of the type of liberalization

[1] Mr. Pascal Lamy, the WTO Director General gave the label of "crisis" to the event. Some others thought it was a "failure" of the Round as the result of which developing countries would be the main losers. Yet, others, particularly a number of NGOs, believed it was a success for development and went on celebration. The divergence of views on the collapse of the talks is as wide as the divergence of interests among various groups, particularly developed and developing countries, involved in the negotiations.

proposed by developed countries on industrialization of developing countries. The last section will present some concluding remarks.

I. General contradictions in GATT/WTO rules

The dissatisfaction of developing countries with the new "Trade Round" has surfaced since the WTO meeting in Seattle in autumn 1999. But as a distinguished Yale University Scholar put it: "what Seattle showed was that there is a lot more angst beneath the surface"[2]. This angst is related to that philosophy and the contradictions in the design and the implementation of GATT/WTO rules that also manifested themselves during the Doha Round, for the negotiation on NAMA.

To continue, while GATT/WTO trading system aims at trade liberalization, it suffers from a number of contradictions which reminds oneself of exceptional clauses of the "Animal Farm" story. For example, first of all, according to GATT/WTO rules, the power and influence of the government in the flow of international trade has to decline through reduction, or elimination, of tariffs and non-tariffs measures. Yet, the power and influence of TNCs in international trade is allowed to increase continuously. According to table 1, 500 companies accounted for about 70 per cent of world trade around year 2000. The cross-border mergers and acquisitions which have accelerated since 1996, i.e. after the conclusion of the Uruguay Round, have also continued their high speed in more recent years as shown in table 2.

The problem is that while the degree of concentration in international markets has increased significantly, the governments' controls on TNCs have been relaxed through TRIMs and GATS. According to Robert Wade:

[2] Jeffrey Garten, *International Herald Tribune*, 9 December 1999.

These [international] regulations are not about limiting companies' options, as "regulations" normally connotes. Rather they are about limiting the options of developing country governments to constrain the options of companies operating or

Table 1*:* The share of top firms in global production and trade (late 1990s)

Activity	*Number*	*Per cent*
All output	200	28
Industrial output	1000	80
World trade	500	70

Source: Mooney, P.R. (2000), "Concentration in Corporate Power on Coming Binano Republic", *Development Dialogue,* 1-2:74.

Table 2: Annual average cross-border mergers and acquisition with value of more than $1 billion, 1987-2005

Periods	No. of deals	value ($billion)
1987-1996	23	49
1997-2001	110	445
2002-2004	71	186
2005	141	454

Source: Based on UNCTAD, *World Investment Report*, 2006: table1.3.

hoping to operate within their borders. In effect, the new regulations are designed to expand the options of developed country firms to enter and exit markets more easily, with fewer restrictions and obligations and to lock in appropriation of technological rents"[3]

The large firms coordinate their activities not only outside the market, but they also shape the market and create barriers to entry for new comers. They coordinate their activities through strategic planning, strategic actions and vertical and horizontal relationship with other firms. Further, they have the capacity to influence production costs, prices, technology and the quality of goods they produce. They can target their markets; influence the market structure and the environment within which they operate thus limiting the entry of new firms to the market.

The firm level economies of scale of large established firms are, in particular, important, not only because they are sources of cost advantage (which are different from factor cost advantages), but more importantly, because they are sources of "strategic behaviour", "dynamic competition" and progressive and cumulative changes over time. Such a Schumpeterian source of dynamic competitive process and power of "creative destruction" implies that the ability to export would depend on "comparative strategic advantage" rather than comparative cost advantage alone which is behind the philosophy of GATT/WTO rules[4]

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[3] Wade, R. (2005), "What Strategies Are Viable for Developing Countries Today? The World Trade Organization and Shrinking of Development Space" in Gallagher K.P(ed). (2005), *Putting Development First*, the importance of Policy Space in the WTO and IFIs, (London and New York, ZED Books): 80-101, particularly p.80.

[4] for more details and references see Shafaeddin (2005), *Is Industrial Policy Relevant in the 21st Century* (Kuwait, Arab Planning Institute) available at www.arab-api.org/c_beirut06_6.pdf: 9-14

Secondly, since the inception of GATT, trade in manufactured goods has been subject to liberalization in various rounds of trade negotiations, but agricultural products have been largely excluded. According to OECD sources, the amount of producers support paid in OECD countries in 2004 is estimated to be nearly 280 billion dollars[5] .When export subsidies added to this figure, the total amount of subsidies reaches about 1 billion dollars a day. The "cotton scandal", which cost livelihood of a large number of populations in rural Africa, is only one example of the problem.

Thirdly, even in the case of manufactured goods products of interest to developing countries have been restricted either under exceptional arrangements (e.g. textiles and clothing until recently) or through tariff escalations, safeguard measures and arbitrary anti-dumping practices. While the average tariff on industrial goods in developed countries is low, tariffs on products of export interest to developing countries are relatively high. This is because in the previous trade rounds, developed countries "have significantly reduced tariffs on the products of mutual interests among themselves", but continued to maintain higher tariffs on products of export interest to developing countries[6]

Fourthly, According to the Uruguay Round (UR) Agreements, developing countries were forbidden to protect, or subsidize selectively, their infant industrial exports. Further, the TRIMs forbid theme to impose local content requirement, and obliges them to treat local and foreign companies equally-even though they lack equal

[5] Based on WTO, *World Trade Report, 2006* (Geneva, WTO, 2006):151.

[6].Das, B.L. (2005), *The Current Negotiations in WTO, Options, Opportunities and Risks for Developing Countries* (Geneva, Zed Books and TWN):34 and 36.

capabilities. By contrast, developed countries benefit from infant industry protection of their new technology for over 20 years through TRIPS.

Further, developed countries did not fully implemented even those rules to which they had agreed in the UR, e.g. in the case of the Agreement on Textiles and Clothing[7]. But the double standard is not confined to the case of the Agreement on Textiles and Clothing. There are also many other examples. For instance, targeted exports subsidy and industrial policy is restricted by Uruguay Round Agreements (URAs). Nevertheless, it still prevails in various forms, including the use of tax holiday and subsidy, in most developed countries, including the United States, the most advanced industrial economy:

> It can be argued that while the Washington Institutions stepped up their ideological crusade against government intervention in the Second and Third Worlds, domestically the US actually increased government assistance to business. The Small Business Administration financed 26,000 companies in 1992; in 1997, the number of companies receiving subsidised finance from this federal office alone had grown to 58000. While the Washington Institutions have managed the de-industrialisation of the Second and Third Worlds during the 1990's – under the theory that "all economic activities are alike" – within the US there is a plethora of government support programs specifically targeting manufacturing. Manufacturing industries with investments below 40 million dollars are eligible to receive loans at about 50 per cent of prime rate, subsidised by the federal government. At the last count, in July 1999, there were 821 different income tax credit schemes promoting investments in the real economy operating in the 50 states of the US[8].

The dispute between the USA and EU on Government subsidization of exports of industrial goods by US companies, for which the Dispute Settlement Mechanism of WTO gave verdict against the USA Government, is yet another example[9]. According to an ex-

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[7] See M. Shafaeddin *Trade Policy at the Crossroads; the Recent Experience of Developing Countries*, Palgrave, Macmillan, 2005, chapter 8, for details.

[8] Reinert, F. S. (2000), *The Other Cannon: The Other Cannon and the History of Economic Policy*, Norsk Investor Forum and SVN (Oslo, University of Oslo, Centre for Development and Environment):18–19)

[9] For details see Shafaeddin, *Trade Policy at the Crossroads; op.cit.*

USA official "… [President] Regan himself, despite his devotion to open market in general and free trade in particular, 'granted more import relief to US industry than any of his predecessors in more than a century[10]".

Finally, the TRIPs, TRIMs, GATS and ASCM (the Agreement on Subsidy and Countervailing Measures) severely limit the policy space of developing countries.[11] Summarizing, the impact of the first three agreements, Wade concludes that: "With a touch of hyperbole the agreements could be called a slow-motion Great Train Robbery"[12] Wade (2005) (Ibid: 89).

In nutshell, while developed countries preach developing countries to liberalize, they have tried to avoid it themselves in many cases. The Nobel Prize winner, Professor Stiglitz, once said: "I found myself in uncomfortable position of an American saying "do as we say, not as we do". This is the main source of the "angst" behind WTO rules, negotiations and practices of developed countries. The case of NAMA is a clear reflection of such "angst".

II. Doha Round Objectives and NAMA

The development orientation of the Doha Round (henceforth DR) is undeniable if one bases his judgment on the stated objectives of the Round as contained in the Doha

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[10] Bergsten, C. F. (2001), "Fifty Years of Trade Policy: The Policy Lessons", *Journal of World Trade Law*, 1–13, p.8 based on remarks by Treasury Secretary James A. Baker before a conference sponsored by the Institute for International Economics (14September, 1987).

[11] See Shafaeddin, Is industrial Policy relevant…..*Op.cit.*

[12] Wade, R. (2005), "What Strategies Are Viable for Developing Countries today? The World Trade Organization and Shrinking of Development Space" in Gallagher K.P(ed). (2005), *Putting Development First*, the importance of Policy Space in the WTO and IFIs, (London and New York, ZED Books):80-101, particularly p.89.

Ministerial Declaration and its Work Programme. For example according to paragraph 2 of the Doha Ministerial Declaration, "We seek to place their needs [developing countries needs] and interests at the *heart* [our italics] of the Work Programme adopted in this declaration". Similarly, article 6 of the same declaration emphasizes that: "We strongly reaffirm our commitment to objective of sustainable development, as stated in the preamble to the Marrakesh Agreement". On the particular issue of NAMA paragraphs 16 and 50 clearly refers to a number of principals to be followed during the curse of negotiation to attain a favourable outcome for developing countries. Accordingly, the negotiations shall take fully into account:

- The special needs and interests of developing and least-developed country participants including,
- Less than full reciprocity in tariff reduction commitments in favour of developing countries,
- The principal of special and differential treatment for developing and least developed countries as stated in part IV of the GATT 1994, etc.
- Reduction or elimination of tariff peaks, high tariffs and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries.

Generally speaking, GATT/WTO rules and decisions recognize the need to take into account the special need of individual developing countries and industries, (e.g. Article XXVIIIbis of GATT 1994, para8 of Article XXXVI, part IV, GATT 1994). In the particular case of NAMA, which is of our particular interest here, the July 2004 package also refers to principles of "less than full reciprocity" and "flexibility" in favour of

developing countries (e.g. paragraphs, 3,4 and 8 of Annex B to the text of the July 2004 Package)[13].

In practice, however, the proposals made by developed countries are neither conducive to development nor consistent with those principles. In fact, right after the conclusion of the Doha declaration, developed countries deviated from the objectives of the Doha Round by making proposals which were not in the interests of developing countries. Such proposals, as contained in the Annex B of the July 2004 decision, were pushed through by the chairman of the negotiating group to be sent to the General Council despite the opposition by developing countries. Due to the insistence by developing countries, the contents of Annex B was, in effect, legally nullified by the paragraph 1 of the Annex B which regarded them as issues for further negotiations rather than agreed decisions[14]. Nevertheless, developed countries have continued, more or less, on the basis of their original proposals contained in the remaining articles of Annex B (Articles 2-17), until the collapse of the talks.

During the negotiations, developed countries have been pushing for across-the-board and near universal liberalization of trade in manufactured goods. According, all countries are supposed to apply the same formula to cut average tariffs rates drastically and reduce their dispersion by binding 95 per cent of their individual tariff[15] lines at the same rate at the low levels. For example, the USA proposed cutting tariffs to 8 per cent

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[13] See Khor, M. and Yen, G.C. (2005), "The WTO Negotiation on Non-Agricultural Market Access: A Development Perspective" a paper presented to a Workshop on NAMA organized by TWN, Geneva,9 May 2005 **:**10-12 for details.

[14] See Das, Ibid:29-30.

[15] Five per cent of tariff line can be excepted provided the related imports do not exceed 5 per cent of the total value of member's imports (para 8, annex B of the WTO July Package).

by 2010 and reducing them to zero by 2015. Certain sectors were proposed to be subject to zero tariffs immediately upon the conclusion of the Doha Round. The EU proposed non-linear cuts in tariffs according to the Swiss formula[16] and a low and uniform coefficient of 10 chosen for both developed and developing countries. Their latest proposal following the Hong Kong Meeting is to apply coefficients of 15 for developing and 10 for developed countries, receptively[17].

The NAMA negotiation is the most obvious case of inconsistencies between the agreed text of the Doha "Development" Round and the proposals made by developed countries during the process of negotiations... The magic and complicated Swiss formula has a few main characteristics:

- . the coefficient (e.g. 15), determines the maximum tariff rate possible under the formula irrespective of the country's present tariff rates and level of industrialization,
- the higher the initial tariff rate, the higher the rate of reduction in tariff,
- the lower the coefficient, the higher will be the rate of reduction in tariff,
- for high tariff rates the rate of reduction in tariffs is higher than when a simple linear formula is applied (in which case the same percentage reduction is applied to all tariff lines).

[16] The Swiss formula is: T= (a. t)/ (a+t) and R=t/ (a+t) where T and t and a are the new and initial tariff rates and constant coefficient, respectively, and R is the rate of tariff reduction

[17] It is also proposed that at least 95 per cent of their individual tariff lines be bound.

- the formula will lead to lower rates of percentage reduction than those generated by a tariff-independent linear reduction in a certain range of low tariff rates[18].

Hence, the Swiss formula with a low coefficient fits the interests of the developed countries, while it goes against the developing countries' interests. Initial tariffs for developing countries are much higher than those of developed countries. The former would be subject to significantly greater reduction in their tariff rates in terms of percentage as well as percentage points despite the fact that the principal of less than proportional reciprocity, in favour of developing countries, was agreed also in Hong-Kong. For example, with coefficients of 10 for developed countries, a tariff rate of 5 per cent will be reduced to 3.33 per cent-a reduction of 33 percent, but only 1.67 percentage point. By contrast, a coefficient of 15 per cent for developing countries will reduce a tariff rate of 50 per cent to 11.5 per cent a reduction of 38.5 percentage point and76 per cent.

The application of the proposed coefficients suggested by developed countries will have a significant detrimental long-term effect on industrialization of developing countries, with no negative effects on developed countries. Developed countries are already industrialized; they have the supply capacity to produce capital-intensive, skill-intensive and technology-intensive goods. By giving up some-in fact in this case small - trade barriers on imports in exchange for market access in developing countries, developed countries do not sacrifice their long-run industrial development. Of course, their upgrading of the industrial sector depends on the development of new technology.

[18] For details see Shafaeddin, "Beware of NAMA's Slippery Slope to Industrialization", SUNS, 15 June 2006. available at http://www2.unine.ch/webdav/site/irene/shared/documents/SUNS15-Shafaeddin.pdf

But they have firmly secured protection of their new technologies through the WTO's TRIPS Agreement as mentioned above.

By contrast, the use of tariffs is almost the only remaining trade policy instrument for developing countries. Yet the industrial sector of most developing countries is, unlike that of developed countries, underdeveloped. Thus, they need to apply higher tariffs to some of their industries, particularly new ones. The low and bound tariffs rates being proposed will disarm them of an important policy tool for establishing new industries and upgrading the existing ones. Clearly, by obtaining further market access in developed countries, they will improve the prospects for expanding exports for their existing efficient industries, i.e. industries in which they have static comparative advantages. But binding tariffs at low levels deprives them of the tool of diversification and expansion of supply capacity in new industries in which they may wish to develop dynamic comparative advantage. Therefore, even when market access is provided for such potential products, the prospects for their supply expansion will be absent due to the lack of policy space. In other words, for the sake of better access to markets for their current export products, they sacrifice the ability to establish new industries or diversify their production structure away from primary commodities or upgrade their manufacturing sector into new products. Such a trade-off will result in deepening of their static comparative advantage. Robert Wade correctly argues that "International rules should be judged against how they assist or hinder production diversification[19]", not specialization

[19] R. Wade (2006),"How to Change the WTO and Global Policy on Trade and Investment: Gaining Acceptance of "Open Economy Industrial Policy" by Hoisting Neoliberalism on its Own Petard"; Note for Princeton conference on "Normative and Empirical Evaluation of global Governance", Feb.16-18, Revised 4 March, p.8.

according to static comparative advantage. Otherwise, whatever efficiency is gained due to liberalization will be at the cost of growth and diversification in the long-run. He is also correct to say that WTO rules makes the "creative function" of the markets more difficult by hindering diversification and upgrading of the production structure in developing countries; but encourage industrial upgrading in industrialized countries as they "permit industrial policy activism of the kind needed to nurture 'knowledge-intensive' industries and activities" which prevail in developed countries![20]. The protection of technology intensive industries through TRIPs is a clear example of such encouragement as mentioned earlier.

III. Lessons from History

In fact, the experience of successful industrializers and premature liberalization in colonies and in developing countries, in more recent years, provide us with lessons from history indicating that across-the-board and premature liberalization will lead to de-industrialization[21]. The experience of successful early and late industrializers indicates first of all that with the exception of Hong Kong, no country has managed to industrialize without going through the infant industry protection phase, although across-the-board import substitution and prolonged protection have also led to inefficiency and failure.

Secondly, government intervention, both functional and selective, in the flow of trade and in the economy in general has played a crucial role in the process of

[20] Ibid: 8-9.

[21] See M. Shafaeddin, "*Is Industrial Policy Relevant in the 21st Century*" ; Ibid and "Does Trade Openness Favour or Hinder Industrialization and development" a paper presented to the Technical Group Meeting of Intergovernmental Group of 24 on International Monetary Affairs, Geneva, United nations, 16-17 March 2006,.available at www.g24.org/msha0306.pdf.

industrialization. In all cases, including Great Britain, industrialization began on a selective basis, although to a different degree, and continued in the same manner until the industrial sector was consolidated.

Thirdly, when their industries matured, they began to liberalize selectively and gradually. Therefore, trade liberalization is beneficial after an industry reaches a certain level of maturity provided it is done gradually and selectively. In contrast, premature trade liberalization, whether during the colonial era or in more recent decades, has had disappointing results. For example, when the USA tried to liberalize pre-maturely in 1847-61, the industrial sector suffered and the country had to revert to protectionism against imports from Great Britain.

Fourthly, government intervention was not confined to trade; the state intervened through other means, directly and indirectly, in particular to promote investment and to develop the necessary institutions and infrastructure. Industrialization was also supported by attention to and growth in agricultural production. Hence, the issue is not the lack of intervention, but the nature and the efficiency of intervention.

Fifthly, while different countries did not follow exactly the same path, all learned from the experience of others; the USA learned from Great Britain, Germany from the USA, Japan from Germany and the Republic of Korea from Japan, etc.

Sixthly, all main early industrializers tried to open the markets in other countries when their industrial sector matured. In the 19th century, free trade policy was forced on the colonies and the 5 per cent rule (according to which 5 per cent was the maximum

tariff rate allowed on any import item) was imposed on semi-colonies and independent countries through "unequal" bilateral treaties and/or through force (for example, in China, after the opium war of 1839-42).

Further, the policy space of the colonies, in the 19th century, was further limited by England by outlawing high value-added manufacturing activities in the colonies and banning the export of competing items from colonies to England[22]. Instead, production of primary products was instituted and promoted. The outcome of the imposition of premature trade liberalization on the colonies was devastation and led to de-industrialization. For example over 90 per cent of textiles industries of India were destroyed as a result of liberalization by the colonial power.

During recent decades, developing countries have been pushed through multilateral organizations and bilateral trade agreements to open their markets. In addition, tariff peaks and escalation and arbitrary anti-dumping measures have been among the means of restricting imports of high-value added products from developing countries. The results of a study, by the author, of about 50 developing countries which have undertaken trade liberalization during the 1990s indicates that with the exception of East Asia, their trade liberalization has had three main characteristics which are common with the proposals of developed countries in NAMA negotiations:

- Uniformity: i.e. a tendency toward uniform tariff rates for various industries in each country;

[22] Chang, Ha-Joon (2005.b) *Why Developing Countries Need Tariffs; How WTO NAMA Negotiation could Deny Developing Countries' Right to Future*, South Centre, Geneva.

- Universality, i.e. application of the same recipe to all countries irrespective of their level of industrialization and development;

- Premature and rapid liberalization.

The results of this kind of liberalization have been disappointing for most of the countries other than those in East Asia. Firstly, only 20 countries, or 40% of the sample, have shown high (more than 10% a year) rate of growth of exports of manufactured goods. And of these, only in about 10 countries (mostly in East Asia) were high growth rates of exports accompanied with increasing or high growth rates of Manufacturing Value Added (MVA). MVA is a more important indicator of performance than export, as it measures the net output or income accruing to the country, whereas a rise in exports could also be accompanied by a corresponding or even higher rise in imports (including of inputs that are used in the production of exports).

Secondly, and more importantly, in fact, in half of the sample countries de-industrialization took place over 1980-2000. The premature fall in MVA/GDP ratio is taken as an indicator of de-industrialization. This ratio declined without recovering to the initial level. In many countries industrial employment also suffered severely.

Thirdly, when exports expanded, this growth was mainly in resource-based industry and some assembly operation without much upgrading, except for industries which were dynamic during the import-substitution era and were near the stage of maturity, or which continued to benefit from some sort of support from the government. The aerospace

industry of Brazil is a good example of an industry which was near the stage of maturity and benefited from liberalization.

Fourthly, even though the relative incentives changed in favour of exports, the manufacturing industry suffered from low investment despite a significant increase in foreign direct investment in some cases (for example, Brazil). Investment in manufacturing suffered because the balance of risk and return turned against the manufacturing sector[23].

The above survey results add to the conclusion that low and uniform bound tariff rates, particularly if it tends to zero in the next round, would imply the end of industrialization of many developing countries; and it would prevents the upgrading of the industrial structure of others.

If so, developing countries have not lost anything by the collapse of the talks. Further, they will not lose anything if the talks are not resumed, if its resumption is to lead to the acceptance of the proposal made by developed countries on NAMA. These proposals, if agreed upon, would lock the structure of production and exports of the majority of developing countries into primary commodities, simple resource-based and labour intensive products and at most assembly operations. The developed countries proposals on services and agriculture are not much different as far as development of developing countries is concerned.

One should not confuse ends and means. An agreement, should serve the purpose of development, it should not be concluded simply for the sake of having an agreement;

[23] For details see Shafaeddin, "Does Trade Openness Favour …", Ibid.

development should not be sacrificed for reaching an agreement. The failure to reach a bad or damaging agreement will in fact be a success for development. However, developing countries should not accept being bullied to unequal bi-lateral free trade agreements either.

In developing countries, different industries require different rates of protection and different lengths of time for their development. This is because there are differences in risks and scales of production involved in different industries which also need different length of time and experience for their technological upgrading. Another problem is that uniform tariff rates provide different effective rates of protection for various industries, depending on their import intensity. For given uniform rates for output and inputs, the higher the import intensity, the lower the effective rate of protection. As a result uniform rates involve biases against new industries as new industries usually have high import intensity. This explains why assembly operations do not easily lead to increases in value added.

IV. Concluding Remarks

The Doha Round was supposed to be a Development Round, but in practice, it was turned into "market access" round by developed countries in their own favour. Developed countries were pushing developing countries to cut tariffs on their industrial and agricultural goods, and services substantially and reduce restrictions on activities of multinationals in exchange mainly for a slight cut in their tariffs on industrial goods and in their domestic supports for agriculture. Therefore, while developed countries would gain significant market access in developing countries particularly for manufactured

goods, developing countries would lose their policy space to develop their industry in accordance with the principal of "dynamic comparative advantage". Of course, they would gain some market access for products for which they have static comparative advantage. But it would be at the cost of their diversification and development in the long-run. This is the gist of the problem which is also related to the philosophy behind GATT/WTO rules based on the Neo-classical static comparative cost advantage theory.

As long as the philosophy behind GATT/WTO is not changed and the related contradiction are not dealt with "do not hold out hopes for the Doha Round" or fair treatment of developing countries in the future. What is needed first of all is that before conducting trade negotiation, developing countries should have a clear concept of their industrial development strategy and trade policy. This is a necessary condition. However, it should be emphasized that any intervention might not serve the purpose of diversification and upgrading. For this purpose the decision making capacity of the government should improve to enhance the efficiency of its policy making mechanism. While a country may learn from the experience of others, it can not copy them; each country has its own characteristics which may be different from others to some extent.

The sufficient condition is that the rules of the World Trading System should be changed in a way that would allow a **dynamic** and **flexible** trade policy with dimensions of space and time according to which the trade rules would[24]:

[24] For details see Shafaeddin, M. "Towards an Alternative Perspective on Trade and Industrial Policies", *Development and Change,* (2005) *36.6:1143*-1162 and Wade (2006)10-13.

- Accommodate countries with different levels of industrialization and development at each point in time, therefore allowing "Special and Differential Treatment" as a rule not as an exception;

- Therefore, the concept of "less than full reciprocity" should be taken more seriously as countries are at different levels of development and have different needs;

- Allow change of trade policy in each country as the country develops; hence a country should be allowed the necessary policy space for both selective infant industry protection and gradual and selective liberalization, when an industry reaches near maturity;

- For liberalization of the tariff structure, flexibility would dictate that only average tariffs (which may be even higher than the current average rate) are bound with significant dispersion;

- Permit the use of export performance requirements by developing countries in TRIMS;

- Let easier transfer of technology to developing countries by changing TRIPS Agreement and revising Subsidy and Countervailing Measures Agreement and GATS to provide more policy space for developing countries.

Of course, such a re-conceptualization of the trading system will not take place over night, but it eventually need to happen[25]. The problem, according to C. Barshefsky, the former US trade representative, at the moment is that "the developing world is not hearing what we are saying and we're not hearing what developing world is saying. We are passing [each other] like ships in the night". Yet developing countries are often blamed for the lack of progress in the trade talks. There is no need to put first priority on concluding the negotiations simply to avoid blame for the "failure", if the results of the negotiations are a recipe for their countries' de-industrialization. But the failure of talks should not lead to the acceptance of unfavourable bilateral agreements, which are often more stringent than multilateral agreements.

[25] See Helleiner, G. K. "Markets, Politics and globalization: Can the Global Economy be Civilized?", 10th Raul Prebisch Lecture, Geneva, UNCTAD, 2005