

## **Pakistan's leadership role at the Hong Kong Ministerial**

(Source: Website of Pakistan's Mission to the WTO – [www.wto-pakistan.org](http://www.wto-pakistan.org))

Almost the entire international trade of Pakistan is conducted on multilateral basis rather than under any Free Trade Agreement (FTA) or other preferential basis such as those available to the Least Developed Countries (LDCs). Therefore, the current Round of trade negotiations known as the Doha Development Agenda is crucial for us. Not only it would substantially reduce or eliminate discriminatory practices but would also create new market access opportunities. At present our exporters have to pay an average of over 10% duty on exports to the United States and Europe whereas most of our competitors enjoy preferential rates either because they have FTAs with those economies or because they have LDC status. Also our farmers suffer because of huge amount of subsidies paid to farmers in rich countries. Moreover, our skilled and semi-skilled people find it hard to move to other countries where they may be in demand because of labour shortages in those countries because of various kinds of restrictions.

It is for these reasons that Pakistan is keen that the Doha Round be completed in 2006. We have taken a leadership role to move the process forward. For the first time at a Ministerial Conference during the 55 years of GATT/WTO negotiations, Pakistan was designated as a 'facilitator' for negotiations on industrial goods. Scores of trade ministers from around the world met our Commerce Minister to explain their view point. Pakistan's written proposal on NAMA was one of the key proposals for discussions on NAMA.

The WTO Ministerial Conference held at Hong Kong from 13-18 December 2005 represented an important milestone towards completing the DDA negotiations. Commerce and Trade Minister from 150 WTO Member countries used this occasion to narrow their differences in key areas of negotiations. Mostly they concentrated on issues such as agriculture, industrial goods and development issues (duty and quota free access for LDCs). It was because of the crucial importance of this Conference that over 6000 delegates from 150 WTO members participated in this Conference. Pakistan's delegation represented technical negotiators, legislators, businessmen, press reporters and representatives of Civil Society.

### **Agriculture**

Although agriculture accounts for 3 % for global output and 10% of global trade, this was one of the most contentious issue. The reason being that developed countries have been following very distortionary practices and agriculture was excluded from any negotiations during the GATT era. In the Uruguay Round also there were no serious attempts to correct this imbalance. In case of Pakistan, agriculture provides for 25% of GDP and more than 50% of employment, consequently any decision in this area would have significant impact on our overall growth rate and incomes of our farmers. Therefore, we took keen interest in negotiations on this issue. It was for this purpose that Pakistan has held a G-20 Ministerial Conference at Bhurban in September 2005.

It was felt that one of the deliverables for the agriculture negotiations could be determining an end date for elimination of export subsidies. Although G20 and Cairns Group where Pakistan is a Member insisted for 2010 to be an end date but after intensive discussions and when it became apparent that the EU would not accept such an outcome, it was agreed that all export subsidies will be eliminated by 2013. However, it would be ensured that a substantial amount of those subsidies would be eliminated during the first half of the implementation period of the Doha Round i.e., during the next 3 to 4 years. It was also agreed that other related distortions in developed countries such as subsidized export credits, insurance programmes, State Trading Enterprises, etc. would also be brought under strict disciplines.

In case of cotton it was agreed that all forms of export subsidies would be eliminated in 2006.

In other areas of agriculture negotiations, progress was not significant but nevertheless there was some forward movement. In case of domestic support, a basic structure of reduction formula was agreed. Under this formula, there will be three bands for reduction. The EU with the highest level of

domestic support will cut the most while the US and Japan will fall in the second band and would be required to cut less than EU but more than any other country. Developing countries such as Pakistan that have no or little trade distorting programmes would be exempt from reduction commitments.

In case of agriculture market access, progress has been very disappointing. According to a study by the World Bank more than 90% of gains would come from this pillar of reforms. The EU refused to improve on its earlier offer of making average cuts of 46% and also sought other flexibilities and therefore no meaningful discussions were held on this pillar. There was some progress regarding the basic structure of a formula for tariff cuts. It was agreed that there would be four bands and higher tariffs would be cut by a higher percentage. Also as a special and differential treatment for developing countries, it was agreed that they could designate special products and also resort to special safeguard mechanism. This means that for certain products they could make less cuts and also in case there is any surge in import levels in their countries, they can apply certain restrictions.

### **Industrial Goods**

The most important issue in the DDA from Pakistan's point of view is that relating to non agriculture market access (NAMA). Pakistan's objective for NAMA negotiations was that there would be an ambitious formula which should reduce tariff peaks and tariff escalations on products of our export interest. At the same time we were seeking a formula that should provide adequate special and differential treatment for developing countries so that we are able to maintain adequate tariff level for protecting our industries and for revenue purposes.

The Ministerial Conference agreed to adopt a so called Swiss formula. In this kind of formula, tariff cuts depend on the coefficients applied. If the coefficient is small there is a large tariff cut but if the coefficient is large then there is low reduction. Although there has been no agreement as to what the coefficient should be, it was agreed that coefficients should be at levels which ensure reduction of tariff peaks, high tariffs and tariff escalations on products of export interest to developing countries. At the same time the coefficient should take into account the special needs and interest of developing countries.

Pakistan's proposal to have two coefficients, one for developed countries which should be 6 and another for developing countries which should be 30, received strong support from all developing countries. If such coefficients are eventually agreed it would mean that tariffs on textile and clothing in the EU and US markets would be cut by more than 50%. In fact, they would be cut to less than 6% as against 12-30% prevailing at present. This would considerably reduce discriminatory tariffs which our exporters face vis-à-vis our competitors many of which enjoy duty free access because of their LDC status or because they have FTA with major trading economies. It was also agreed that flexibilities should be an essential part of negotiations for any final outcome.

### **Development Issues**

One of the principles agreed at the 2001 WTO Doha Ministerial Declaration was to provide duty free quota free market access for products originating from least developed countries (LDCs). At Hong Kong, LDCs insisted that there should be an early harvest and that all developed countries and advanced developing countries should immediately allow duty free and quota free access for all products originated from all LDCs.

Since the EU and a number of other developed countries (except US which provide such access to some LDCs only) already provide duty free access under schemes such as 'Everything But Arms' (EBA), they also put pressure on the US to provide immediate duty free access. Through this tactics, the EU was trying to deflect pressure on them to provide greater market access on agricultural goods. If the tactics had succeeded, this would have meant duty free exports of textile and clothing to the US market from all LDCs including those which are efficient producers.

This would have resulted in serious erosion of our market share in the US. We therefore insisted that such concessions should take into account the impact on other developing countries at similar level of development. The US also showed reluctance to grant duty free access on textile and

clothing to LDCs which have an efficient T&C industry. Eventually it was agreed that all developed countries would provide duty free access for 97% of products originating from LDCs. Accordingly 3% tariff lines which are likely to cover sensitive sectors such as textile and clothing would not be exempt from duty at present. Thus countries such as Pakistan would continue to enjoy level playing field vis-à-vis our competitors.

In this connection, Pakistan proposal was supported by Kenya and Sri Lanka which expected similar problems of market loss if duty free treatment was extended to LDCs. All these countries argued that they were not opposed to giving duty free access provided it did not impact their market share.

### **Other Issues**

There was some progress in other areas of DDA although the progress was very limited. In areas such as Services, Rules, TRIPS, Trade, Debt and Finance, Trade and Transfer of Technology etc., the Ministers only took note of the reports transmitted by the General Council and endorsed the work programme. In case of Trade Facilitation, there was noticeable progress as Ministers approved the elements which could be a part of any subsequent agreement.

In case of Aid for Trade, Ministerial Conference welcomed various initiatives for expanding Aid for Trade. In this connection, the World Bank and IMF jointly organized a discussion forum on 13 December 2005 where trade Ministers from major economies such as US and EU and also senior representatives from Donor Agencies such as the World Bank and IMF were represented. Pakistan's Minister for Commerce Mr. Humayun Akhtar Khan was also one of the panellists. Mr. Humayun Akhtar argued that Aid for Trade should be given to those countries which would be most affected after implementation of the DDA. These includes countries enjoying trade preferences, net food importing countries, low income countries which are higher depended on customs duties as a source of revenue and other low income countries which need to diversify their exports. Mr. Humayun Akhtar suggested that a separate fund be set up for this purpose. A copy of his speaking points is attached as Annex-A.

At the plenary session of the Ministerial Conference, Mr. Humayun Akhtar asked his fellow trade Ministers to do a so called SWOT analysis of negotiations which would imply reflecting on strength and weaknesses and opportunities as well as threats to progress made so far. He felt that major threat was that if due care is not exercised; DDA may end up agreeing to a least common denominator result. He said that such a result would not remove existing discriminations against developing countries and would not result in any development for a vast majority of developing countries. A copy of his speech is placed as Annex B.

Over all, although the Conference did not achieve its full objectives, it was a successful event from our angle. Not only we had a leadership role in important areas of negotiations such as NAMA, we had considerable influence on the whole process. Pakistan's Minister chaired the OIC Members conference and was invited to all other parallel events. We were also represented in all Green Room meetings (called Chair's Consultative Group meetings). It is expected that with the progress made, WTO members may be able to move the work at a much faster pace and achieve full modalities by April 2006 so that the Round could be completed by the end of 2006.