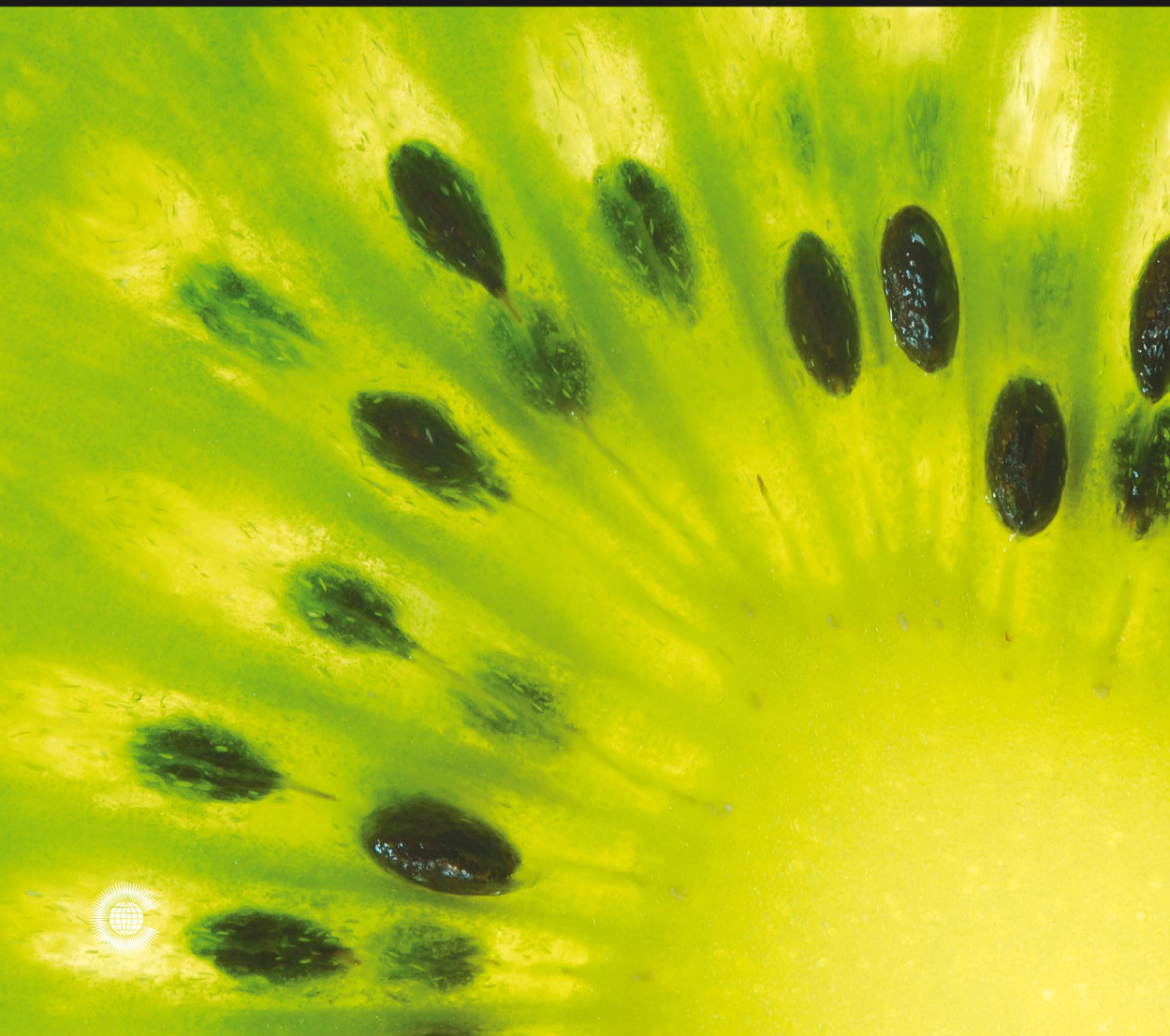
Policy Responses to Trade Preference Erosion

Options for Developing Countries

Chris Milner, Oliver Morrissey and Evious Zgovu



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COMMONWEALTH SECRETARIAT

Commonwealth Secretariat
Marlborough House, Pall Mall
London SW1Y 5HX
United Kingdom

Published by the Commonwealth Secretariat

Edited by Wayzgoose
Cover design by Tattersall Hammarling & Silk
Index by Indexing Specialists (UK) Ltd
Printed by Hobbs the Printers Ltd, Totton, Hampshire

The authors acknowledge helpful comments from the Commonwealth Secretariat and participants in a presentation on 18 May 2009, in particular from Sheila Page, but the views expressed are the responsibility of the authors and should in no way be attributed to the institutions to which they are affiliated or to the Commonwealth Secretariat.

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Copies of this publication may be obtained from

Publications Section
Commonwealth Secretariat
Marlborough House, Pall Mall
London SW1Y 5HX
United Kingdom
Tel: +44 (0)20 7747 6534
Fax: +44 (0)20 7839 9081
Email: publications@commonwealth.int
Web: www.thecommonwealth.org/publications

A catalogue record for this publication is available from the British Library.

ISBN (paperback): 978-1-84929-009-8
ISBN (e-book): 978-1-84859-056-4

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Foreword

This publication explores trade preferences, their erosion and the ability of recipient countries to benefit from them. Trade preferences have constituted a long-standing and potentially powerful mechanism to assist developing countries to access industrialised country markets, offering recipient countries the prospect of a discernible trading advantage over competitors when exporting to preference-granting countries; in doing so, they open up opportunities for substantial export growth and associated improvement in recipient countries' development prospects. In consequence, a range of developing countries currently enjoy preferential access to developed country markets for their exports under a variety of trade preference schemes, including the Generalised System of Preferences, the African Growth and Opportunity Act; the European Union's Everything But Arms arrangement and the Cotonou Agreement.

Yet in recent years, and for several reasons, the promise offered by trade preferences has been blunted. First, it is often argued that trade preferences have yielded few of the anticipated benefits of improved exports and other associated development gains. Second, multilateral tariff reductions, including those anticipated under Doha and other trade negotiations, have eroded preferences, raising concerns, particularly among preference-dependant countries, and precipitating efforts both to stem the pace of preference erosion and to offset the effects of erosion. Consequently, in trade negotiations at various levels, preference-beneficiary countries have consistently expressed the need to preserve and protect these preferential market access schemes, while at the same time seeking to strengthen the effectiveness of remaining preferences. The challenges for developing countries that rely on preferential trade and preferences are severe. Recent studies have shown that as preferences continue to be eroded, some preference-dependent countries will suffer significant losses unless they are able to lower their production costs and/or diversify their export products and markets; and unless they are able to address the supply-side impediments to reducing the cost of trading, at the same time as expanding the volume and improving the quality of their exports. Addressing supply-side constraints and strengthening the institutions necessary to comply with rules of origin and other market-entry requirements have been identified as particularly important methods of enhancing the benefits of trade preferences in recipient countries.

The escalating challenges posed by preference erosion prompted the commissioning of this study by the Commonwealth Secretariat. It considers the characteristics and features of various preferential schemes, including their extent and coverage, and their benefits to developing countries in aggregate and among specific groups; it offers a detailed treatment of the costs of preference erosion and the associated implications for current trade negotiations. The study concludes with an insightful examination both of the actions that can be taken by preference-giving countries and the range of policy

measures which preference-receiving countries can consider to ameliorate the impact of preference erosion.

This is a detailed study, presenting key policy issues in a manner which is accessible and easily understood by policy-makers and other stakeholders, and advancing knowledge of the key factors constraining the recipient countries' ability to benefit from trade preferences. The publication is timely, given ongoing multilateral and other trade negotiations in which trade preferences and the challenges posed by their continued erosion are a major component. Aside from its valuable level of detail, the study also offers practical and achievable policy actions to reduce the impact of preference erosion. Among the policy measures and strategies suggested, that are all aimed at supporting recipient countries in their efforts to improve the beneficial outcomes of trade preferences, are the need for co-ordination and external funding, including through aid for trade, and policy measures for beneficiary countries to support their producers and encourage the diversification of their exports.

The study builds on existing analytical work on trade preferences and will contribute substantially to the understanding of the critical importance of trade preferences to many beneficiary countries.

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Abbreviations

ACP	African, Caribbean and Pacific countries
AFT	Aid for trade
AGOA	African Growth and Opportunity Act
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ATC	Agreement on Textiles and Clothing
ATPA	Andean Trade Preference Act
CACM	Central American Common Market
CAP	Common Agricultural Policy
CARIBCAN	Caribbean-Canada Trade Agreement
CARICOM	Caribbean Community and Common Market
CARIFORUM	Caribbean Forum of African, Caribbean and Pacific States
CBERA	Caribbean Basin Economic Recovery Act
CBTPA	Caribbean Basin Trade Partnership Act
CEEC	Central and Eastern European countries
CGE	Computable general equilibrium
CMEA	Council of Mutual Economic Assistance
CUSTA	Canada/United States Trade Agreement
DRC	Democratic Republic of Congo
DTIS	Diagnostic Trade Integration Study
EBA	Everything But Arms
EC	European Community
EEC	European Economic Community
EFTA	European Free Trade Association
EIF	Enhanced Integrated Framework
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
EU	European Union
FDI	Foreign direct investment
FIC	Forum island country
FTAA	Free Trade Area for the Americas
G-90	Group of 90 developing and least developed countries that are part of the World Trade Organization
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNP	Gross national product
GPT	General Preferential Tariff
GSP	Generalised System of Preferences
GTAP	Global Trade Analysis Project

IF	Integrated Framework (for trade-related assistance to LDCs)
IMF	International Monetary Fund
ITC	International Trade Centre
LDC	Least developed country
LDCT	Least developed country tariff
MED	Mediterranean
MERCOSUR	Southern Common Market (Mercado Común del Sur)
MFA	Multi-Fibre Agreement
MFN	Most favoured nation
NAFTA	North American Free Trade Agreement
NAMA	Non-agricultural market access
NTB	Non-tariff barrier
OECD	Organisation for Economic Co-operation and Development
PTA	Preferential trade arrangement/agreement
QUAD	The four main trade preference providers (USA, European Union, Japan and Canada)
QUAD+	The QUAD countries plus Australia
RTA	Regional Trade Agreement
SAA	Stabilisation and Association Agreement
SAARC	South Asian Association for Regional Cooperation
SPS	Sanitary and phyto-sanitary
SRSC	Special Rates for Specific Economies
SSA	Sub-Saharan Africa
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
US$	United States dollar
USA	United States of America
WTO	World Trade Organization

Summary

Context and aims

- It is widely accepted that trade preferences have not yielded the benefits (in terms of scale or country coverage) that were expected when schemes were introduced.
- Preferential trade and preferences are important for some developing countries and products, and very important for a restricted set of countries and products.
- Countries that will be affected by preference erosion brought about by further multilateral tariff liberalisation, as well as countries with a limited window to gain any further benefits from preferences, are concerned to know how to offset the effects of preference erosion and/or increase the effectiveness of preferences.
- The central aims of this study are to investigate the likely impact of further preference erosion on the exports of countries that are dependent on preferences, and to evaluate the policies and measures that can be adopted to increase the effectiveness of preferences and offset the adverse effects of preference erosion.

Nature and evolution of preferential schemes

- The main trade preference providers are the QUAD countries (EU, USA, Japan and Canada), but preferences are also offered by a range of other countries.
- The preferences offered by the EU and USA are under various schemes that differ in terms of their product coverage, margin of preference, quantity restrictions, rules of origin and treatment of developing and least developed countries (LDCs).

Extent and trade coverage of preferential schemes

- The non-reciprocal preferences offered by the major industrial countries to developing country exports cover a substantial proportion of developing countries' trade. However, the provisions are complex, because of the variety of schemes, different product and country coverage, differential rules of origin and safeguard provisions.
- Many of the restrictions on eligibility for preferential treatment apply in product areas of particular interest to developing countries, that is, agricultural products, textiles and other labour-intensive manufactures. However, restrictions also apply in relation to specific sensitive products.

- The Generalised System of Preferences (GSP) schemes of the QUAD countries account for the bulk of preferential trade; the EU is the largest preferential export market and the bulk of preferential trade is in non-agricultural products.
- Given the restrictions on eligibility, other constraints and wide variability in peak tariffs across products and variations in export composition across countries, there are marked variations in the extent and value of preferential trade across recipient countries and products.

Extent of preference margins

- Unadjusted preference margins are already relatively small on average, ranging from 0.7 per cent for developing countries to 6.4 per cent for LDCs on non-agricultural products and from 1.3 per cent to 2.5 per cent on agricultural products, but they can be much larger for specific products. The significance of preference margins for beneficiary countries is affected by the level of preference utilisation and the degree of competition from non-beneficiary countries.
- Some of the recipient countries recording the highest preference margins are among the countries with the lowest preference utilisation rates.
- The implicit rents generated by preferences (preference margins x the value of preference-receiving exports) vary enormously across developing and least developed countries. For example, five LDCs and five non-LDCs account for 75 per cent of the total preference rents going to LDCs and non-LDCs from the EU preferences.

Benefits of trade preferences

- General preferences, as included within preferential trade agreements (PTAs) or the GSP, have limited effects in increasing developing country (and LDC) exports.
- Targeted preference schemes are more effective in increasing developing country (and LDC) exports; there is evidence of positive trade effects from the Lomé Convention, African Growth and Opportunity Act (AGOA) and EU-Mediterranean agreements.
- The benefits of EU trade preferences to the African, Caribbean and Pacific (ACP) group of countries have tended to be concentrated on a few beneficiaries, notably those producing sugar and bananas.
- AGOA has had a significant impact, although the volume of exports generated has tended to be quite small and concentrated in a few countries (notably South Africa, Lesotho, Madagascar, Mauritius and Kenya) and products (especially coffee, tea, maté, spices and knit apparel). Overall, US imports under AGOA more than doubled in the first six years of the scheme (up to 2007), albeit from a relatively low base.

Costs of preference erosion

- The costs of preference erosion associated with the general tariff reductions proposed under the Doha Round of the World Trade Organization (WTO) will be concentrated on a relatively small number of developing countries and LDCs. The developing countries that have experienced or are facing high losses are typically island economies, most of them in the Caribbean and Pacific, especially those dependent on sugar or banana exports to the EU, or countries in north Africa, also with preferential access to the EU, for apparel and agricultural products. The LDCs facing the highest losses are mostly African countries that benefit from the Lomé Convention or Asian exporters of textiles and apparel.
- The most vulnerable countries are those that export a narrow range of products with high preference margins, primarily given by the EU. Some of these have already experienced a loss of preference margins (e.g. ACP exporters of sugar and bananas to the EU). Although other countries face preference erosion, they have more diversified export structures and are more competitive producers.

Implications of evidence on costs and benefits

- The benefits of preferences to developing countries and LDCs are susceptible to changes in the terms on which they are offered, in particular rules of origin and product standards requirements. These requirements limit the utilisation and benefits of preferences.
- Complex (ill-defined and/or costly to comply with) rules of origin are one reason why preferences have not been fully utilised. This is especially true for the EU, where restrictive rules of origin have limited the growth of ACP exports, especially for garments. AGOA has generated benefits for African exporters to the USA, partly because of fairly lax rules of origin (although these have been tightened for apparel).

Implications of current trade negotiations

- Cuts in most favoured nation (MFN) bound tariffs in agricultural and non-agricultural goods, following a Doha Round agreement and its implementation, will lead to preference erosion.
- Substantial costs associated with this erosion of preferences are likely to be restricted to a relatively small number of developing countries and LDCs: specific island economies that benefited from ACP provisions; specific African countries that benefited from both ACP provisions and AGOA; and specific Asian countries with preference benefits concentrated on apparel. Indeed, for some, especially relatively competitive exporters among the preference-receiving countries, there are likely to be offsetting (even net beneficial) impacts arising from improved multilateral market access.

- It would be possible to slow down the rate of preference erosion associated with MFN liberalisation by affording preference-giving countries some flexibility to shield specific products from the normal cut and phasing rules. This would of course be an unpopular measure among non-preference-receiving developing countries.
- The impacts of other regional and preferential trade policy developments on preferences and the benefits of preferences are ambiguous. Some concerns have been expressed about reduced preferences and tightening of rules of origin under AGOA, but the rules of origin under Economic Partnership Agreements (EPAs) may be relaxed relative to those previously affecting ACP exports to the EU.

Improving preference schemes

- The impact of preference erosion can be ameliorated by actions by the preference-giving countries to improve the design of their preference schemes, specifically:
  - Relaxed rules of origin requirements with value addition set in line with technological realities and development needs, and with greater scope for regional cumulation;
  - Combined with reduced tariff escalation, this would support the development of further export potential in new product areas;
  - Lower non-tariff barriers (NTBs) to the market access of preference-receiving (and other) exports by developing countries and LDCs;
  - Reduction of tariff peaks on products excluded from preference schemes and/or the extension of product coverage of schemes;
  - Greater incentives to utilise (and invest in the utilisation) of preferences by the relaxation of safeguard and graduation provisions, and by deterring the capture of preference rents by states other than the preference-receiving countries.

Policy improvements in the preference-receiving countries

- The preference-receiving countries need to create favourable business and investment environments. This includes regulatory reform and institutional strengthening to:
  - Reduce transactions costs and encourage production and investment;
  - Make it quicker and easier to establish a business or make new investments;
  - Give improved access to finance and financial services;
  - Make property rights more secure and the enforcement of contracts more effective.

Trade policy negotiating strategies

- Developing countries can negotiate as part of multilateral trade negotiations to increase the value of preferences. The lowering of MFN tariffs by the preference-giving countries could be smaller and/or more gradual in the case of products of particular importance to the preference-receiving countries (subject to the specific interests of non-preference-receiving developing countries).
- The product coverage of preference schemes could also be targeted in bilateral trade negotiations. Reducing the number of products excluded from schemes would provide opportunities for additional preferential trade, as long as MFN tariffs were positive.
- The utilisation and effectiveness of preferential schemes could be improved by relaxing the 'terms of access' for preferential exporters. Negotiations should therefore focus on reducing the complexity and increasing the transparency and predictability of rules of origin. They should also focus on reducing unnecessary barriers associated with product standards and other NTBs.

Trade facilitation and investment strategies

- The utilisation and value of preferences could be increased by supporting export development in the preference-receiving countries. Investment in infrastructure and institutional development and reform (improved customs procedures, port management, export marketing support, etc.) are central to improving trade facilitation programmes in these countries.
- Improving transport and distribution facilities is particularly important for remote and landlocked economies, but reducing trade costs is necessary for all preference-receiving countries.
- Co-ordination of trade facilitation programmes and the associated investment requirements on a regional basis is likely to increase the effectiveness of trade facilitation measures.

Aid for trade and export development

- Aid for trade (AFT) initiatives signal recognition by bilateral donors and multilateral agencies of the need for comprehensive and co-ordinated support for adjustment and export development.
- The preference-receiving countries threatened with the need to adjust in the face of preference erosion need to direct more support to encouraging export diversification. This may require some aspects of AFT support to be available for a wider set of countries and to extend beyond LDCs.

- Increasing the effectiveness of AFT will require additional funding, including core funding for the Integrated Framework (IF). It will also require a strong co-ordination function. Although the WTO is not a development agency, giving it an enhanced co-ordination and technical capacity in this area would support the mainstreaming of trade development support in trade negotiations.

1
Introduction

Increased access to industrial country markets through reduced trade barriers has been and remains a major objective of developing countries and has been included in the Doha Round of WTO negotiations. However, such trade liberalisation is likely to have an uneven impact across developing countries. While most countries recognise the benefits of reducing barriers to trade in general, preference-dependent countries are apprehensive regarding the (potential) impact of recent further tariff reductions by industrial countries – the loses and adjustment costs associated with preference erosion. One of the core issues is that most of the G-90 group of developing countries already enjoy preferential market access for at least some of their exports to developed countries under various preference schemes. These aimed in part to encourage export growth in recipient countries by giving them a trade advantage over their competitors. Trade liberalisation in the form of tariff cuts in developed country markets will erode the value of these trade preferences. Consequently, some preference-dependent countries may suffer losses unless they are able to lower their production costs and/or diversify their exports and markets, and address structural problems reflected in high trade costs and supply-side rigidities.

An assessment of the potential losses associated with current trade negotiations is essential to identify appropriate planning and policy responses. This report provides such an assessment by reviewing the recent literature (in particular in the last five years) on the benefits of preferences and the actual and potential costs of preference erosion. It will be useful where possible to distinguish between cases where preferences have already been eroded, even if the costs have not been specifically calculated, and cases where current negotiations may lead to preference erosion. Examples of the former include apparel, with the change in the multilateral regime from the Multi-Fibre Agreement (MFA) to the Agreement on Textiles and Clothing (ATC), and sugar, where reforms to the EU sugar regime have reduced the prices offered to beneficiaries of the Sugar Protocol. The principal example of the latter is the general tariff reductions being negotiated under the auspices of the WTO.

1.1 Context and issues

Many commentators have argued that trade preferences have not yielded the expected benefits to recipient countries and have questioned the efficacy of using trade preferences to address the problems of developing countries. There is evidence that developed countries' tariff preference programmes yield fewer benefits to recipient countries than expected, and that the gains are limited to relatively few countries and products. It is unclear, however, whether this implies that preferences are poor instruments *per se* or that existing schemes have been badly designed. Low *et al.* (2005) show that the benefits

of tariff liberalisation would outweigh the potential losses for developing countries in general, but that least developed countries would suffer the largest losses due to preference erosion. Karingi *et al.* (2007) show that MFN tariff cuts would lead to welfare, output and trade losses for some sub-Saharan African countries, partly due to preference erosion. Bureau *et al.* (2005) find that preferences granted to poor countries have a disappointing outcome, despite the absence of quota and tariff restrictions, coupled with high import shares of agricultural and food products, in EU and US preference schemes. Nevertheless, countries that are heavily dependent on preferential trade schemes are understandably concerned about preference erosion caused by further trade liberalisation in preference-granting countries.

Although there is a substantial literature on trade preferences, its impact on policy tends to be limited, in part because there are so many studies, typically with different approaches and methods applied to different preference schemes, and also because of their technical nature. The aims of this study are to synthesise the findings of the existing research and present them in a manner that is accessible to policy-makers. The study will focus on the implications of the limited impact of preferences on export performance, and thus the costs of preference erosion, for the policy options and actions required to increase the effectiveness of preferences and/or adjust to their loss.

1.2 Aims of the study

The study reviews the literature analysing the (prospective) impact of preference erosion on the export performance of preference-dependent countries in an attempt to determine the practical policies and other measures that these countries and the international community should take in order to increase the effectiveness of preferences and offset the adverse effects of preference erosion.

Key questions addressed are:

- What has been the impact of non-reciprocal preferential trade arrangements on the trade performance of preference-receiving countries?
- What are the key factors that constrain recipient countries' ability to benefit from trade preferences?
- What measures can be taken to help mitigate the negative impact of these constraints?
- Which countries and products or sectors will be most affected by the erosion of major preferences caused by further trade liberalisation?
- What policy measures are needed at the national and international level to address any potential effects of preference erosion?

1.3 Outline of the report

Chapter 2 reviews the nature and evolution of the various preference schemes offered by developed countries. It provides an overview of how much preferential trade is currently taking place, and how this differs across preference-receiving countries and export products. Information on the coverage of preferential trade is matched to the margin of preferences received and how this has evolved over time.

Chapter 3 reviews studies on the effectiveness of preferences in stimulating export growth, including those granted by preferential trade agreements and under specific preference schemes, and looks at estimates of potential losses caused by preference erosion. It examines both the quantitative and case study evidence in the academic and policy literature. The literature review provides an opportunity to assess the effectiveness of preferential schemes. The chapter also identifies the countries that are most exposed to losses from preference erosion.

Chapter 4 reviews the prospects for preference erosion under multilateral trade negotiations and associated MFN tariff reductions, and the types of policies that would make preference schemes more effective. The implications for preferential margins and trade are discussed, together with options for offsetting preference erosion or enhancing preferential schemes.

Chapter 5 sets out trade negotiating strategy issues for preference-receiving countries and policy recommendations for addressing and adjusting to preference erosion. This provides a basis for the consideration of types of compensation and/or support that the multinational community can provide to support export development in preference-receiving countries.

2

Review of Trade Preference Schemes

The aim of this chapter is to 'set the scene', and explain which preferential trade arrangements are considered, identify the amount and type of developing country trade covered by the relevant preference schemes and establish current preference margins and, by implication, the scope for preference erosion. Section 2.1 briefly reviews the preferential schemes offered by the EU and USA. The trade coverage of these schemes by country and product and associated margins of tariff preference are outlined in Sections 2.2 and 2.3. Section 2.4 summarises the conclusions that can be drawn from the chapter.

Table 2.1 Coverage of preferential schemes of the QUAD+ countries

Market	Preferential scheme
Australia	General System of Preferences (GSP) Least Developed Countries (LDC) Forum Island Countries (FIC) Special Rates for Specific Economies (SRSE)
Canada	General System of Preferences (GSP) Least Developed Countries (LDC) Commonwealth Caribbean Schemes with individual countries
Japan	General System of Preferences (GSP) Least Developed Countries (LDC)
USA	General System of Preferences (GSP) Least Developed Countries (LDC) African Growth and Opportunity Act (AGOA) Caribbean Basin schemes (CBERA, CBTPA) Andean Trade Preference Act (ATPA)
EU	General System of Preferences (GSP) Least Developed Countries (LDC) Everything But Arms (EBA – for LDCs) Preferential tariffs for ACP countries Countries Fighting Drugs Mediterranean countries (EUROMED)

Source: Country chapters in Hoekman *et al.* (2009).

2.1 Nature and evolution of preferential schemes

The main countries that give trade preferences to developing and least developed countries are individual developed countries and groups that include, in descending order of

trade significance, the EU, USA, Japan, Canada and Australia. The first four are known as the QUAD countries and all five are referred to as the QUAD+. Table 2.1 lists the main preferences schemes offered by these countries; all offer GSP and LDC preferences (with some variation in application), while the EU and USA have additional major schemes. A large number of other region-specific schemes are offered by both developed and developing country trade partners of these preference-giving countries. The discussion here concentrates on the EU and USA. (See Appendix A2 for information on other QUAD+ countries.)

European Union

EU preferential arrangements for developing countries have traditionally been of two kinds: a non-reciprocal Generalised System of Preferences, available to all developing countries, and special non-reciprocal preferential schemes for particular country groups (for example the preferences offered to ACP countries under the Cotonou Agreement). The EU's GSP scheme covers all manufactured exports and some agricultural and food exports from developing countries (some receive more favourable treatment under GSP+). Although the coverage of agrifood exports has been gradually extended, all products covered by the EU's Common Agricultural Policy (CAP) regimes are excluded.

LDCs have more favourable GSP preferences than other developing countries. Following the introduction of the Everything But Arms (EBA) initiative in February 2001, all products from countries on the UN list of LDCs now have full duty free access, without quotas, to the EU market. Apart from arms and ammunition, which are permanently excluded, transition periods are in place for three sensitive agricultural products: bananas (now completed), rice and sugar. Rice and sugar will be eligible for unlimited duty free access from July 2009 and September 2009 respectively. Limited tariff free quotas were available for rice and sugar exports from LDCs during the transition periods. The EBA scheme extends duty free access to agricultural products which are otherwise excluded from the GSP.

Under successive Lomé Conventions, the EU offered duty and quota free access to exports from the ACP group in addition to other preferential arrangements (Candau and Jean, 2009). Again, exports covered by the CAP were a major exception, although ACP countries received more preferential treatment in general than other countries for their exports of these products. Four commodity Protocols, in the annex to the Lomé Convention, provided preferential access for set quotas of exports from specific ACP suppliers of bananas, rum, sugar and beef. The Cotonou Agreement extended this special non-reciprocal set of trade preferences until the end of 2007, with the intention that thereafter trade relations with ACP countries would be based on reciprocal agreements called Economic Partnership Agreements.

Although EPAs were planned to come into force on 1 January 2008, in general only framework agreements had been signed by June 2009. More progress has been made in specific cases (e.g. with the Caribbean and Eastern and Southern Africa (ESA) regions),

and agreements with most country groups are expected to be signed by the end of 2009. EPAs will sustain the existing preferences given by the EU to the ACP countries; it is anticipated by the ACP countries that there will be further concessions on access for agricultural goods so as to give all ACP countries (including non-LDCs) access terms equivalent to those given to EBA countries. The preferences provided by the EU under EPAs will be reciprocal: ultimately (after fairly long transition periods), ACP countries will have to liberalise substantially all their imports from the EU, subject to allowances for differential paces of liberalisation and some excluded goods.

USA

In terms of country coverage, the GSP is the largest US preferential scheme, although membership fluctuates due to graduation (where a country's per capita GNP exceeds the threshold set by the World Bank for high-income countries). Although GSP represents unilateral and non-reciprocal granting of preferential treatment, participating countries agree, among other things, to offer reasonable access to US goods and services. GSP offers more extensive duty free treatment for manufactured goods than for agricultural products. Product coverage has varied over time, but it is more restricted than other US preferential programmes. Indeed, a substantial set of sensitive products are excluded from GSP treatment – for example, most textiles, footwear, watches, handbags and luggage, glass, steel and electronic components. Agricultural products subject to tariff quotas (dairy products, sugar, beef, peanuts and tobacco) are ineligible beyond the set quotas. Further, there is a significant safeguard mechanism ('competitive need limits') that restricts eligibility when countries are considered to be competitive in a given product: a ceiling is set for each product and any country that exceeds the ceiling loses its eligibility for GSP for that product from the following year.

Improved market access for LDCs was initiated in 1997 under GSP. In addition to duty free access for existing GSP eligible products, LDCs were granted duty free treatment on more than 1,700 additional tariff lines. However, many horticultural products (particularly fruits, vegetables, citrus fruits and cut flowers) and fibres, remain excluded from the programme.

The African Growth and Opportunity Act was signed into law in May 2000, with the aim of offering 'tangible incentives for African countries to continue their efforts to open their economies and build free markets' (AGOA website). Most sub-Saharan African countries are beneficiaries of the scheme, although there are a few countries that have not requested beneficiary status (e.g. Sudan) and some that have not been granted it (e.g. Zimbabwe). Many sub-Saharan African countries already enjoyed preferential treatment in the US market due to their status as LDCs; however, in the case of some countries (non-LDCs such as South Africa and Ghana) and some important products (e.g. textiles and apparel), tariffs and quotas are much more restrictive under GSP and AGOA offers significant export access advantages. Evidence of the benefits of AGOA is discussed in Chapter 3.

2.2 Extent and trade coverage of preferential schemes

The incidence of preferences can be measured in terms of the number of products (tariff lines) or the share of trade covered. The latter is a more meaningful measure of the true coverage; tariff lines (particularly for agricultural products) of significant export interest to beneficiary countries are either wholly excluded from preferential treatment or are subject to restrictions (see Chapter 4).[1] The QUAD+ imported a total of US$971,145 million from developing and least developed countries under the terms of MFN tariffs and various preferential trading schemes in 2003 (Table 2.2). When considered at the aggregate ('all schemes') level, the EU stands out as the major export destination. The EU accounted for more than half (51 per cent) of total QUAD+ imports from developing and least developed countries in 2003. The USA absorbed almost a quarter (24 per cent) and Japan was the third largest destination with 18 per cent. Canada and Australia accounted for the relatively small proportions of 5 and 2 per cent, respectively.

Table 2.2 Exports under preference schemes by type of export product and preference-giving countries, 2003

Scheme	Exports (US$ m)	Agricultural (% of total)	Non-agricultural (% of total)	Total (%)	(% share) EU	USA	Japan	Canada	Australia
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total values	**971,145.0**	**9**	**91**	**100**	**51**	**24**	**18**	**5**	**2**
GSP	844,767.1	8	92	100	52	21	20	5	*2*
LDC	26,159.1	8	92	100	52	38	6	3	0
ACP	30,621.2	28	72	100	100	–	–	–	–
AGOA	19,062.4	5	95	100	–	100	–	–	–
CBERA	23,523.0	12	88	100	–	100	–	–	–
Andean Act	11,021.2	18	82	100	–	100	–	–	–
Commonwealth Caribbean	557.7	7	93	100	–	–	–	100	–

Source: Calculated by authors using data from Low *et al.* (2005; 2006).
Note: For Australia data are available for non-agricultural imports only. Andean Act refers to Andean Trade Preference and Drug Eradication Act. To the extent that it is included, EBA is under LDCs for the EU.

Table 2.2 also summarises total QUAD+ agricultural and non-agricultural imports from (or exports of) developing and least developed countries under the main eight preferential schemes available in 2003 and terms of market access. At individual scheme level, the GSP is by far the most important, accounting for 87 per cent (US$844,767 million) of total exports of developing and least developed countries. The EU absorbed the bulk of GSP exports, followed by the USA. The ACP scheme provided by the EU to 77 ACP developing and least developed countries is the second most important scheme, with EU imports from eligible ACP countries of US$30,621 million. The LDC scheme provided

by all QUAD+ countries rates third, generating a total of US$26,159 million in exports from LDCs. Again, the EU absorbed more than the USA and the rest of the QUAD+.

The US Caribbean Basin Economic Recovery Act (CBERA) recorded imports to the value of US$23,523 million, compared with imports worth US$19,062 million from African countries under AGOA. It is important to bear in mind that these two schemes have different country and product coverage and the non-tariff terms and conditions of access (e.g. rules of origin requirements) are different. For example, under AGOA dutiable exports were negligible (in relative terms) at 1 per cent of total AGOA exports; under CBERA, on the other hand, more than half (51 per cent) of exports were dutiable (mostly MFN tariffs). Furthermore, all preferential access exports under AGOA were duty free, while only 0.2 per cent of exports under the CBERA were subject to non-zero preferential tariffs.

Preferential tariff levels

It is now commonly acknowledged that successive rounds of multilateral trade agreements have reduced the relative importance of import duties and quota restrictions, while the importance of non-traditional and new generation non-tariff measures has increased. Beneficiary countries fail to take full advantage of the preference schemes due to both their supply-side constraints and conditionality (rules of origin) or documentation barriers to accessing preference schemes (see Chapter 3). Nevertheless, the extent of tariff preferences indicates the value of a scheme. Table 2.3 provides estimates of the average (overall and peak) tariffs prevailing under various schemes in 2003; obviously, actual values will have changed since then, but qualitative inferences remain valid.

In general, the EU has the highest MFN and GSP rates (reflecting high tariffs on some agricultural imports), but it has the lowest tariffs for LDCs and ACP developing countries (AGOA is similar). It is clear that the average tariffs under the various schemes (GSP, LDC, AGOA and others) are well below MFN tariffs and except in the case of Canada the GSP tariffs faced by developing countries are higher than the tariffs faced by least developed countries under the LDC scheme. The gaps are wider between tariffs for tariff peak products applicable to LDCs and those applicable to MFN suppliers under all schemes, implying greater preferential margins (subject to review in the Doha Round).

Table 2.4 shows for each preference-giving country the relative importance of the different conditions of market access facing agricultural and non-agricultural exports of developing and least developed countries to the QUAD+ in 2003. Column (1) shows total exports against the various terms of market access (MFN duty free access, preferential access as a whole, preferential duty free access, and so forth). Columns (2) and (3) show the shares of agricultural and non-agricultural exports under each term of access, and columns (5) to (9) show for each preference-giving country the shares of beneficiary exports subject to the various terms of market access. For example, for the EU, of the total exports by beneficiary countries, 51 per cent entered under MFN duty free terms, 21 per cent received preferential duty free access and 28 per cent were subjected to import duties (specifically, 8 per cent of total exports paid MFN duties and 20 per cent paid preferential duties).

At the 'all schemes' level, an average of about 50 per cent (US$484,921 million) of the exports of developing and least developed countries (column 1) entered the QUAD+ at zero MFN duty rates, while about 30 per cent enjoyed preferential terms (tariffs) of market access (either duty free or non-zero preferential tariffs set below the MFN tariffs). The EU was the major preferential market in terms of both the absolute values (US$200,701 million) and relative terms (about 68 per cent) of total preferential exports.

Table 2.3 Tariff rates under QUAD preferential schemes, 2003

Preferential scheme		Average tariff rate (all HS-6 products)	Average tariff rate (tariff peak products)
EU	GSP	3.6	19.8
	LDC (ACP)[a]	0.8 (0)	~0
	Non-LDC ACP[b]	0.9 (0)	~0
	MFN	7.4	40.3
USA	GSP	2.4	16
	AGOA LDCs	0.0	~0
	Non-AGOA LDCs	1.8	14.4
	MFN	5.0	20.8
Japan	GSP	2.3	22.7
	LDCs	1.7	19.0
	MFN	4.3	27.8
Canada	GSP	4.3	28.2
	LDCs[c]	4.4	22.8
	MFN	8.3	30.5

Note: ~0 indicates approximately zero.
[a]All LDCs should benefit from the zero ACP tariff in the post-EBA regime, assuming unrestricted access at the end of the transitional period.
[b]Estimate in parentheses assumes implementation of EPAs.
[c]Does not reflect the recent Canadian initiative with regard to imports from LDCs.
Source: Annex tables AT4–AT6.

At the 'all schemes' level, duty free status exports (US$178,396 million) accounted for an average of 18 per cent of the total exports to the QUAD+. The EU allowed the largest value of total exports (US$104,432 million) to enter on duty free terms of preferential market access, but when the preferential duty free exports are expressed as a percentage of total exports, the USA recorded a higher share (24 per cent) than the EU (21 per cent). The shares of duty free exports in the other QUAD countries and Australia were low, ranging between 1 per cent (Australia) and 9 per cent (Japan).

The gap between total preferential exports and exports granted preferential duty free status indicates the size of exports subject to non-zero preferential tariffs. At the 'all schemes' level, this gap is noteworthy for all QUAD countries except the USA, where it is zero, implying that all preferential exports access the US market duty free. At individual preference scheme level, the gap is primarily associated with the GSP scheme; for all other schemes (ACP, AGOA and the rest), almost all preferential exports entered duty free. This underscores the widely held view that the GSP is a less attractive prefer-

ential access option, because of the relatively restrictive rules of origin, which require substantial product transformation within the beneficiary country. The GSP also excludes products that are 'sensitive' for the GSP provider, which tend to be of significant export interest to exporting small and least developed countries, e.g. certain agricultural products that are restricted, notably under the US GSP and in some cases under the EU GSP (Grimwade, 2000: 256).

Table 2.4 Exports by terms of market access, type of export products and preference-giving countries, 2003

Terms of access	Exports (US$ m)	Agricultural (% of total)	Non-agricultural (% of total)	Total (%)	(% share) EU	USA	Japan	Canada	Australia
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total values	**971,145.0**	**9**	**91**	**100**	**496,087**	**237,454**	**172,042**	**45,802**	**19,760**
MFN duty free access	484,921.1	8	92	100	51	33	66	58	49
MFN dutiable	192,384.2	12	88	100	8	43	20	15	41
Preferential access	293,839.7	9	91	100	40	24	13	26	9
(Duty free preference)	178,395.7	8	92	100	21	24	9	6	1
(Preferential duties)	115,444.0	11	89	100	20	0	5	20	9

Source: Calculated by authors using data from Table A1 in Low *et al.* (2005; 2006).

Not surprisingly, the GSP is of limited relevance for some regions, including Africa. For example, just 3.2 per cent of Africa's exports to the EU enter under the EU GSP (OECD, 2004: 53). The benefits of the GSP appear to be heavily skewed in favour of only a few countries. Langhammer and Sapir (1987) estimated that three countries (Taiwan, South Korea and Hong Kong) accounted for about two-thirds of the trade effect of the GSP (taking into account imports to all OECD countries) and that 78 per cent of EU GSP imports in 2002 was shared by only ten developing countries.[2]

A successful Doha Round will put downward pressure on MFN duties and subsequently on preference margins. Dutiable exports into the QUAD+ (that is, all tariff line exports minus MFN duty free exports minus duty free preference) accounted for an average of 32 per cent of total exports to the QUAD+. The shares of dutiable exports at 'all schemes' level ranged between 25 per cent (EU) and 50 per cent (Australia); the GSP scheme by all the QUAD+ accounts for the bulk of exports (in absolute terms) subject to duties. Almost all exports under the LDC scheme are not dutiable in all QUAD countries, except the USA. For the USA, relatively large proportions of its imports under the LDC scheme (43 per cent) and CBERA are still subject to duties (Tables AT1 and AT3).

Evolution of preferential trade

Over the years there has been a steady increase, in absolute terms, in the volume of exports receiving preferential terms of market access to the QUAD and other developed countries.[3] This growth may be explained in part at least by the reforms and extensions to existing preferential schemes, for example the extension of the GSP to GSP+ and the introduction of the EU's EBA initiative. Available preference trade data for the period 1994–2001 provide indicative trends in the effectiveness and importance of preferential trading schemes. Table A2.2 shows that between 1994 and 2001 QUAD imports from 49 LDCs (33 of which were African) that received GSP preferences increased from US$999 million to US$4,920 million. The utilisation rate of the GSP by these countries increased on average from 48 per cent in 1994 to 68 per cent in 2001 (due in large part to oil exports to the USA). The sub-optimal GSP utilisation rates are attributable to:

> *… insignificant magnitudes of the potential commercial benefits; the lack of technical knowledge, human resources and institutional capacity to take advantage of preferential agreements, which require in-depth knowledge of national tariff systems in various preference-giving countries, and conditions attached to the realisation of the potential benefits of the preferences. The effective benefits of market access preferences provided by Quad countries are being significantly limited also by their unpredictability and by non-tariff barriers, notably rules of origin and product standards.* (UNCTAD, 2004: 250)

Composition of preferential trade

By scheme design, LDCs have comparatively more duty free tariff lines (e.g. the EU's EBA scheme) than developing countries under the GSP scheme. (Table AT7 confirms the way in which the importance of the various schemes differs between developing and least developed countries.) Developing countries place more importance on MFN duty free access, while LDCs enjoy greater duty free access under the preferential schemes. Consequently, developing countries exported the largest shares (52.1 per cent on average) of their (non-agricultural) products to the QUAD+ under MFN duty free access terms, while LDCs exported the largest shares (61.2 per cent on average) of their (non-agricultural) products on duty free access terms under the preferential schemes. Of course the total value of developing countries' exports to the QUAD+ is more than ten times that of LDCs under preferential terms of market access.

Ten developing countries (see above) dominate exports of agricultural and non-agricultural products to the QUAD+ under the preference schemes. Among LDCs, countries such as Bangladesh, Angola, Cambodia and Democratic Republic of Congo were the leading exporters of non-agricultural products, while Madagascar, Malawi and Uganda were the leading exporters of agricultural products. Some countries are highly dependent on preference schemes for exports to the QUAD+. For seven LDCs,[4] over 90 per cent of their exports entered under preferential access for non-agricultural products (Table AT7) and seven had between 50 and 80 per cent of their agricultural exports

entering under preferential access.[5] In the case of agricultural products, 46 per cent of exports from developing countries and 59 per cent from LDCs entered the QUAD+ subject to zero MFN duties. For 12 LDCs, preference schemes are not important for exports of agricultural products to the QUAD+ (Appendix A2).

Key preferential exports of developing and least developed countries

Developing and least developed countries as a group export a wide variety of agricultural and non-agricultural products that utilise preferences, including meat, fish (fresh, chilled or frozen and crustaceans), preserved fish, vegetables, fruit, cereals, vegetable oil, sugar, prepared fruit and vegetables, wine, tobacco, wood, clothing and textiles, and other products.[6] Exports from the extractive industries, such as precious metals, oil and gas, tend not to be covered by preferences. Appendix A2 lists key African exports to the EU and the QUAD (Tables A2.3, A2.4 and A2.5) in six broad product groups: textiles and clothing; sugar; fresh fruit and vegetables; prepared fruit and vegetables, wine, tobacco and wood; meat; and fish. The EU and USA (under AGOA) offer the greatest preferential access for sub-Saharan African countries on similar (zero) tariff terms (although other requirements such as rules of origin vary). They also offer the greatest preferential rates for clothing from North Africa. Appendix A2 also discusses some features of preference regimes for the most important exports of low-income countries under QUAD schemes – clothing, sugar, fruit and vegetables, meat and fish.

2.3 Preference margins: extent and evolution

Preference margins arise from the differences between MFN tariffs and the preferential tariffs offered by preference-giving countries. The gap between the two sets of tariffs can be adjusted for various factors, such as the level of competition from non-beneficiary exporters faced by a product in the preference-giving countries, the level of preference utilisation or both these factors together. Consequently, the significance of preferences varies for beneficiary countries, and depends not only on the value of the preferences, but also on the extent to which they are utilised, the level of competition posed by price competitive non-beneficiary exporters and other considerations such as the level of market diversification. Table 2.5 illustrates the value of preferences for a typical beneficiary country, using average MFN and preferential tariffs of products imported by QUAD+ countries. The first three columns report the shares of exports entering the QUAD+ under different market access terms for both agricultural and non-agricultural products. Preferential schemes are more important than MFN duty free terms for LDCs (they export 61.2 per cent of their non-agricultural exports under the schemes), but are less important for developing countries, which are subject to relatively higher tariffs.

The shares of exports entering the QUAD+ are the most relevant for the analysis of the value of preferences; the greater the shares of products traded on preferential terms, the more vulnerable the preference beneficiary when MFN tariffs move closer to preferential tariffs, for example under multilateral liberalisation. Here, both developing coun-

tries and LDCs are susceptible to preference erosion; in the case of LDCs this is because the largest share of their exports depends on preferential tariffs, while for developing countries, despite the shares looking relatively small (15.9–23 per cent), they represent significant values (US$151,313 million) of export earnings in absolute terms and in relation to domestic economic activity; this also applies to LDCs.

Table 2.5 Value of preferences from exporting to the QUAD+, 2003

	Share (%) of exports subject to:			Preference margins	
Exporters	**MFN-duty free**	**MFN duties**	**Preferential tariffs**	**Unadjusted**	**Adjusted[a]**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**
Agricultural exports[b]					
Developing countries	46.0	29.0	23.0	1.3	–0.4
LDCs	59.0	4.0	37.0	2.5	0.1
Non-agricultural exports					
Developing countries	52.1	31.8	15.9	0.7	–0.5
LDCs	20.2	18.3	61.2	6.4	1.6

[a]Adjusted for competition.
[b]Australia not covered for agricultural exports.
Source: Low *et al.* (2005) for non-agricultural exports; Low *et al.* (2006) for agricultural exports.

Unsurprisingly, in terms of preference margins LDCs (which are accorded duty free access for a much larger number of tariff lines than developing countries) enjoy greater adjusted and unadjusted preference margins than developing countries for both agricultural and non-agricultural products. In both cases, however, tariff margins fall significantly (and become negative for developing countries) when adjusted for competition. (Negative preference margins imply that some developing countries would do better exporting to the QUAD+ under non-preferential terms like their competitors.) Tables AT8 and AT9 report the size of preference margins for agricultural and non-agricultural products at country level: unadjusted margins range from 0 to 19 per cent for non-agricultural products and from 0 to 64 per cent for agricultural products for developing countries and from 0 to 14 per cent for LDCs. Competition-adjusted preference margins are also reported (Table AT9) and can be negative, i.e. other competitors (typically LDCs) have greater preferences.

Eight LDCs – Burundi, Central African Republic, Democratic Republic of Congo, Guinea, Guinea-Bissau, Maldives, Rwanda and Sierra Leone – have zero margins in agricultural products. Malawi (with a QUAD-level margin of 14%), Mozambique (11%), Bangladesh (10%) and Tanzania (8%) enjoy the highest preference margins for agricultural products among LDCs. The LDCs enjoying the highest preference margins on non-agricultural products are (with QUAD-level margins): Lesotho (19%), Malawi (19%), Haiti (18%), Madagascar (14%), Cambodia (13%), Myanmar (12%), Senegal (11%), The Gambia (10%), Bangladesh (9%) and Guinea-Bissau (8%).

Among developing countries a number of countries with zero margins can be cited for agricultural products (Argentina; Hong Kong, China; Macao, China; Nigeria; and Taipei, China) and for non-agricultural products (Antigua and Barbuda; Botswana; Congo; Hong Kong, China; Macao, China; and Nigeria). The highest preference margins on agricultural products apply to St Kitts and Nevis (64%), Guyana (58%), Mauritius (58%), Fiji Islands (48%), Swaziland (47%), Belize (35%), Trinidad and Tobago (35%), Barbados (34%), St Lucia (29%) and St Vincent and the Grenadines (29%).

Size and distribution of preference rents

What is the value of preference rents generated by beneficiary exports at the given preference margins? Brenton and Ikezuki (2005) have investigated this question by considering the situation for sub-Saharan African countries that benefit from both standard and enhanced (or in the case of LDCs special) GSP schemes provided by the EU and USA and by Japan's standard GSP in 2002. Implicit preference rents are derived by taking the product of preference premiums and the value of exports which actually received preferences; it is assumed that beneficiary countries appropriate the full preference rents. Table 2.6 shows the results for LDCs and non-LDCs. The first row shows that preference rents represent rather small shares of sub-Saharan Africa's exports to their main export destination and preference-giving countries. The highest share is 4 per cent, associated with the EU at the aggregate level. Preference rents received by non-LDCs represented a higher share of their total exports to the EU (5.1 per cent) than was the case for LDCs.

Table 2.6 also shows that the distribution of preference rents is heavily skewed in favour of a very small number of countries, with just five LDCs and five non-LDCs appropriating between three-quarters and 98.8 per cent of the rents. In fact, just ten LDCs collect all the preference rents (100%) from the USA and Japan, and ten non-LDCs account for all preference rents from Japan. A similar skewed distribution pattern is discernible in terms of the number of products, albeit when considered at rather high level of aggregation (2-digit HS). Thus, 57–80 per cent of preference rents accrued to the top three sectors.

Table 2.6 Distribution of preference rents for sub-Saharan Africa, 2002

	Overall			LDCs			Non-LDCs		
	EU	USA	Japan	EU	USA	Japan	EU	USA	Japan
Preference rents as percentage of total exports	4.0	1.3	0.1	2.3	2.1	0.4	5.1	1.1	0.1
Percentage by:									
Top 5 beneficiary countries	59.9	73.9	88.9	73.8	98.8	95.8	76.9	92.9	98.7
Top 10 beneficiary countries	80.1	95.4	97.7	91.2	100.0	100.0	97.5	99.3	100.0
Top 1 sector (2 digit, HS)	31.3	31.9	41.0	37.1	51.5	70.9	34.5	33.4	31.9
Top 3 sectors (2 digit, HS)	56.5	79.6	63.6	68.5	91.3	92.2	65.2	71.3	56.8

Source: Brenton and Ikezuki (2005).

Table 2.7 Classification of sub-Saharan African countries by shares of preference rents received in total (non-oil) exports, 2002

Countries for whom share of preference rents (non-oil) in total exports is:			
Less than 1%	**1.01–5.0 %**	**5.01–9.99%**	**Greater than 10%**
1. Angola	1. Benin	1. Gambia, The	1. Lesotho
2. Burundi	2. Botswana	2. Guinea-Bissau	2. Malawi
3. Central African Republic	3. Burkina Faso	3. Kenya	3. Mauritius
4. Chad	4. Cameroon	4. Madagascar	4. Seychelles
5. Congo (Republic of)	5. Cape Verde	5. Mozambique	5. Swaziland
6. Congo (DRC)	6. Comoros	6. Namibia	
7. Djibouti	7. Eritrea	7. Senegal	
8. Equatorial Guinea	8. Ethiopia	8. Zimbabwe	
9. Gabon	9. Ghana		
10. Guinea	10. Côte d'Ivoire		
11. Liberia	11. Mauritania		
12. Mali	12. Sierra Leone		
13. Niger	13. Sudan		
14. Nigeria	14. Tanzania		
15. Rwanda	15. Togo		
16. São Tomé and Principe	16. Uganda		
17. Somalia	17. Zambia		
18. South Africa			

Source: Brenton and Ikezuki (2005).

Table 2.7 extends the analysis by showing the preference rents received as a share of total exports for sub-Saharan African countries in 2002. For the majority, preferences are negligible – for 18 countries preference rents are less than 1 per cent, while for 17 countries preference rents represent not more than 5 per cent of total exports. This confirms that most exports enter the EU, USA and Japan under non-preferential MFN terms (although it should be acknowledged that these are mostly zero MFN tariffs). The five countries with preference rents greater than 10 per cent of exports (final column) are some of the main beneficiaries of the EU's sugar protocol (Mauritius, Swaziland and, to a lesser extent, Malawi) and the US AGOA (Lesotho, mainly in respect of textiles and clothing, and Seychelles). Given this somewhat low significance of preference rents in total exports of beneficiary countries, the next step is to seek to understand whether preference-receiving countries could do better in terms of preference utilisation.

2.4 Summary conclusions

The main trade preference providers are the QUAD countries (EU, USA, Japan and Canada), but preferences are offered by a range of other industrial and developing countries. This chapter has shown that the EU and USA offer preferences under a range of schemes that differ in terms of their product coverage, the margin of preference, quantity restrictions, rules of origin and treatment of developing and least developed countries.

The review of the empirical literature has shown that the non-reciprocal preferences offered by the major industrial countries to developing country exports cover a substantial amount of developing country trade. However, the provisions are complex because of the multiplicity of schemes, different product and country coverage, differential rules of origin and safeguard provisions. This complexity inhibits access to the schemes and reduces the benefits of preferences to developing and least developed countries. Many of the restrictions on eligibility for preferential treatment apply in product areas of particular interest to developing countries, that is, agricultural products, textiles and other labour-intensive manufactures. However, restrictions can also be found for particular sensitive products.

The GSP schemes of the QUAD countries account for the bulk of preferential trade, with the EU as the largest preferential export market and the bulk of preferential trade being in non-agricultural products. Given, however, the restrictions on eligibility, other constraints and wide variability in peak tariffs across products and variations in export composition across countries, there are marked variations in the extent and value of preferential trade across recipient countries and products.

The evidence reviewed here shows that unadjusted preference margins are relatively small on average, ranging from 0.7 per cent for developing countries to 6.4 per cent for LDCs on non-agricultural products and from 1.3 per cent to 2.5 per cent on agricultural products. They can, however, be much larger for specific products. The significance of preference margins for beneficiary countries is affected by the level of preference utilisation and the degree of competition from non-beneficiary countries. Indeed, some of the recipient countries recording the highest preference margins are among the countries with the lowest preference utilisation rates. As a consequence, the implicit rents generated by preferences (preference margins x the value of preference-receiving exports) also vary enormously across developing and least developed countries. Just five LDCs and five non-LDCs are shown to account for 75 per cent of the total preference rents going to LDCs and non-LDCs from EU preferences.

3

Preferences and Developing Country Experience

This chapter considers the evidence on the benefits of trade preferences and the implications of the erosion of preferential margins for developing countries and least developed countries. Appendix A3 provides further context and detail. After considering the relative importance of preferential trade schemes and the countries that are the major beneficiaries, evidence on the impact of preference erosion on specific countries and products is reviewed. The conclusion provides a summary of the literature and outlines some of the factors limiting the utilisation and effectiveness of preferences. Chapter 4 will address the major constraints that have prevented beneficiary countries from exploiting fully the preferential market access conditions offered under the schemes and the implied policy options.

The structure of the chapter is as follows. Section 3.1 presents an overview of the evidence on the trade effects of preferential trade arrangements; as these include preferences for members, they provide evidence on the general benefits of preferential arrangements. Section 3.2 extends this analysis to consider the benefits of particular preferences for developing and least developed countries, such as EU preferences for ACP countries and the effect of AGOA on US imports from African countries. Section 3.3 considers evidence on the costs of preference erosion. Section 3.4 summarises the main conclusions and looks at why preferences are not fully utilised and hence yield limited benefits.

3.1 Benefits of preferential trade agreements

While preferential market access permits recipients to increase their exports, the extent of the benefit (the preference margin relative to non-beneficiaries) is limited. Trade under PTAs and GSP is governed by terms and conditions, such as import quotas, that limit volume and restrict product coverage. It is often argued by low-income countries that the products in which they have the greatest export potential are either excluded from agreements or receive reduced effective preferences. A related concern is where high tariffs (tariff peaks) apply to the products of particular interest to LDC exporters that do not receive preferential access, or receive less than full preferences, e.g. where other LDCs face zero tariffs in a particular market, but some LDCs benefit only from tariffs that are lower than those faced by non-LDCs. Countries like Bangladesh and Nepal have raised such concerns, either where ACP countries receive greater preferences from the EU (this issue has been largely addressed under EBA) or where African countries receive greater preferences from the USA. Although this is not addressed specifically, any countries denied (relative) preferential access, especially LDCs, are at a disadvantage, especially where the products of most concern face relatively restricted access, including high tariffs.

Preference-giving countries want to satisfy themselves that preferential treatment is enjoyed only by specified beneficiaries for products they actually produce and export. For this reason they set criteria for establishing that the country claiming preferential treatment is substantially the originator (producer) of the goods for which preferences are claimed. The single most important criteria comprise rules of origin, which essentially specify the share of value added that must be provided in the beneficiary country for an export to be eligible for a preference; other criteria that restrict product or country eligibility (such as quantitative restrictions, product exclusions or graduation rules) are considered later. Properly designed rules of origin can encourage growth of trade in products that originate from the beneficiary country, but if they are too restrictive they can limit or discourage trade. One of the major criticisms of preferential schemes offered by the QUAD countries is that their rules of origin are restrictive and difficult to satisfy, and as a result undermine trade volume and diversity among beneficiary countries. Rules of origin are often a major limitation on the utilisation and effectiveness of preferences. As this is an issue related to policy options it is discussed further in Chapter 4.

The scale and diversity of bilateral trade between preference-giving and preference-receiving countries also depend on other factors relating to competitiveness, production and characteristics of the market (globally and in individual countries). For example, regardless of the terms and conditions of preferential arrangements, trade volume may be undermined by supply-side constraints, constraints relating to trade finance and investment, trade-related infrastructure weaknesses and gaps, unfavourable geographical location, corruption and political instability. Preference margins may also be reduced by the expansion of the number of beneficiaries, global quotas, limits on the duration of preferences and where the terms of preferences are subject to arbitrary change by the preference-giving country – short duration and arbitrariness do not provide incentives for long-term investment. These factors are also discussed in more detail in Chapter 4.

There is now considerable evidence that trade preference schemes do increase exports from beneficiary countries (see Appendix A3). Positive trade effects have been confirmed mostly where preferential arrangements involved significant policy reforms to reduce trade barriers; weak, non-existent or perverse trade effects have been found where only limited actual trade liberalisation was implemented (Greenaway and Milner, 2002; Persson and Wilhelmsson, 2006).

Preferential margins or premiums underpin the expansion of bilateral trade flows beyond what they might otherwise be, that is, under normal competitive market conditions (trading at MFN tariff rates and on an equal footing with other world exporters) in the preference-giving countries. That developing countries have only been able to expand exports because of preferences above the lower or even zero export levels that they might have achieved signifies that preference erosion poses a clear threat for highly preference-dependent products and developing countries (see Section 3.4).

3.2 Benefits of targeted trade preferences

Targeted schemes seem to have a more pronounced effect. In terms of EU preferences, the Lomé Convention preferences had a greater effect in stimulating the growth of ACP exports to the EU than did EU provision of GSP to ACP countries. In general, GSP targeted at LDCs were found to have a significant and large effect on LDC exports. EU preferences for Mediterranean countries have had a significant effect in helping to increase exports by the beneficiaries. This section considers the evidence for the benefits of specific targeted preference schemes offered by developed countries, concentrating on the EU (schemes such as the Lomé Convention and EUROMED) and the USA (in particular, AGOA).[7] The aim is to identify which countries and products have tended to benefit most from preferences and which countries are most vulnerable to preference erosion, given the scale of benefits received and the product composition of their exports.

US preference schemes

The African Growth and Opportunity Act, signed into US law on 18 May 2000, provides eligible countries and products with duty and quota free access to the US market. Not all sub-Saharan African countries meet AGOA's eligibility criteria (Table AT12). Countries excluded from AGOA as of 2 January 2005 because they did not meet basic levels of political and democratic freedom included Zimbabwe, Côte d'Ivoire, Somalia, Liberia, Sudan, Burundi, Central African Republic, Eritrea, Equatorial Guinea and Togo. Although Burundi and Equatorial Guinea subsequently became eligible, their exports to the USA declined (see below). By the summer of 2007, 38 of the 48 sub-Saharan African countries were declared eligible for benefits under AGOA and many received assistance to utilise the benefits. Table 3.1 shows trade flows for 33 countries for the period 1991–2006, and compares the situation pre- and post-AGOA (indicated by the percentage change); although it omits some very small countries and others that only recently became eligible, it captures AGOA's broad impact.

Tadesse and Fayissa (2008) consider the effect of AGOA on the initiation of imports (trade initiation, when pre-AGOA product/country imports were negligible) and on the volume of imports (trade intensification), using data at the HS 2-digit level. The trade values are negligible for many HS-2 products, so only products that accounted for at least 2 per cent of exports under AGOA are taken into account. There is significant evidence of a trade-intensification effect for coffee, tea, maté and spices, and for knit apparel, which together account for over 15 per cent of AGOA exports (and for 14 other HS-2 products with low shares). There is evidence of significant export initiation for 12 products, most of which had very small trade shares (although knit apparel is included), such as cosmetics, plastics and cotton (Tadesse and Fayissa, 2008: 934–7). US trade with sub-Saharan Africa is limited to a few countries: South Africa accounts for more than half US imports under AGOA (i.e. of AGOA-eligible products from AGOA-eligible countries); Lesotho, Madagascar, Mauritius and Kenya (in order) have the next largest

Table 3.1 Annual average US imports from sub-Saharan Africa (1991–2006)

	Pre-AGOA	Post-AGOA	Percentage change	Mean change
Angola	8,708	45,206	419	282
Benin	3,608	827	–77	–214
Botswana	17,938	87,608	388	251
Burkina Faso	1,739	1,162	–33	–170
Burundi	6,728	1,310	–81	–218
Cameroon	21,655	41,352	91	–46
Chad	3,759	10,390	176	39
Congo	2,575	1,243	–52	–189
Congo (DRC)	18,431	18,277	–1	–138
Equatorial Guinea	110,000	72,858	–34	–171
Ethiopia	32,923	42,034	28	–109
Gabon	6,544	7,458	14	–123
Gambia, The	3,629	3,512	–3	–140
Ghana	160,000	99,860	–38	–175
Kenya	98,092	230,000	134	–3
Lesotho	74,574	320,000	329	192
Madagascar	69,804	300,000	330	193
Malawi	62,884	68,858	10	–127
Mali	4,175	4,800	15	–122
Mauritius	220,000	240,000	9	–128
Mozambique	6,453	7,689	19	–118
Namibia	30,637	110,000	259	122
Niger	5,864	4,872	–17	–154
Nigeria	49,218	48,858	–1	–138
Rwanda	4,110	5,500	34	–103
Senegal	6,628	19,176	189	52
Seychelles	2,905	11,548	298	161
Sierra Leone	17,883	72,386	305	168
South Africa	2,300,000	5,100,000	122	–15
Swaziland	31,372	130,000	314	177
Tanzania	21,489	28,113	31	–106
Uganda	19,867	22,980	16	–121
Zambia	51,561	20,988	–59	–196
All AGOA (mean)	**92,938**	**220,000**	**137**	

Note: The table shows annual average exports (excluding petroleum products, pearls and natural stone) in $US 000 to the USA in the 10–15 years before the country became AGOA-eligible and the 2–6 years after it became eligible; the percentage change in these averages; and the change relative to the mean for all AGOA countries (subtracting 137). Countries which have a very small volume of trade have been omitted (e.g. Djibouti).
Source: Derived from Tadesse and Fayissa (2008), Table 1: 927.

sub-Saharan African shares of post-AGOA US imports from sub-Saharan Africa (and are the only other countries with a share above 5 per cent), although the volumes are relatively small (Tadesse and Fayissa, 2008: 927).

Table 3.1 summarises the results by country. Overall, US AGOA imports more than doubled in the first six years of the scheme (annual average imports increased by 137 per cent relative to the pre-AGOA situation). In addition to the main beneficiaries listed above, countries such as Angola, Botswana, Sierra Leone and Swaziland experienced large increases in exports to the USA (above the all-AGOA figure, indicted by a positive value in the final column), but volumes are very small. It is unlikely that the total amount of any increase can be attributed to AGOA and there may have been some displacement; post-AGOA exports to the USA declined for 11 of the listed countries, although only one of these countries, Ghana, had relatively large volumes.

Exports appear to have increased. According to Tadesse and Fayissa (2008: 921):

> *'… between 2004 and 2005 alone, there has been a 40 per cent increase in the total volume of US imports from sub-Saharan African countries. Analysis of US-SSA trade data that extend from 1989 to 2004 also reveals a 46.3 per cent increase in US imports of non-manufactured goods and a 130.4 per cent increase in US imports of manufactured goods from SSA countries pre- to post-AGOA periods.*

Hence, AGOA

> *… has enhanced the propensity of US imports from eligible sub-Saharan African countries … Compared to the trade initiation effects it has had, the impact of the initiative in raising the volume of US imports from eligible sub-Saharan African countries has, however, remained minimal.*

Frazer and Van Biesebroeck (2007), using product-level data, find that AGOA had a significant impact on US imports, especially of apparel (where they are concentrated in particular countries) and of eligible agricultural and manufactured products (where they are broad-based), and that these effects were larger in product categories where the tariffs removed were higher. They estimate a large import response to AGOA for apparel products with tariffs of over 50 per cent (with a lower bound of 17 per cent), compared to 14 per cent for agricultural products and 19 per cent for manufactures. Furthermore, they find that AGOA did not result in a fall in exports of AGOA-eligible products to the EU.

However, the benefits to African economies should not be overstated (Stevens and Kennan, 2004b). For example, although Kenya appears as a major beneficiary, in the sense that clothing exports to the USA increased by about four times, this was from a very small pre-AGOA base and most of the firms involved are recent, non-Kenyan, arrivals, located in export processing zones. Another example is that of Lesotho, where clothing exports under AGOA are 'cut, make and trim' by subsidiaries of (mostly Asian) multinationals that provide all the inputs; there are few linkages to the local economy and the exports are very vulnerable to changes in AGOA rules of origin. Almost half of South Africa's clothing exports to the USA do not benefit from AGOA preferences because producers find it more cost-efficient to import textiles (from Asia) and therefore do not meet rules of origin requirements. Although AGOA has helped to increase exports, it is

far from evident that it has helped to establish a sustainable, competitive export sector in African countries.

EU preferences for ACP countries

The EU has provided trade preferences to former colonies in the African, Caribbean and Pacific regions since 1975 under successive Lomé Conventions. Although ACP exports to the EU are higher than they would have been in the absence of such schemes, these preferences have been of limited value. One reason for this is the conditions under which preferences were granted. Restrictions were placed on which products were eligible for full preferences (often excluding products of particular benefit to developing countries) or, especially in the context of EU preferences for the ACP, very restrictive rules of origin requirements were imposed, thus limiting opportunities for diversification. The EU also tends to require high product standards, especially regarding health or sanitary and phyto-sanitary (SPS) standards, which can be altered at relatively short notice and require considerable documentation. These standards impose high trade costs on producers exporting to the EU. Furthermore, imports to developed country markets have to comply with stringent private standards imposed by the firms or buyers that dominate the supply chain. While these private standards and supply chain contractual requirements are clearly important determinants of trade for many products, this study restricts attention to public policy, specifically trade policy (i.e. preferences and compliance requirements).

Another reason why exporters have derived less benefit from EU trade preferences than might have been anticipated relates to policy-induced distortions in the ACP countries, so that actual incentives for production diversification are weak, exacerbating the problem of a narrow production structure and primary commodity resource base. This is especially true for Africa, but also applies more generally to other ACP countries. Furthermore, there is excessive emphasis on expanding manufacturing, and recently services, exports. Thus, it is argued that achieving sustained growth in Africa requires the implementation of policies to expand exports and diversify exports away from dependence on a narrow range of (unprocessed) primary commodities. Trade preferences can play a role in this.

Trade preferences offered by the EU have been especially important for sugar and bananas. This is illustrated in Table 3.2: although the list comprises the non-LDCs most vulnerable to export losses from preference erosion by the QUAD, it is dominated by sugar exporters, specifically countries exporting sugar to the EU under the Sugar Protocol, which permits some ACP countries to export a specified quantity of sugar to the EU at the EU intervention price, typically well above the world price (Milner *et al.*, 2004).[8] This conferred significant quota rents; for the largest beneficiary, Mauritius, these were in some years equivalent to over 4 per cent of cent of GDP (Milner *et al.*, 2007). Other important preferential products are bananas, and to a lesser extent clothing and textiles. Mauritius tops the list, but at a regional level Caribbean middle-income

countries dependent on sugar and banana exports have the largest preference margins, and would therefore suffer the highest export losses from preference erosion.

Table 3.2 also shows the relative significance of the preference margins accounted for by sugar, bananas, and textiles and clothing for the non-LDCs with the greatest preference margins (most are ACP countries, the exceptions being Albania, Serbia, Honduras, Tunisia and Morocco). These three products receive special attention and preferential treatment in the QUAD, notably sugar and bananas for the EU; exports by beneficiaries have flourished under the lucrative preferential tariff and quota regimes. The ten countries with the highest margins are all members of the ACP group; five derive more than two-thirds of the benefit from the preference margins that apply to sugar, and three derive almost all the benefit from bananas. In this way, the major beneficiaries of EU preferences are highly concentrated.

Table 3.2 Non-LDCs preference margins and main products

Most vulnerable	Trade preference margin[a]	Percentage of preference margin accounted for by			
		Sugar	Bananas	Textiles and clothing	Other products
Middle-income countries[b]	**4.9**	**42**	**19**	**12**	**27**
Largest beneficiaries[c]	**15.6**	**51**	**24**	**8**	**17**
Mauritius	39.9	84	0	13	3
St Lucia	32.9	0	94	2	4
Belize	29.3	47	23	0	30
St Kitts and Nevis	28.7	94	0	0	6
Guyana	24.2	95	0	1	4
Fiji Islands	24.1	96	0	1	2
Dominica	15.9	0	97	0	3
Seychelles	12.2	0	0	0	100
Jamaica	9.7	67	8	7	18
St Vincent and the Grenadines	9.4	0	89	0	11
Albania	8.9	0	0	48	52
Swaziland	8.2	97	0	1	2
Serbia and Montenegro	7.6	28	7	10	56
Honduras	6.7	56	9	19	15
Tunisia	5.9	0	1	79	20
Côte d'Ivoire	5.7	8	51	2	38
Morocco	5.7	0	4	64	33
Dominican Republic	5.5	23	16	27	34

[a]As a percentage of the trade-weighted average world market price of the country's exports.
[b]Average for 76 middle-income developing countries, weighted by margin.
[c]Eighteen countries with average preference margins greater than 5 per cent.
Source: Alexandraki and Lankes (2004).

The changing regime for EU-ACP preferences

A specific feature of preferences under the Lomé Conventions is that they were granted to countries that were not selected on clear economic criteria, but simply because they were deemed ACP; this was found to be 'illegal' under WTO rules. To continue preferences, the EU agreed a waiver in the WTO in 2001 to remain in effect until December 2007, when a new WTO-compliant regime was to be in place. The Cotonou Agreement proposed introducing reciprocity through the establishment of a series of economic partnership agreements, under which the EU and regional groupings of ACP countries offer reciprocal trade preferences to each other (Morrissey and Zgovu, 2007). Negotiations between the EU and ACP regional groups began in 2003. 'Framework agreements' with commitments and an implementation timetable have been signed and 'final agreements' were expected to be signed by the end of 2009.

In principle, EPAs offer potential benefits to ACP countries beyond what was available under the Lomé Conventions. The preferential access to the EU is less restrictive – all ACP countries should have tariff-free access to the EU for almost all products. This should be available once the agreements are in place, and restrictions such as rules of origin requirements should be less restrictive than under the previous regime.[9] The ACP member countries should derive some benefit from enhanced regional integration as a precursor to EPAs. A range of trade-related policy reform commitments are included in the EU proposals, covering trade facilitation and investment, and perhaps also competition policy and government procurement. If implemented properly these could enhance the business environment in ACP countries, attracting investment and promoting exports. There is an expectation that aid will be made available by the EU to support implementing and adjusting to EPAs.

There are potential costs to ACP countries through reciprocity as they are required to grant tariff-free access to imports from the EU. Although there is concern in ACP countries that such opening up to import competition from the EU will displace domestic production, there will not necessarily be substantial adverse effects (Morrissey and Zgovu, 2007). The welfare impact of import liberalisation depends on the production and trade structure of the country in question, and as such is an empirical question. Of greater practical concern is the potential loss of revenue from tariffs on imports from the EU. However, ACP countries have at least 10 years to phase in tariff elimination and can continue to exclude a range of designated 'sensitive products' for some time. However, identifying these has been a sticking point in negotiations. Thus countries will have a fair amount of time to plan both their adjustment to the economic effects of increased imports and the revenue effect of the elimination of tariffs.

The ACP countries have been aware that EPAs offer limited benefits, although the situation of LDCs differs from that of non-LDCs. LDCs are entitled to essentially tariff-free access to the EU under EBA without having to commit to reciprocity. Non-LDCs, however, could lose their Lomé-type preferences and would be granted only GSP access if EPAs were not in place (although there have been proposals for a preferential GSP++

scheme). This loss of preferences could significantly undermine export competitiveness and damage major sectors that depend on exports to the EU, such as beef in Namibia and horticulture in Kenya. Thus, non-LDCs had a stronger incentive than LDCs to sign EPAs to maintain preferential access for their exports to the EU.

3.3 Costs of preference erosion

As noted above, the incidence of trade preferences is quite concentrated, i.e. a relatively small number of countries (and products) benefit from high preference margins. As the export benefits from preferences are quite concentrated, the potential losses from preference erosion are also concentrated. Estimates of the cost of preference erosion obviously vary, depending on the extent of the reduction in each preference-receiving country's preference margin and how responsive export supply is assumed to be. The effect of preference erosion for developing countries overall is likely to be small: if preference margins were reduced by half, the major beneficiary middle-income countries would lose between 0.5 and 1.5 per cent of total exports. However, the impacts are significant for certain countries, typically those with a heavy reliance on a narrow range of export products, particularly products that benefit from deep preferential access and rely heavily on QUAD markets. The scale of the adverse effects will be more challenging for countries with fragile macroeconomic frameworks – for example, some small island economies.

Table 3.3 presents the estimated export losses for the most vulnerable non-LDCs from a 40 per cent reduction in QUAD preferences, i.e. a reduction in preference margins, rather than an elimination of tariff preferences (see also Table A3.2). As noted above, some of the countries have already experienced loss of preferences because of recent reforms implemented outside the multilateral trade negotiations (e.g. the EU sugar and banana regimes). Mauritius tops the list, largely due to losses of sugar exports to the EU, but at a regional level Caribbean middle-income countries that depend on sugar and banana exports suffer the highest export losses.

On the basis of evidence on middle-income countries, 'the problem of preference erosion is heavily concentrated in a sub-set of products and preference beneficiaries' (Alexandraki and Lankes, 2004: 4). Clearly, these products and the countries dependent on them would deserve greater attention and adjustment support to deal with the effects of preference erosion. Table 3.3 expresses the potential export losses in relation to macroeconomic indicators for the most vulnerable countries. Mauritius shows the deepest impacts, both in absolute terms and in relation to all the selected macroeconomic aggregates (except for GDP, where Guyana could lose the equivalent of 5.8 per cent of gross domestic output from preference erosion). Guyana's export revenue losses are estimated to be significant in relation to government revenue, the equivalent of 17.7 per cent, second only to Mauritius, which has a 24.4 per cent government revenue loss.

In summary, for the countries that have derived the greatest benefit from QUAD trade preferences, a reduction of preference margins by about a half would represent potential losses of 2–10 per cent of exports, 2–20 per cent of government revenue and 0.5–6 per cent of GDP. For other beneficiaries, losses would be less. These estimates are

based on across the board preference erosion. We next consider estimates of the costs of preference erosion implied by proposals under the Doha Round of WTO negotiations.

Table 3.3 Export losses due to preference erosion as a percentage of macroeconomic aggregates

	Loss as a percentage of:			
Most vulnerable	**Exports of goods**	**Exports of goods and services**	**Government revenue**	**GDP**
Mauritius	−11.5	−7.2	−24.4	−4.4
St Lucia	−9.8	−1.1	−1.9	−0.6
Belize	−9.1	−4.1	−8.0	−2.1
St Kitts and Nevis	−8.9	−1.8	−1.9	−0.8
Guyana	−7.9	−6.2	−17.7	−5.8
Fiji Islands	−7.8	−3.8	−9.1	−2.2
Dominica	−5.5	−1.9	−2.3	−0.9
Seychelles	−4.2	−1.9	−3.7	−1.6
Jamaica	−3.5	−1.4	−2.2	−0.6
St Vincent and the Grenadines	−3.4	−2.7	−4.3	−1.3
Albania	−3.3	−1.2	−1.0	−0.2
Swaziland	−3.0	−1.8	−5.8	−1.6
Serbia and Montenegro	−2.8	−2.2	−3.9	−0.4
Tunisia	−2.2	−1.5	−2.5	−0.7
Côte d'Ivoire	−2.2	−1.6	−3.7	−0.6
Morocco	−2.1	−1.4	−1.8	−0.4
Dominican Republic	−2.1	−1.2	−2.7	−0.5

Note: The table reports estimates of export losses for the 17 most affected beneficiaries due to preference erosion (40 per cent reduction in average margin of preferences), assuming a zero export supply elasticity. Table A3.2 provides a range of estimates.
Source: Alexandraki and Lankes (2004).

Table 3.4 lists the 16 non-LDCs that are estimated to suffer the greatest impact from preference erosion caused by MFN liberalisation by the QUAD under Doha (see also Appendix A3). Results are provided for agricultural and non-agricultural market access (NAMA) and estimate the potential reduction in exports (percentage loss). The first set of results (without competition effects) assumes that an export share corresponding to the preference margin is lost. The second set (with competition) allows for the reduction for other preference-receiving countries, i.e. other suppliers also becoming less competitive. The estimated losses from preference erosion generally fall when competition from other preference-receiving countries is taken into account. These estimates do not account for other countries that may gain improved market access, for example through a bilateral free trade agreement.[10] On the other hand, as the reduction in the margin does not eliminate the competitive advantage (preference margin), it is possible that beneficiaries may be able to maintain the level of exports at the lower margin.

Table 3.4 Preference loss of QUAD MFN tariff reduction, 2003: 16 most affected non-LDCs

Agricultural products				Non-agricultural products			
Without competition effect		**With competition effect**		**Without competition effect**		**With competition effect**	
Country	**% loss**	**Country**	**% loss**	**Country**	**% loss**	**Country**	**% loss**
St Kitts & Nevis	–40.5	*Botswana*	–15.5	*El Salvador*	–9.1	*El Salvador*	–5.2
Mauritius	–38.0	**St Lucia**	–12.1	*Honduras*	–8.3	*Honduras*	–4.6
Guyana	–31.9	*St Vincent & Gren.*	–11.9	*Nicaragua*	–6.7	*Guatemala*	–4.2
Fiji Islands	–31.2	**Namibia**	–9.5	*Guatemala*	–6.5	**Swaziland**	–3.6
Swaziland	–30.1	*Dominica*	–8.9	**Swaziland**	–5.8	*Nicaragua*	–3.5
Trinidad & Tobago	–22.5	*Belize*	–8.1	**Mauritius**	–5.6	**Dominican Rep.**	–2.9
Barbados	–21.3	**Mauritius**	–7.0	**Dominican Rep.**	–5.5	**Mauritius**	–2.1
Belize	–20.8	Cameroon	–4.9	**Namibia**	–2.9	**Namibia**	–1.6
Botswana	–17.3	*St Kitts & Nevis*	–4.7	*Kenya*	–2.2	*Kenya*	–1.2
St Lucia	–15.8	*Fiji Islands*	–4.3	Pakistan	–2.2	**St Lucia**	–0.7
St Vincent & Gren.	–15.5	**Swaziland**	–4.3	*Albania*	–1.9	*Jamaica*	–0.6
Congo	–13.7	*Guyana*	–4.1	*Jamaica*	–1.7	*Albania*	-0.6
Jamaica	–12.5	**Dominican Rep.**	–3.1	*Ghana*	–1.4	*Ghana*	–0.3
Dominica	–12.1	*Trinidad & Tobago*	–3.1	*Ecuador*	–1.1	Belize	–0.3
Namibia	–11.0	*Barbados*	–2.8	Egypt	–1.1	Côte d'Ivoire	–0.2
Dominican Rep.	–8.1	*Congo*	–2.5	**St Lucia**	–1.1	*Ecuador*	–0.2

Note: Percentage loss is relative to exports to the QUAD. Estimates for agriculture do not allow for Doha-type 'flexibilities'. Countries in bold type appear in all four lists; countries in italic type appear in both columns for agricultural or non-agricultural products.
Source: Table A4 in Low *et al.* (2005); Table A5 in Low *et al.* (2006).

The estimates in Table 3.4 provide a good guide to the magnitude of the preference loss for the most affected countries. Three points are worth emphasising. First, the losses for agricultural products are much greater, as a percentage of exports, for the most affected countries than the losses for the manufacturing sector; the least affected country in the list showing the preference loss for agricultural products faces a loss almost equal to the most affected in the list for non-agricultural products. Second, five countries appear in all four lists: Dominican Republic, Mauritius, Namibia, St Lucia and Swaziland. These countries are among the most affected in relation to agricultural and non-agricultural products, so the combined loss facing them is large. (Namibia is the only one of these countries that does not also appear in Table 3.3.) Third, although allowing for competition significantly reduces the loss, especially in relation to agricultural products, the list

is almost the same in each scenario (there is one difference for agricultural products and two for non-agricultural products). As pointed out above, a small number of countries are the major beneficiaries of preferences and are therefore the most vulnerable to losses from preference erosion. Almost all of these are ACP countries.

Table 3.5 Preference loss of QUAD MFN tariff reduction, 2003: 14 most affected non-LDCs

Agricultural products				Non-agricultural products			
Without competition effect		**With competition effect**		**Without competition effect**		**With competition effect**	
Country	**% loss**	**Country**	**% loss**	**Country**	**% loss**	**Country**	**% loss**
Malawi	−8.4	*Angola*	−2.3	*Lesotho*	−12.2	*Lesotho*	−7.4
Mozambique	−6.2	*Tanzania*	−0.9	*Haiti*	−11.3	*Haiti*	−6.1
Tanzania	−4.8	*Niger*	−0.7	**Cambodia**	−11.0	*Madagascar*	−2.0
Bangladesh	−4.3	*Congo, DR*	−0.6	*Myanmar*	−9.1	**Bangladesh**	−1.0
Congo, DR	−3.4	Lesotho	−0.6	**Bangladesh**	−5.2	**Cambodia**	−1.0
Gambia, The	−2.8	**Senegal**	−0.6	Madagascar	−5.0	*Myanmar*	−1.0
Senegal	−2.8	**Bangladesh**	−0.5	**Senegal**	−4.9	**Senegal**	−0.9
Angola	−2.6	**Gambia, The**	−0.4	*Guinea-Bissau*	−3.2	*Mozambique*	−0.8
Zambia	−2.4	**Cambodia**	−0.3	Maldives	−2.5	Malawi	−0.6
Mauritania	−1.6	*Malawi*	−0.3	*Mozambique*	−2.5	*Guinea-Bissau*	−0.5
Cambodia	−1.2	*Togo*	−0.3	**Mauritania**	−2.3	*Solomon Islands*	−0.5
Uganda	−1.1	**Uganda**	−0.2	**Gambia, The**	−1.8	**Mauritania**	−0.4
Niger	−1.1	Solomon Islands	−0.2	*Solomon Islands*	−1.2	**Gambia, The**	−0.4
Togo	−1.0	**Mauritania**	−0.2	**Uganda**	−1.0	**Uganda**	−0.2

Note: Percentage loss is relative to exports to the QUAD. Estimates for agriculture do not allow for Doha-type 'flexibilities'. Countries in bold type appear in all four lists; countries in italic type appear in both columns for agricultural or non-agricultural products.
Source: Table A4 in Low *et al.* (2005); Table A5 in Low *et al.* (2006).

Table 3.5 provides a comparable list of the 14 LDCs that are estimated to suffer the greatest preference erosion from MFN liberalisation by the QUAD. Again, three points are worth emphasising. First, in this case the losses in manufacturing tend to be greater for the most affected than the losses for agriculture; this probably reflects the importance of textiles and apparel for the top six in the list for non-agricultural products. Second, six countries appear in all four lists: Bangladesh, Cambodia, The Gambia, Mauritania, Senegal and Uganda. However, as some of these are relatively low down the list, the combined loss facing them is not necessarily larger than that facing the most affected on the list for non-agricultural products (Lesotho, Haiti and Cambodia) or agricultural

products (Malawi and Mozambique). Third, although allowing for competition significantly reduces the loss, it is almost the same list in each scenario (one change for non-agricultural products and two changes for agricultural). As in the case of non-LDCs, a small number of LDCs are the major beneficiaries of preferences and hence are most vulnerable to losses from preference erosion. Although a majority are ACP countries, Asian LDCs are among the most vulnerable.

Estimates of the costs of preference erosion using general equilibrium modelling approaches yield consistent overall results, although they are less likely to identify specific countries (unless they are large enough to feature individually in a global model). For example, François *et al.* (2005) consider MFN liberalisation under Doha by OECD countries and find that generally African and a few non-African preference-receiving countries are the most adversely affected (see Table A3.4 and discussion). This is consistent with the other evidence that a relatively small number of LDCs and non-LDCs derive large benefits from preferences and face potentially large losses from erosion.

3.4 Implications of the evidence on costs and benefits

The literature reviewed in the previous section has shown that the countries that benefit most from preferences, and face the greatest costs of preference erosion, tend to be ACP non-LDCs (mostly small islands benefiting from EU preferences for sugar and bananas) and LDCs that are either ACP countries or Asian exporters of textiles and apparel. Whatever the state of preference usage, the available preferences are increasingly coming under pressure as a result of: (a) unilateral liberalisation and reforms by preference-giving countries; (b) an increasing number of preference-receiving countries (as the preference-givers extend the number of preferential trade arrangements with other countries); and (c) most importantly, the general reduction of tariffs under multilateral trade negotiations (in particular in the Doha Round).

At the heart of the preference-receiving countries' concern about the Doha Round and future multilateral trade negotiations is the fear that tariff cuts by preference-giving countries will erode the gap between MFN tariffs and preferential tariffs. Consequently, the competitive position of preference-receiving countries will deteriorate vis-à-vis other suppliers. Preference-receiving countries may experience trade losses as some of their exports are displaced by competitive exports from other (non-preference receiving) countries. Trade diversion takes place, but in part this 'corrects' earlier trade diversion created by preferential treatment in favour of preference-receiving countries. There are opportunities for countries that relied less on preferences or those that now face reduced competition as some of the heavy preference users lose ground in the markets of preference-giving countries as a result of MFN liberalisation.

Trade theory and empirical evidence have long shown that multilateral MFN tariff liberalisation improves welfare and would therefore also, in principle, be supportive of the preference-receiving countries' development objectives, at least if trade gains from lower MFN tariffs offset the expected losses from preference erosion. The evidence

reviewed here shows that preference erosion is a major concern for some countries and products that are heavily dependent on preferences. However, most developing and least developed countries derive negligible benefits from preferences and are likely to gain, if only by limited amounts, from the erosion of preferences for the major beneficiaries. This observation does not diminish the potential trade and developmental effects of preference schemes, as their limited impact owes so much to their design and implementation, and weak capacity of some beneficiaries to make fully utilise them.

It is also important to bear in mind that even after the Doha Round many preferential tariffs would still remain below MFN tariffs and therefore provide a reservoir of preference rents for all eligible preference-receiving countries. Even under diminished preference margins, opportunities for preferential schemes to deliver their fullest benefits to beneficiary countries will remain, if the ability of countries to utilise preferences is enhanced. Dealing with the costs of imminent erosion of preferences and improving the delivery and effectiveness of preferences are difficult challenges facing some developing and least developed countries. These are considered in the next chapter.

Individual country situations, unlike the overall or aggregate picture, are more revealing of the adverse effects of preference erosion. For example, most middle-income countries and non-LDCs face modest to insignificant export losses due to preference erosion. Focusing on the overall picture runs the risk of missing the opportunity to prescribe policy options suited to the needs of the relatively few, and easily identified, countries which face significant adjustment challenges. Policy options can also focus on the specific sectors that will be most negatively impacted by preference erosion – in particular, sugar, bananas and apparel.

It is worth re-emphasising the major impact that rules of origin have on the utilisation of trade preferences, mostly in respect of manufactures. The presence of complex, ill-defined and/or costly to comply with rules of origin is one reason why preferences have not been fully utilised (Inama, 2003; Mold, 2005). For example, Brenton (2006) argues that EU rules of origin are very restrictive and have limited the growth of ACP garment exports to the EU, whereas AGOA, when it was first introduced, had relatively lax rules of origin and supported a sharp rise in exports from sub-Saharan Africa to the USA. Collier and Venables (2007) cite the benefits of AGOA and argue that trade preferences can support the growth of African exports of manufactured goods, supporting growth in exports and employment, especially if the preferences recognise the fragmentation of international production. That is, rather than being designed to favour final products, preferences should reflect the stages of production most appropriate for African countries. This implies laxer and more flexible rules of origin, which permit imported inputs from any source and allow preferences on the value added by African exporters.

Even under AGOA, rules of origin are important, especially for apparel. De Melo and Portugal-Pérez (2008) observe that the preferential market access for apparel exports offered by the EU and USA to African countries differs in its rules of origin. The EU, under EBA and Cotonou, requires that yarn is woven into fabric and made up into apparel in the exporting country or in a country covered by cumulation. The USA,

under AGOA, grants a special regime so that African exporters can use fabric from any origin, although in order to benefit from AGOA apparel provision, countries must prove that in addition to the governance provisions required for eligibility they have an effective system to verify and enforce rules of origin for the fabric or yarn used in apparel production. De Melo and Portugal-Pérez (2008) contrast African apparel exports to the US and EU markets and estimate that the more preferential AGOA rules of origin increase export volume to the USA, relative to the EU, by 300 per cent for the top seven beneficiaries and have also meant that there is an increase in the number of products exported.

Some argue that as many of Africa's major exports are primary products that face low or zero MFN tariffs (especially for the EU), preferential market access is often much less valuable than it appears: about three-quarters of ACP exports to the EU are (MFN) tariff-free (Inama, 2003: 965). When the value of preference margins is expressed in an aggregate manner, such as applies to a group of beneficiaries, it will reflect the product composition of trade flows, as preferences are highly concentrated on a few countries and products. For example, in 2002 the average EU preference margin to sub-Saharan African LDCs was 4 per cent; the corresponding preference margins of the USA and Japan were 1.3 and 0.1 per cent respectively (Table 3.6). On this basis, the EU appears to grant 'greater' preferences. The same conclusion applies to preferences to LDCs overall. However, if one considers sub-Saharan Africa as a region (including non-LDCs), Japan appears to provide a higher preference margin than the EU (11 compared to 4 per cent). This highlights the difficulties of summarising preference margins at aggregate levels.

Table 3.6 Non-reciprocal preference margins for developing country exporters

	EU	USA	Japan	Canada	Australia
LDCs	6.6	3.2	2.6		
Sub-Saharan Africa	4.1	2.6	10.9	4.2	3.6
Sub-Saharan African LDCs	4.0	1.3	0.1		
All	3.4	2.6	3.4	1.6	1.5

Source: Hoekman *et al.* (2009).

Mold (2005) argues that the evidence on the value of preferential market access is often misinterpreted or misrepresented. Allowing for the fact that the majority of African exports (primary products) are zero-rated and for the benefits of Cotonou, preferential usage is actually quite high for many sub-Saharan African countries. Although preferential market access has not generated a significant supply response in terms of total exports, the response has been significant where particular products that countries could export attracted large preferential margins (e.g. in sugar, beef and garments). The proliferation of regional and bilateral trade agreements has steadily eroded the value of preferences: preference margins remain unchanged (relative to MFN tariffs), but more countries receive preferential access (i.e. there is more competition). At the same time, restrictive rules of

origin have limited utilisation; the compliance costs of rules of origin are equivalent to 5–8 per cent of export value (Brenton and Ikezuki, 2006). As preferential margins average 2–3.5 per cent of export value, the low take-up is easily explained.

Furthermore, preference-receiving countries do not receive the full amount of the preference margins because of the presence of intermediaries (including transport and logistics companies), importers with market power and administration costs of preference schemes that capture part of the preference rents.[11] Ensuring that beneficiary exporters reap the highest possible preference rents is an issue that needs to be addressed. These issues are considered in Chapter 4, in which we assess policy options to address the implications of preference erosion.

3.5 Summary conclusions

The evidence on the effect of trade preferences on export volumes relates to both reciprocated preferential trade policies (e.g. regional trading arrangements and bilateral preferential agreements) and the non-reciprocated preferences under review here. Some regional trade agreements (RTAs), especially those involving the industrialised countries, have had substantial pro-trade effects. RTAs among the developing countries (South–South arrangements) have generally had much more modest effects on trade volumes. Similarly, the overall impact of the non-reciprocal trade preferences offered by developed to developing countries has had a limited impact on the export volumes of the recipient countries. The effects have been marked, however, for specific recipient countries and under specific (targeted) schemes. EU trade preferences for the ACP countries have been concentrated on specific beneficiary countries, in particular those that depend on sugar and banana exports (e.g. Mauritius and several Caribbean countries). Similarly, AGOA has had significant positive effects on exports of apparel and a few other agricultural products from specific African countries (e.g. South Africa and Lesotho).

Given this concentration of trade effects induced by preferences, the costs of any preference erosion will also be concentrated on a relatively small number of developing and least developed countries: island economies, including Caribbean countries that are dependent on sugar and banana exports; countries in north Africa with preferential access to the EU for their apparel and agricultural products; and LDCs in sub-Saharan Africa and Asia that benefit from preferentially-treated textiles and apparel exports. The most vulnerable is a narrow set of countries with the most concentrated exports and highest preference margins (e.g. Guyana and Mauritius).

The concentration of potential losses from Doha Round-induced preference erosion (and from other sources) will give rise to a need to look for ways of compensating and supporting adjustment in these countries. The narrow range of substantial beneficiaries from preferences means that there is also a need to consider whether the benefits and beneficiaries from remaining preferences can be enhanced. The view of many commentators is that the utilisation of preferences can be increased by the adoption of laxer and more flexible rules of origin and by the lowering of non-tariff barriers.

4

Future Prospects and Policy Options

The literature reviewed in the previous chapters has shown the relative significance of various preference schemes for developing and least developed countries. For most developing countries and many LDCs, preference margins are quite small, so preference rents are negligible and the implications of preference erosion are small. In this context preference rents can be interpreted as the (additional) export value derived by beneficiaries, which depends on their ability to take advantage of the margins. Typically, a number of countries are offered the same preferences (this is especially true for LDCs) and it is the more competitive producers who are best able to benefit. This is true whether the margins are large or small, although the size of the potential rent is greater if margins are large and/or if few countries receive the full preference margin. In most cases, margins are relatively small and available to many countries, so the likely losses from preference erosion are not great, overall or for individual countries.

It should be recognised that while some countries lose, others stand to derive a net gain from general preference erosion. The gainers will be the most competitive producers, whether or not they benefited from preferences. Consider a case where the margin was initially equivalent to 6 per cent of the export price and this is reduced to 3 per cent. Beneficiaries that were originally competitive are likely to remain so (though rents decline) and only the most competitive non-beneficiaries are likely to increase market share at the lower margin. The importance of such considerations was illustrated in the previous chapter, allowing for competition effects on preference erosion.

However, preference rents have been large for a few beneficiary countries where preferences are concentrated in a few products of particular importance to them. This is most likely to be the case when explicit or implicit quotas are associated with the preferences. For example, the Sugar Protocol includes explicit quotas, whereas some EU countries have an established preference to import bananas from particular Caribbean islands. In cases where existing margins and rents are high, preference erosion may be costly; we describe such countries as 'exposed to erosion' (in the cases of sugar and bananas they will have experienced significant erosion already). This chapter concentrates on the implications of current trade negotiations for preference erosion and on how exposed countries can adjust and respond.

Prevailing preference (tariff) margins are only part of the story. As discussed above, various non-tariff barriers (NTBs), in particular rules of origin and product standard requirements, determine the ability of beneficiaries to actually benefit from preferences (the value of the rent derived). In a scenario where margins are reduced, preferences can be provided or maintained by relaxing other requirements. Improving the performance of preference schemes will involve changes in the preference packages to enhance existing and stimulate new 'offensive' export interests of preference-receiving countries. It

will also involve preference-receiving countries undertaking certain measures that support an enabling environment for efficient investment and production for exportation in line with their 'offensive' export interests in eligible products. There is also a need for adaptive measures to address costs of preference erosion which are substantial for some countries (adjustment measures are considered in Chapter 5). Accordingly, the study looks at measures for improving preference schemes from both the perspective of improving the preference scheme package (measures at the international or preference-giving country level), and of what preference-receiving countries can do to position themselves to reap the fullest possible benefits from the remaining preference margins. We focus on the USA (AGOA) and EU (especially EPAs) as being the most important markets for countries exposed to preference erosion.

Section 4.1 provides an overview of the potential for preference erosion implied by current negotiations in various preferential agreements (specifically, the Doha Round of the WTO). Section 4.2 identifies the characteristics of countries 'exposed to erosion' in respect of these negotiations. The core point is that only a relatively small number of countries needs to be concerned that preference erosion will have a significant impact on them, and for these the concerns typically relate to only a few products. Having identified the exposed countries, Section 4.3 considers improvements to preference schemes that could reduce or ameliorate the potential costs of erosion, and Section 4.4 considers the types of complementary policies beneficiary countries could implement to counter the adverse effects of preference erosion. Section 4.5 summarises the policy implications.

4.1 Implications of current trade negotiations for preference erosion

As discussed in Chapter 3, ongoing trade negotiations in the WTO imply preference erosion, and this will impose costs on 'exposed' countries. The Doha Round launched on 13 November 2001 aimed for increased market access to promote growth and development through increased trade, particularly of developing, small and vulnerable members of the WTO. General tariff reductions, and hence a reduction in existing preference margins, are the primary means of achieving increased market access. Other important negotiating issues, especially concerning trade in agricultural products, include reducing the level of domestic support given to domestic producers and exporters, and reducing or eliminating trade-distorting export subsidies. We provide a brief account of the likely scale of tariff cuts on the basis of the '6 December 2008 version' of draft WTO modalities for achieving increased market access.

Negotiations concerning increasing market access centre on lowering bound tariffs by means of some formula that will ultimately reduce applied (MFN) tariffs and therefore reduce preference margins. It is developed countries that grant most preferences; preference erosion will therefore result from reductions in MFN tariffs by developed countries. Although tariff reductions by other countries, notably developing countries, will not erode preferences, they are not irrelevant. Enhanced market access at a global level (such as multilateral tariff reductions) increases the size of the global (export) market.

Competitive producers with the greatest ability to increase export supply can expect to benefit most, but marginally less competitive producers (including those whose preferences have been eroded) may still benefit. This can arise where they focus on niche markets or have preferential non-tariff access (including where they are linked into global buyer or supply chains) or where major exporters shift their focus towards the largest markets, leaving opportunities for smaller exporters, perhaps in regional markets.[12] Furthermore, tariff reductions by preference-receiving countries should encourage increased efficiency in export production, including through access to cheaper intermediate imported inputs, so that they become more competitive.

The size of tariff cuts achieved under WTO negotiations depends on several factors:

(a) The level of current bound tariffs: current formulae prescribe steeper cuts on higher tariffs and increase with the level of development of members. Take the case of agriculture products as an example, where differentiation between developed, developing and LDCs is most pronounced and contentious. For developed members, the cuts for agricultural products start from 50 per cent for tariffs below 20 per cent, rising to 70 per cent for tariffs above 75 per cent, subject to a 54 per cent minimum average and with some constraints for tariffs above 100 per cent. For developing countries, tariff reductions between 33.3 per cent and 46.7 per cent are proposed, although it can be less if they meet a 36 per cent average reduction. LDCs are not required to reduce bound tariffs.

(b) Whether the product is 'sensitive' (all members can declare some products as being 'sensitive') or 'special' (a category available only to developing country and LDC members), as designed to take into account various concerns as stated in Paragraph 16 of the Doha Ministerial Declaration:[13] tariff cuts for agricultural 'sensitive' products will be a proportion of the normal cut, but a quantity of the product will be allowed in at a lower quota, while for 'special' products the cuts will be smaller for some and others may be exempted completely.

(c) Whether the applied tariffs are lower than the bound tariff: it is bound tariffs that will be subject to cuts, although the tariffs actually applied are often lower than the bound rate. In principle, a country could significantly reduce bound tariffs without having to actually reduce the tariff applied. For example, where a developing country has a bound tariff of 100 per cent for agricultural products, but an applied tariff of 25 per cent, the bound tariff would be cut by 42.7 per cent (to 57.3 per cent), but the applied tariff will not be affected (although the 'space' for future policy action will have now an upper limit of 57.3 per cent instead of 100 per cent).

(d) Country status: LDCs are exempted from making tariff cuts on any products and developing countries are generally expected to make smaller cuts and have more flexibilities than developed countries. Small and vulnerable developing countries will make even smaller cuts, with even more flexibilities. Countries that have recently acceded to the WTO will also have special terms.

(e) Special safeguard mechanisms designed to stem injurious import levels: developing countries will be able to use this mechanism, which will allow them to increase tariffs on a temporary basis.

For non-agricultural market access, tariff cuts will be made using a simple 'Swiss formula', which delivers the steepest cuts for the highest tariffs.[14] The Swiss formula uses coefficients which represent the maximum post-reform bound tariff rate. Developed countries have a lower coefficient than developing countries. The NAMA modalities text of December 2008 indicates that all developed countries will use one coefficient of 8, whereas developing countries may choose one of the three suggested coefficients of 20, 22 or 25. Each coefficient, however, will be linked to the scale of 'flexibilities' available, with more flexibilities being given to members that opt for a lower coefficient (a lower coefficient implies a lower bound rate and under the Swiss formula this means a deeper tariff cut) and vice versa. Thus, members opting for a coefficient of 20 (22) would be entitled to make smaller or no cuts on 14 (10) per cent of sensitive tariff lines, on condition that the import values of these sensitive tariff lines do not exceed 16 (10) per cent of the total value of non-agricultural imports. At the other extreme, developing members choosing a coefficient of 25 will be required to apply it to cut tariffs on all tariff lines without exception.

As a result of the Swiss formula, developed countries will have bound tariffs averaging well below 3 per cent (most developed countries already have very low or even zero bound rates for almost all NAMA tariff lines) and tariff peaks averaging less than 8 per cent even on the most sensitive products – although certain specific sensitive products would have tariff peaks higher than this. For developing country members applying the tariff cuts, the majority of tariff lines will have bound tariffs of less than 12–14 per cent and their average bound tariffs would be 11–12 per cent, depending on the coefficient and flexibilities used. A small number of tariff lines would have bound tariffs of above 15 per cent. As it happens, the difference between bound tariffs and tariffs actually applied ('policy space') would be substantially reduced after applying cuts using the Swiss formula.

Developed members will be expected to cut tariffs gradually over a period of five years and developing countries will have a longer period of ten years, starting from 1 January of the year following the entry into force of the Doha Agreement. Certain recently acceded members will not be required to undertake tariff cuts beyond their accession commitments,[15] but others, such as China, Chinese Taipei and Croatia, will be expected to cut their bound tariffs and will have an extended implementation period of three years to phase in their Doha commitments. Members carrying tariff lines with unbound rates will be required to bound the rates using a mark-up of 25 percentage points which would then be added to their applied rates, in effect on 14 November 2001 (the day after the launch of the Doha Round). The resulting rates will form the basis for the formula cuts.

In both cases (agricultural and non-agricultural products), cutting bound tariffs can depress MFN tariffs, which in turn will depress preference margins. It is in this context

that the Harbinson text (TN/AG/W/1/Rev.1 of 18 March 2003) calls for an arrangement that would preserve preference margins by slowing MFN liberalisation affecting long-standing preferences in respect of products of vital export importance for preference-receiving countries. Flexibilities allowing preference-giving countries to shield such products from any or deeper tariff cuts can preserve preference margins. However, as in previous rounds, this has been unpopular with certain developing members which do not have, or have limited, benefits from preference schemes.

Changes to specific regional arrangements may also imply preference erosion, although the nature of this depends on both the prevailing situation and likely changes. While there are no specific proposals to reduce preferences in AGOA, tariff reductions under Doha will reduce preference margins, and any tightening of rules of origin will reduce utilisation. The general prediction is that there will be some reduction in the value of preferences, and hence in the benefit of AGOA. The case of EU-ACP preferences is more complicated. Economic partnership agreements will preserve preferential access to the EU for ACP countries (although Doha tariff reductions will reduce margins). However, as EPAs require reciprocity, so that ultimately tariffs on imports from the EU will be eliminated, there will be an erosion of regional preference margins as the EU becomes more competitive in regional ACP markets. On the other hand, proposed rules of origin under EPAs are less restrictive than current requirements; this is likely to enhance preferences, especially for developing countries that are more likely to export processed products to the EU (e.g. apparel and tinned fish), and their utilisation. To the extent that rules of origin are relaxed a number of years before ACP countries have to eliminate tariffs on imports from the EU, EPAs offer a net benefit during this transition period to ACP countries in terms of preferences.

There are numerous regional and bilateral PTAs, which for certain countries and products will have implications for the 'post preference erosion' scenario facing countries that benefit from preferences. In general PTAs increase the pool of countries with access to preferences and therefore reduce the value (preference rent) attainable by individual beneficiaries. It is not possible, even if adequate information were available, to consider the implications of all PTAs. In general, any effect would be very limited for preference-receiving countries; what matters for an individual country exposed to preference erosion is whether particular PTAs will allow the entry of new suppliers on comparable preference terms in the markets of most concern to them.

4.2 Characteristics of countries exposed to preference erosion

As reviewed briefly in Section 3.2 above, there are now a number of analytical and empirical studies that assess the likely implications of the Doha negotiations for preference margins and through that the effects on preferential trade (in particular exports of preference-receiving countries). Doha negotiations have been slow, given the wide gaps that exist among members on issues concerning the formula and level of ambition in tariff cuts, flexibilities to take into account the special and development needs of some

sections of the WTO membership, and the scheduling and duration of the implementation of commitments. As the negotiating gaps have narrowed, the proposed sizes of various parameters (including the size of coefficients for tariff cuts) have also changed, and this means that some of the parameters and assumptions used in earlier studies have become obsolete. Nonetheless, the formula and coefficients contained in the December 2008 draft modalities remain within the range proposed at the beginning of the negotiations and used in earlier studies (e.g. in Low *et al.*, 2005). This means that some useful insights can be gleaned from earlier studies. In particular, they serve the current purpose of identifying the countries and products most exposed to costs of preference erosion.

Table 4.1 Developing countries that are exposed to preference erosion

Most vulnerable	Preference margin	Main products			
		Sugar	Bananas	Apparel	Other
Middle-income countries	**4.9**	**X**	**X**		**X**
Mauritius	39.9	XX			
St Lucia	32.9		XX		
Belize	29.3	X	X		X
St Kitts and Nevis	28.7	XX			
Guyana	24.2	XX			
Fiji Islands	24.1	XX			
Dominica	15.9		XX		
Seychelles	12.2				XX
Jamaica	9.7	XX			
St Vincent and the Grenadines	9.4		XX		
Swaziland	8.2	XX			
Honduras	6.7	XX			
Tunisia	5.9			XX	X
Côte d'Ivoire	5.7		XX		X
Morocco	5.7			XX	X
Dominican Republic	5.5	X		X	X

Preference margin expressed as a percentage of export value.
Main products: XX (X) indicates that the product accounts for more than 50 (20) per cent of the value of preferential trade.
Middle-income countries: reports average for 78 countries.
Source: Based on Alexandraki and Lankes (2004), who apply partial equilibrium techniques to estimate export losses from preference erosion for middle-income countries (see Table 3.2 above).

Table 4.1 lists the 16 most exposed developing countries and the products of most importance to them.[16] The majority of the most exposed countries (seven of the top ten) are in the Caribbean region (only Guyana is not an island), benefiting from preferences for sugar (five) or bananas (four); the other three countries in the top ten are small islands: Mauritius (sugar), Fiji Islands (sugar) and Seychelles (mostly fish). Thus the top ten are all ACP countries, as are three more of the top 16 (Côte d'Ivoire, Dominican Republic

and Swaziland), for two of which sugar is a major product. The countries lower down the list tend to be more diversified in exposure although, with the exception of the two north African countries (where preferences are predominantly for apparel), sugar or bananas remain as main products. This exposure is associated with potential large costs in terms of export earnings and government revenue (see Table 3.3 above).

Table 4.2 LDCs that are exposed to preference erosion

Country	Agriculture	Manufactures	ACP	AGOA
Angola	XX		√	√
Bangladesh	XX	XX		
Cambodia	XX	XX		
Congo (DRC)	XX		√	√
Gambia	XX	XX	√	√
Guinea-Bissau		XX	√	√
Haiti		XX	√	
Lesotho	X	XX	√	√
Madagascar		XX	√	√
Malawi	XX	X	√	√
Maldives		XX		
Mauritania	XX	XX	√	√
Mozambique	XX	XX	√	√
Myanmar		XX		
Niger	XX		√	√
Senegal	XX	XX	√	√
Solomon Islands	X	XX	√	
Tanzania	XX		√	√
Togo	XX		√	√
Uganda	XX	XX	√	√
Zambia	XX		√	√

XX indicates the top 14 countries most affected by preference erosion before allowing for competition effects. X indicates additional countries that are most affected by preference erosion after allowing for competition effects.

Table 4.2 lists the 21 LDCs that appear to be most exposed to preference erosion (Nepal and Burkina Faso are also likely to be exposed, but to a lesser extent). Although the data did not allow us to identify the main products, in the clear majority of cases exposure applies to agricultural and non-agricultural (predominantly apparel) products. The majority are in Africa (as are the majority of LDCs that benefit from both ACP and AGOA); two (Haiti and Solomon Islands) benefit from ACP only. Although non-ACP LDCs and ACP countries are entitled to similar preference margins in their access to the EU under EBA, effective non-tariff preferences (especially rules of origin) may not be comparable. It follows that Bangladesh, Cambodia, Maldives and Myanmar are particularly exposed to preference erosion, as they will not benefit from any 'preference protection' conferred by EPAs to ACP countries or by AGOA to African countries. Furthermore, as these countries export apparel, the cost of preference erosion is likely to be large.

Most exposed LDCs and many exposed developing countries are in Africa and are thus susceptible to the erosion of AGOA preferences if rules of origin are tightened. This would have the most significant impact on apparel exports to the USA, the benefits of which are concentrated on countries such as Lesotho, Kenya, South Africa and Swaziland. Stevens and Kennan (2004a) note that the utilisation of and benefits from apparel exports under AGOA are very vulnerable to tighter rules of origin, and hence the beneficiaries are all exposed. Furthermore, the majority of exposed countries are ACP countries, and are likely to be affected by the details of the finalised EPAs for preferences. As EPAs are designed to preserve preferential access to the EU, and may even enhance it through more flexible rules of origin, the primary concern is any loss of preferences vis-à-vis the EU in their own regional markets. However, as argued in Morrissey and Zgovu (2007), there is considerable scope for maintaining these regional preferences through the appropriate choice of sensitive products to exclude from reciprocal liberalisation, i.e. through retaining tariffs on imports from the EU that compete directly with intra-regional ACP trade.

4.3 Improving preference schemes

There is ample evidence that preference schemes are valuable to some preference-receiving countries. For some countries and products preferential tariffs provide key incentives to expand export production and diversification, and implicit economic rents that can represent substantial shares of the value of domestic economic activity. It is also widely acknowledged that for a large number of countries and products, preference schemes have delivered benefits below their full potential, leading some analysts and countries to question the efficacy of the schemes as a strategy for trade development in developing countries. Moreover, underperformance of the schemes has added pressure to underplay the importance of preference schemes at the Doha Round of multilateral trade negotiations. While preference schemes may have been operationalised in such a way that they 'underperform', in the sense that the countries that are expected to benefit do not increase trade under preferences to a significant extent, for some countries and products the fundamental export problems lie in inherent structural weaknesses and rigidities in the preference-receiving countries. For example, some sub-Saharan African countries depend heavily on a few primary products exported in raw or semi-processed state, with low and declining terms of trade, and a trading environment which has little to do with the effectiveness of preferences. These and other impediments to export diversification and competitiveness partly explain the stylised fact regarding the utility of EU preferences granted to ACP countries, that ACP countries' total exports to the EU grew by less than 4 per cent, whereas exports from other developing countries grew by 75 per cent during 1988–97 (EU, 1999).

In view of the undoubted economic importance of preference schemes for preference-dependent countries, coupled with the fact that there are clearly issues that explain the schemes' underperformance, there is a credible case for seeking ways to improve the

delivery of preference schemes. Such measures can be distinguished from measures to promote exports in general; even where the measures are similar, the existence of preferences suggests the sectors on which to focus. This section explores some of the avenues and policy frameworks that might increase the effectiveness of preference schemes for the benefit of preference-receiving developing and least developed countries. The prospective significant preference erosion will require policy responses that not only address the associated adjustment costs, but also enhance the economic value of the outstanding preference margins. Considering that even in the absence of preference erosion there is already more that needs to be done to improve the performance of schemes, the presence of preference erosion raises the need for reform and adaptive measures around whatever preferences remain in future.

There is a large body of literature that shows that the main reasons preference schemes have performed below expectations are the low levels of preference uptake and utilisation by preference-receiving countries; the presence of intrinsically weak domestic policies; rigid structural frameworks for investment and production in many preference-receiving countries; and an unfavourable external market environment (e.g. a long-term downward spiral of commodity prices and major oil price shocks) against a background of rigid economic structures that do not adequately respond to changing market incentives. Improving the design and operation of preference schemes can only touch on some of these; policy and institutional reforms in beneficiary countries (considered in the next section) can address some of the others. It is beyond the scope of this study to address broader issues, however relevant, such as the role of services and migration, the global economic environment and the importance of private actors (especially multinationals and global buyers) that often dominate trade, supply and marketing chains.

Low preference utilisation rates are a result of problems on both sides, that is, the preference-giving and preference-receiving countries. Here we focus on the preference-giving side (beneficiaries are addressed in the next section). Preferences are underutilised or inaccessible to some extent because of:

- The stringent conditions attached to them (e.g. rules of origin, product quality, environmental standards and other non-tariff measures);
- Complexity of the rules and conditions, which become more pronounced in preference-receiving countries that lack the financial, physical and technical capacity to comply with and/or execute them;
- The presence of tariff escalation, particularly affecting products which are of actual or even potential export interest to some beneficiary countries. This is especially relevant for processed commodities;
- The exclusion of certain products from the list of preference-eligible products (this relates to the preceding point;

- Safeguard mechanisms that can prevent the export of specific products to preference-giving countries if certain threshold export shares are exceeded;
- Rules for graduation of preference-receiving countries that attain a specified share of the export market to preference-giving countries may be too strict, e.g. in not recognising that market share must be maintained to deliver sustainable gains;
- Preference schemes are discretionary and non-contractual, making them unpredictable as they can be altered or withdrawn as deemed necessary by the preference-giving countries. This is a disincentive to investment in trade by beneficiaries;
- Preference margins that are too low to make it economically worthwhile for importers in preference-receiving countries to claim preferential tariffs (this relates to the preceding point);
- A potentially large proportion of preference rents are captured by private intermediaries involved in the transactions, such as importers, buyers or retailers. The value of the preferences does not necessarily accrue to producers, or even to the beneficiary countries.

Thus, the effectiveness of schemes can be improved by altering aspects of the schemes, i.e. through actions by preference-giving countries. The remainder of this section covers the principal issues.

Making rules of origin more development-oriented

Strict rules of origin are one of the most commonly cited reasons for the poor performance of preference schemes. The WTO Agreement on Rules of Origin, effective from 1995, defines rules of origin as: 'those laws, regulations and administrative determinations of general application applied by WTO Member countries to determine the country of origin of goods …' In short, rules of origin are put in place, among other reasons, to ensure that only products 'originating' from partner countries granted preferential access (e.g. by way of zero or low duties or tariff quotas) benefit from the preferential treatment so given.

Effectively, rules of origin have been used as protection measures; in this way, they prevent firms based in non-partner territories from establishing 'shell' companies in the preference-receiving countries to import almost fully finished goods and re-export them with little or no processing solely in order to obtain tax relief in the final destination, preference-giving country. In short, it prevents 'trade deflection'. Rules of origin are also intended to encourage sufficient value-added production, which can then stimulate investment, employment and sustainable development in the beneficiary countries.

There is a danger if rules of origin require more value addition than is 'commercially normal', with notional preferences becoming under-utilised or not utilised at all. The EU's rules of origin have been used to help open up the EU market, reciprocally or otherwise, to imports from partner countries, in such a manner as to afford adequate protec-

tion for the EU interests involved. The EU has come to agree with claims that the present rules of origin reflect mercantilist policy aims. They do not correspond to the global production model of the market, nor do they correspond to the new manufacturing and processing operations which are currently taking place (the fragmentation of global production). They do not reflect technological advances and actual market, trade, industry and agriculture conditions, and are too complex and lack transparency (COM, 2005).

Inappropriate rules of origin can lead to significant cost increases and therefore undermine product competitiveness. Rules of origin requiring beneficiary countries to source certain inputs from within the exporting country or from the preference-giving country could force producers to obtain inputs from high-cost sources and ignore least-cost sources that are not party to the preference scheme. This would clearly render beneficiary country exports uncompetitive even when the tariff is low or zero. It is for this reason that some countries source inputs from least-cost sources and export high quality and price competitive products on non-preferential tariff terms.[17]

Cumulation (sourcing from within a participating region, e.g. ACP producers sourcing inputs from other ACP countries) may be of some benefit where least-cost inputs can be sourced from other members of the preference scheme. (It also encourages investment and production from such members.) However, for certain specific inputs, none of the participating members may be able to provide least-cost inputs, implying that there is a limit to which cumulation can be useful. In such cases, increasing the proportions of inputs from countries outside the preference scheme would be desirable to afford the preference-beneficiary countries the opportunity to produce and take advantage of the preferences associated with the products in question.

Action: Preference utilisation and benefits could be enhanced if rules of origin were relaxed so that they reflect the needs of beneficiary countries (i.e. are development rather than protection oriented). In response to the criticisms and shortcomings of its rules of origin, the EU in December 2005 initiated a review in order to make them simpler and more development friendly. The other QUAD countries and Australia should also be encouraged to review their rules of origin to afford the beneficiary countries deeper access to their domestic markets than is currently the case, partly on account of stringent rules of origin.

Reduce or eliminate complex non-tariff barriers and support investment for product quality and compliance

Rules and conditions in some preference schemes are not only demanding but also complex, raising the costs of compliance and therefore undermining the value of the preference margins. For example, certain product quality controls (some, no doubt, for valid consumer health and safety and environmental considerations) require elaborate and expensive outlays and maintenance of modern capital and machinery, and implementation of costly procedures.

Action: Preference-giving countries can help poor preference-receiving countries meet the required standards by providing technical and even financial assistance to meet them. Funding for such investment can be channelled through the most cost-effective avenues available. Preference-giving countries may also support preference-receiving countries in obtaining funding from other sources, including multilateral sources and the donor community. This theme is considered below in the discussion of trade facilitation (and related aid for trade).

Reduce remaining tariff and quota restrictions on excluded products

All preference-giving countries have tariff peaks and quotas that restrict export expansion (without preferences) in some preference-receiving countries that have the capacity to expand production of eligible goods.

Action: Preference-giving countries should make a full and early removal of all remaining tariff (especially tariff peaks) and quota restrictions on beneficiary exports to allow full advantage of the remaining preference margins.[18] The QUAD countries would experience negligible welfare and tariff revenue losses from relaxing restrictions on the exemption of preference-receiving countries from non-zero MFN tariffs.

Extend product coverage

Without lowering tariffs on excluded products, there is still some scope for expanding the coverage of preference schemes offered by the QUAD countries and Australia to other products where positive MFN rates currently apply, in order to benefit small and poorer LDCs and non-LDCs in sub-Saharan Africa, the Caribbean and elsewhere.[19] In part this arises because the more competitive developing country producers have established a market share in non-preferred products and would remain competitive (especially as preferences are generally being eroded). This also applies to low-income countries that may have received some preferences, even if these are not as widespread as those granted to traditional beneficiaries such as the ACP, e.g. Bangladesh, Cambodia and Vietnam. Similarly, preference-receiving countries have not developed production of non-preferred products, at least not in preparation for global competition, and would begin from a relatively weak position. The literature shows that non-reciprocal preferences have tended to encourage specialisation in preference-eligible products at the expense of other non-eligible products.

Action: Although the general impression is that extending product coverage is likely to benefit very few developing countries, and none of the poorest LDCs, there may be potential to create 'new' trade by preference-receiving countries in products that have been excluded from the list of preference-eligible products. Alternatively, it may be possible to provide special non-tariff preferential access terms for particular products, such as fair trade products or those produced by smallholders.

Relax safeguard provisions and graduation of preference-receiving countries

Preference-giving countries build in automatic safeguard provisions to suspend or discontinue preferential treatment if imports of preference-eligible products from a given preference-receiving country exceed some threshold share of total imports from a given country. This clearly discourages expansion of preference-eligible products and acts as a disincentive to invest and produce for the preference markets, particularly where it is only commercially viable to produce on a large scale, which may mean large investment outlays. The implication of tight safeguard provisions is that the actual value of preferences is reduced substantially, because producers are unable to avail themselves of economies of scale in production or exporting (shipping larger volumes reduces unit marketing and transport costs).

Some preference schemes (e.g. the US scheme) include provisions that 'graduate' preference-receiving countries when they attain certain shares in export markets (to preference-giving countries) or pass other 'indicator thresholds' such as per capita income. The problem with such provisions comes about when the indicators or thresholds are set so low that preference-receiving countries graduate too quickly, e.g. if the improvement is actually temporary. Even if a deterioration in performance in subsequent years renders the country eligible for preferences again, the uncertainty created discourages sustained or long-term investment in beneficiary countries. More generally, discretionary and non-contractual elements make preference schemes unpredictable, as they can be altered or withdrawn as deemed necessary by the preference-giving countries. This is clearly a disincentive for long-term investment in preference-eligible products which some preference-receiving countries would be in a position to produce and export.

Action: Safeguard and graduation provisions should be relaxed or removed, or where possible preference-receiving countries should be guaranteed a certain minimum period before graduation is considered. This will allow the country and producers to establish and entrench any gains made. Preference schemes would be more beneficial if entitlements were transparent and guaranteed for a reasonable length of time, irrespective of performance during the period. Indeed, performance beyond a threshold implies that the scheme is working and it would be helpful to allow it to continue for a reasonable period. Defining a reasonable period is difficult, but given the normal length of time for the realisation of sustainable returns on investment, between five and ten years would be appropriate in most cases. Such a period is consistent with the time developing countries are allowed to implement commitments under trade agreements such as those negotiated within the WTO.

Reduce preference rents captured by non-beneficiaries

There is evidence that importers and intermediaries (including in transport and distribution) capture a considerable proportion of the benefit of preference schemes.[20] These private agents tend to have market power and typically dominate the supply chain for

many products, permitting them to appropriate the preference rents. Their position is strengthened when preference schemes have high compliance requirements and administration costs. Furthermore, private agents with a dominant position in buying (such as large retailers) or importing can add their own requirements on standards and impose additional costs on importers or producers, further reducing the real benefit that accrues to the beneficiary country.

Action: It is generally difficult for policy-makers to influence or intervene in the market structure of supply chains. The preference-receiving countries could establish regulatory or oversight mechanisms to encourage competition in relevant activities concerning preferential trade and monitor the effects of market power concentrated in the hands of a few importers. Where this is not possible (for example, where there are a few large global buyers, such as for sugar, coffee beans and cocoa), measures could be put in place to curb the exploitation of market power by private agents.

4.4 Policy responses in preference-receiving countries

The factors limiting the ability of beneficiary countries to fully avail themselves of preferences typically relate to the production and export environment and are not specific to the products receiving preferences. Thus, policy strategies relate to export promotion and increased economic efficiency. However, resources are limited and not all measures can be implemented, so initial efforts could focus on products for which preferences are available. From the perspective of beneficiary countries, low preference utilisation can be due to a number of factors:

- The countries do not have adequate capacity or do not produce competitive exports, given the specific preference margins, even where large product quotas are granted. Many preference-receiving countries are allowed quotas which they cannot meet, due to a lack of production capacity or a supporting environment to permit economically viable production.
- There is inadequate capital (human, physical and social) to support commercially viable foreign and domestic investment in preference-eligible products and upstream activities. Limited financial resources and underdeveloped financial markets and regulation hinder efficient capital flows and investment in physical infrastructure, technical know-how and business acumen.
- There is inadequate supporting domestic trade and other economic policies and regulatory institutions (e.g. production is restricted by burdensome trade and investment taxes, or lack of transparent investment practices and regulation, and investment protection).
- There is political instability and poor governance (e.g. in countries such as the Democratic Republic of Congo, Zambia and Zimbabwe).

- Climate and other natural conditions are adverse. Small island economies, which we have noted are prominent among countries exposed to preference erosion, are particularly vulnerable to natural disasters (e.g. hurricanes and floods) and trade shocks (e.g. volatile world prices). Many African countries are also vulnerable to weather events (droughts and floods) and trade shocks. In general, preference-receiving countries are also economies that are particularly vulnerable to adverse shocks.

These problems are inherent difficulties faced by low-income countries or specific problems faced by small island states (especially if they are remote). They provide good reasons why these countries should receive trade preferences. While previous attempts to address these underlying problems have had limited success, action is essential if countries are to benefit from preferences and adjust to preference erosion. Some of the actions that can be taken by preference-receiving countries are set out below. The benefits are not restricted to preferential exports, and similar measures are also appropriate when adjusting to a loss of preferences. The aim is to enhance competitiveness.

Internal policy reforms

Improvements in preference schemes are unlikely to yield benefits in cases where beneficiary countries have persistent deficiencies in markets and institutions (for finance, regulation, industry, agriculture and governance) and in the infrastructure necessary for creating and sustaining a credible environment for investment, production and foreign trade. Low-income countries in Africa have a particularly weak business environment.[21] Improving the business environment encourages investment and increased efficiency in production which will encourage exports and help countries benefit from trade opportunities, including preferences. This points to the need for further concerted efforts to reform the domestic business environment (and expedite regional integration), coupled with attempts to achieve lasting political stability, the lack of which is often cited as a significant disincentive, and to promote competitive and sustainable investment and production for the domestic and export markets.

Action: A specific area for reform is investment legislation, which is receiving attention in trade negotiations and arrangements. Investment provisions can be used to serve a number of purposes – investment promotion and co-operation, liberalisation and market access, and investment protection; the evidence suggests that their incorporation in agreements does increase foreign investment (Morrissey, 2008). Almost all preference-receiving countries participate in regional trade arrangements, implying that there is also a role for such groups to foster inter-regional and intra-regional investment and through that export development and diversification.

In relation to maximising benefits from preference schemes, beneficiary countries need to invest in upgrading technical knowledge, human resources and institutional capacity to take full advantage of preferential agreements which require in-depth knowledge of market access terms and conditions in preference-giving countries. Some needs in this respect are addressed under the trade facilitation issues reviewed below.

Trade facilitation

Supporting and promoting trade facilitation has become an important feature of development policy in recent years (Milner *et al.*, 2008). Some of the emphasis has been on investment in infrastructure to reduce trade costs, including transport, ports, and trade and customs services. More broadly, it is recognised that speeding up administrative procedures could have a major impact in reducing the costs and time required to distribute goods. Reducing barriers to trade, promoting regional integration, reducing transport costs, trade facilitation and improving the environment for producers are all seen as necessary to enhance the capacity for trade. Milner *et al.* (2008) establish that there is a body of evidence to show that improved trade facilitation can:

- Significantly lower trade costs, especially reducing timescales;
- Bring about significant increases in the volume of imports and exports, that may be even greater than the direct gains from trade policy reform;
- Allow for improvements in government revenue collection;
- Generally contribute to welfare improvements and economic growth.

These benefits must, of course, be viewed against the costs of implementing the institutional, infrastructure, human and resource upgrades required to achieve the appropriate level of reform. Here too there is empirical and case study evidence that the benefits are likely to considerably exceed the costs (although financially constrained developing countries may still require aid and external assistance to meet the costs).

There is therefore evidence and experience that can be drawn on to incorporate trade facilitation within regional integration agreements, as there are evident benefits from regional co-operation and co-ordination (e.g. in customs and port procedures, and investment in infrastructure). Although trade facilitation is often viewed as narrowly concerned with the ease and speed of customs procedures, improvements in which lie at its heart, Milner *et al.* (2008) show that even greater trade cost reductions and trade and welfare benefits may be reaped from a broader view, that incorporates transportation, distribution and communication issues.

There are a number of ways in which trade facilitation is relevant in the context of improving utilisation of preferences.

(a) In broad terms, reducing the costs of trade will tend to stimulate increased trade; this may have the most immediate impact on imports, but should also benefit exporters (e.g. improved customs clearance or port handling reduces delays, which is especially beneficial for perishable exports, and exporters often import intermediate inputs).

(b) Trade facilitation supports regional integration, as many of the measures relate to border procedures and/or would be more effective with regional co-ordination and co-operation. For example, improved trade facilitation in the context of regional

integration supports investment measures in EPAs (Morrissey, 2008). General improvements in the regional business and trade environment can benefit export producers in all countries.

(c) Measures related to customs procedures tend to increase the efficiency of revenue collection and are therefore typically associated with increases in revenue, providing resources to government. This implies some increase in government funding for measures that support exporters or to offset the adjustment costs of preference erosion.

(d) Enhanced trade facilitation enables countries to respond more effectively to other measures that reduce trade costs. For example, simplified rules of origin or requirements to comply with product standards can reduce trade costs; producers in countries with better trade facilitation can more easily available themselves of the benefits.

Investment promotion

Investment is a major determinant of economic growth. In general, low-income countries have relatively low levels of investment and its productivity tends to be low. This is one of the reasons why growth performance in low-income countries has been lower than desired. For example, many factors help to explain poor growth performance in sub-Saharan Africa, including natural and structural characteristics, which increase trade costs; poor governance and weak political will in relation to implementing market reforms, that make investment less attractive; and a lack of resources for financing investment. Low productivity of investment has also been an important factor.

Increasing the level and productivity of investment is essential to deliver increased and sustainable growth. Focusing on sub-Saharan African countries and foreign direct investment (FDI), Morrissey (2008) reviewed four issues to identify the types of investment measures and regulatory reforms, in particular those that could be incorporated in preferential trade agreements, that might encourage increased foreign investment. Effective and efficient policies depend on country circumstances, but they lie in four broad areas:

- Policies that provide political stability (e.g. governance) and enhance economic fundamentals, such as stable macroeconomic management, to provide a more attractive private sector environment;
- International policies conducive to investment, including integration and/or investment agreements;
- Policies that streamline regulatory and administrative procedures so that it is easier to do business, e.g. reducing start-up costs, flexible labour markets, protecting property rights and contract enforcement;
- Specific investment measures and incentives that are well designed, targeted and implemented consistently.

A number of regulatory reforms are likely to encourage investment, especially FDI, and competitiveness, thereby enhancing the growth impact of investment. The problems most developing countries face in respect of FDI are that the level is generally very low and typically it is highly concentrated in particular countries and/or sectors, with low levels of technology transfer and low linkages or spillovers for the rest of the economy. Regional integration and regulatory reforms provide an opportunity for LDCs, and poorer developing countries, to attract higher levels of more diversified FDI, larger markets, lower transactions costs associated with trade and investment, and generally a more favourable business environment.

The important issue for countries that need to adjust and respond to preference erosion is to encourage investment in the sectors that are best positioned to expand output, exploiting preferences where relevant, or that will suffer the greatest adjustment costs. In both cases, policy will need to be forward looking over a 5–10-year horizon. Measures to facilitate trade and promote investment in general will benefit all sectors, although targeting sectors affected by preference erosion is justified. These issues are considered in further detail in Chapter 5.

4.5 Summary and implications

If and when the Doha Round of negotiations resume and further multilateral liberalisation of trade is agreed, enhanced market access commitments will lead to preference erosion as MFN tariffs are reduced. Although a relatively small number of developing countries and LDCs are exposed to costs of preference erosion, the potential costs to these beneficiaries could be large. Most of the countries exposed to the erosion of preferences are either island economies in the Caribbean and Pacific (which benefit from ACP provisions) or countries in Africa (which benefit from ACP provisions and AGOA). A few Asian countries, notably Bangladesh, Cambodia, Myanmar and Nepal, are very exposed because they benefit from preferences concentrated in apparel, but will not gain 'preference protection' under the ACP (EPAs) or AGOA. The impact of preference erosion can be ameliorated by actions by preference-giving and preference-receiving countries to improve the design of preference schemes and enhance the ability of beneficiaries to expand competitive export production and utilise preferences.

There are a number of measures that preference-giving countries can implement to increase the effectiveness of preference schemes:

- Relax requirements relating to rules of origin, product quality, environmental standards and other non-tariff measures to reflect the needs of beneficiaries;
- Eliminate restrictions, tariff peaks and tariff escalation that affect products currently excluded from preference schemes, but that are products of actual or potential export interest to beneficiary countries;
- Ensure that preference schemes are predictable and long term, to facilitate investment in export production;

- Ensure that preference margins are sufficiently large to provide a real incentive to use them.

For preference-receiving countries, the important policy response is to create a favourable business and investment environment. Certain areas for regulatory reform are also important, and suggest domestic policy reforms that could be supported by preference-giving countries:

- Trade facilitation measures that reduce transaction costs and encourage domestic production and investment;
- Measures that make it quicker and easier to establish a business or make an investment (i.e. reduce red tape);
- Improved access to finance and financial services – access to credit is a major constraint on domestic investment in Africa;
- Improvements in the legal system that make property rights more secure, e.g. contract enforcement and investor protection.

Such measures can be an important part of a coherent strategy to increase the attractiveness of a country for investment, foreign and domestic, that can support more competitive production.

5

Strategies for Addressing Preference Erosion

This report has shown that only a relatively small number of developing and least developed countries are exposed to significant costs from preference erosion. The majority of these countries are either African (and can benefit from some 'preference protection' under arrangements for ACP countries and AGOA) or island economies in the Caribbean or Pacific (which can benefit from some 'preference protection' under ACP arrangements). An important distinction here is that whereas the 'terms of access' under AGOA are decided unilaterally by the USA, the terms of EU-ACP preferences will be determined in negotiations on the detail of economic partnership agreements. Consequently, as discussed below, the terms of preferences under EPAs are relevant to the trade policy negotiating strategies of ACP countries, in a way that AGOA is not. There are also a number of Asian countries, mostly LDCs such as Bangladesh, Cambodia, Myanmar and Nepal, that are exposed to potentially large costs of preference erosion; while they require a strategy for negotiations in the WTO relating to preferences, they are not party to EPA negotiations, but may face some specific preference erosion as a result of EPAs, to the extent that benefits of the EBA scheme are eroded.

The previous chapter discussed policy options in broad terms, distinguishing actions by preference-giving and receiving countries to make preferences more effective. This chapter explores some of these options further to identify strategies and specific actions for countries that are exposed to preference erosion, taking into account the products of most concern to them and the various PTAs they participate in. The chapter also considers adjustment strategies once erosion has occurred. The options are addressed under three broad headings. First, what issues should countries focus on in trade policy negotiations so as to influence the behaviour of preference-giving countries at the international level (Section 5.1)? Second, the actions that individual countries might take to facilitate trade and promote investment to support adjustment in affected sectors are outlined (Section 5.2). Third, consideration is given to how these actions can be financed; exposed countries have limited resources to finance public expenditure and investment themselves, so they will need to attract foreign investment and support in the form of aid (Section 5.3). Section 5.4 concludes by offering answers to the questions asked in the introduction.

5.1 Trade policy negotiating strategies

It is evident that for some countries and products preferential access to major markets has supported increased export production, and in some cases diversification (e.g. AGOA), thereby generating benefits to domestic economic activity, although there is little evidence that such benefits are significant and sustainable in the long run. These

countries are exposed to significant costs of preference erosion, both through reduced exports (as market share is displaced) and production, and costs of adjusting to changes in the extent and terms of preferences. While the primary source of future preference erosion is the enhanced market access being negotiated in the Doha Round of multilateral trade negotiations in the WTO, certain regional PTAs are also important, in terms of eroding preferences of non-participants and protecting those of participants. Although preference-receiving countries have a voice in trade negotiations, even if their ability to influence the terms of preferences negotiated is limited, negotiated agreements are unlikely to address the fundamental export problems that are inherent in export commodity dependence, structural weaknesses and rigidities in the preference receiving countries. Domestic policies to tackle these are considered in subsequent sections. Preference-receiving countries are faced with two principal issues in trade negotiations:

1. They should ensure that the potential costs of preference erosion are recognised and acknowledged. Even if erosion cannot be prevented, and as other countries benefit one may not wish to recommend this, the implementation of tariff reductions can be phased to give exposed countries time to adjust. They can also urge that the products of most concern to them are eligible for preferences, limiting exclusions by developed countries, and that markets are not distorted by tariff peaks and tariff escalation.

2. They should propose measures to improve the design and operation of preference schemes, by relaxing the 'terms of access' for preferences. The major issues here are reducing the complexity and increasing the transparency and predictability of rules of origin, product standards and other non-tariff measures (especially safeguard mechanisms) and any graduation criteria.

As discussed in Chapter 4, strict rules of origin undermine the value of preferences and increase the costs of utilising preferences (especially where preference-receiving countries are effectively denied access to the cheapest quality inputs). The potential costs of preference erosion could be offset if rules of origin were made more flexible and less stringent in terms of the source of inputs that can be used and the measure of domestic value added required. Preference schemes would be more beneficial if requirements and entitlements were transparent and fixed for 5–10 years. The cost of change can be minimised by simplifying existing rules and procedures rather than implementing new rules, even if these are less complex.

It would be particularly helpful for exposed countries if negotiations reflected their interests in niche markets. Especially favourable market access terms could be granted for exports of fair trade and organic products from preference-receiving countries. For example, semi-processed fair trade and organic commodities could be exempted from rules of origin requirements. On current evidence, this would relate mostly to bananas, coffee, cocoa and cotton, and perhaps also sugar and tea, so that the level of processing (domestic value added) is quite small. Furthermore, this would tend to benefit existing preference-receiving countries, especially ACP countries, and could encourage them to

focus more on fair trade options. For example, Asian apparel producers could seek recognition that they meet appropriate labour standards. Such measures could help to retain a level of preferential access for countries that have already suffered significant preference erosion.

The aspect of rules of origin that may be most affected by this relates to investment, as inputs are generally unimportant, except for apparel. This could affect EU requirements, as foreign ownership is covered by rules of origin, and is a specific issue to be addressed in EPAs. Relaxing ownership or investment rules of origin would be justified for fair trade products as they embody a requirement on the share of the price received by producers, whereas foreign involvement provides monitoring of compliance with fair trade requirements.

Although the governments of preference-receiving countries have very limited ability to influence or intervene in the market structure of supply chains, such as global buyers and multinational intermediaries with market power, they should establish regulatory and oversight institutions to ensure competition in relevant activities concerning preferential trade. Although developing countries have been reluctant to see competition policy included in WTO negotiations, regulatory institutions can be more effective at a regional level. Furthermore, as private agents, especially buyers and intermediaries, often have a dominant position in markets for preference goods, they affect the benefits that accrue to preference-receiving countries. For these reasons, exposed countries should recognise the potential for measures on competition policy in trade negotiations.

Competition policy refers to the set of measures employed by government to ensure a fair competitive market environment, typically involving competition laws and authorities. This is particularly important in ACP countries, where there are often only one or a few major firms in important sectors or with market power in international marketing, so that potential abuse of a dominant position may be a concern. As anti-competitive practices are quite widespread, it can be inferred that they impose costs; implementing competition policy, therefore, would provide benefits that may, in economic welfare terms, be quite large.[22]

The trade reforms inherent in EPAs and WTO negotiations, and associated moves towards greater regional integration will promote increased competition. Competition policy may then be seen as the institutional mechanism to ensure that markets remain accessible and contestable. While competition policy can be implemented effectively at country level, and indeed the focus at least initially should be on the national level, given the prevalence of trade, foreign investment and integration, it is evident that regional co-operation and co=ordination is important. By including minimal commitments in this regard, EPAs (or the WTO) can support the establishment of effective competition authorities and the promotion of fair competition.

The establishment of a competition culture takes time and requires relatively costly institutional reforms; enacting a competition law with limited application in the first instance is a recommended first step. An initial focus on 'hard core' cartels can address private cartel agreements to fix prices, restrict output, submit collusive tenders or share

markets by allocating customers, suppliers, territories or lines of commerce. These involve a particularly serious and harmful form of anti-competitive conduct that is prohibited by almost every national competition law. Success in anti-cartel efforts depends on international co-operation, as cartels operate in secret and important evidence may be located abroad, while international cartels grow in importance as markets become global. It is therefore difficult for a single national authority to prosecute without co-operation, and this provides an argument for establishing regional authorities, even if their remit is fairly limited. This is particularly relevant in the context of EPAs. Although regional institutions tend to be weak, EPAs could include measures to support regional co-operation on competition policy. Given the market power of large multi-nationals, even with legislation regional authorities may not have the power to restrain cartels and other uncompetitive conduct. The implication is that developing countries would require co-operation from advanced countries to cope with anti-competitive behaviour on the part of advanced country cartels between the large multi-nationals.

5.2 Trade facilitation and investment strategies

As discussed in Chapter 4, the inclusion of investment provisions in trade agreements is useful for investment promotion, co-operation and protection, and can help increase investment, especially foreign investment. Measures to facilitate trade and promote investment will benefit all sectors; specific targeting is justified for sectors affected by preference erosion. To be in a position to utilise altered preference schemes and adjust to preference erosion, exposed countries will need to invest in technology, human resources and institutional, especially marketing, capacity. Trade facilitation (on which we concentrate below) tends to focus on the latter, so investment strategies should identify the needs of preference sectors for new investment in production, especially technology.

From the perspective of adjusting and responding to preference erosion, the important issue for countries exposed to preference erosion is to encourage investment in the production sectors that are best positioned to expand (some of which can exploit preferences) or that will suffer the greatest adjustment costs. Sectors that have already experienced a loss of preferences will decline to some extent, so growth is required elsewhere in the economy, especially to provide employment. The benefits of foreign investment in transferring know-how (technology, management and human capital) need to be set against any rules of origin restrictions on foreign ownership. (As suggested above, these should be addressed in trade negotiations to provide greater flexibility.) In general, while investment measures may aim to target particular sectors, they need not discriminate between domestic and foreign sources: investment incentives should be available to all.

Promoting trade facilitation in broad terms can play an important role in investment in infrastructure and more efficient administrative procedures to reduce trade costs, including transport, ports and trade and customs services. The benefits generally outweigh the costs of implementing the reform, and external assistance can help meet the

costs (as discussed in the next section). Following the discussion of trade facilitation in the previous chapter, particular attention needs to be given to:[23]

(a) More efficient customs clearance and port handling to reduce delays and trade costs, especially for bulk and/or perishable exports. Improving clearance procedures leads to dramatic reductions in the time taken for goods to pass through customs, while increasing port efficiency provides even larger benefits in terms of reducing trade costs (and is more directly relevant for exporters). Trade facilitation measures in Mauritius are credited with a major contribution to the reduction of the cost and risk of exporting sugar and, more importantly, apparel.

(b) Measures to improve transport and distribution facilities are effective in reducing trade costs and increasing the profitability, if not volume, of exports. For example, computerised processing systems can reduce the cost of transporting sugar by almost 5 per cent of the shipment value. Similar gains could be anticipated for products like bananas.

(c) Time to market is reduced by efficient transport and logistics services and timely, transparent and predictable administrative procedures. This is especially important for perishable products (e.g. exports of cut flowers from Kenya) or fashion apparel, where changing designs must be incorporated rapidly. Although time does not seem to affect trade volumes, the ability to deliver rapidly is essential to serve a market. African exporters typically face export times twice those of Asian or Latin American competitors. Investments in trade facilitation that reduce shipment times can be highly beneficial, and in principle could compensate for significant reductions in preference margins.

(d) Regional co-ordination is particularly helpful to improve trade facilitation, reduce trade costs and encourage investment. This is especially relevant for landlocked countries, as goods have to travel through neighbouring countries, but can also be important for island economies, as specific ports may serve the main export markets.

5.3 Aid for trade and export development

Measures to actively facilitate trade are increasingly seen as essential to assist developing countries in expanding trade and benefiting from globalisation. As discussed above, promoting trade facilitation can be particularly effective and beneficial, but is costly to implement. The need for external assistance to finance trade facilitation measures has been recognised by donors and within the WTO, and has been included in discussions on so-called 'aid for trade' or, more specifically, aid financing of trade facilitation measures.

Existing sources of trade development support

Irrespective of the aid transfer or assistance source involved, the specific national issues and approaches relating to promoting and adjusting to trade expansion need to be clearly

expressed within national development plans and strategies (Hoekman *et al.*, 2004). This has been recognised in recent years by the efforts of some developing countries to incorporate a trade policy pillar into their Poverty Eradication Action Plans, and is a response to earlier failures to give sufficient attention to the development of productive sectors in general. The shift in priorities is reflected also in the increasing focus on 'aid for trade' issues of many of the bilateral donors and multilateral agencies.

For example, the Integrated Framework for Trade-related Technical Assistance to Least Developed Countries was inaugurated by six multilateral agencies (IMF, World Bank, UNCTAD, UNDP, ITC and WTO) in 1997. It brought together these multilateral agencies with bilateral donors and national governments to integrate trade into national development plans and assist in co-ordinated delivery of trade-related assistance. An IF Trust Fund was created in 2001, and now has two funding instruments based on voluntary contributions from multilateral and bilateral donors: Window I funds the Diagnostic Trade Integration Study (DTIS), which identifies constraints faced by traders, the sectors of greatest export potential and a plan of action for integrating a country further into the global trading system; Window II is a special facility, introduced in 2003, to finance high priority projects identified by the DTIS.

Direct funding under the IF has been quite limited. A maximum of only US$1 million was available for each country's DTIS (plus a small contribution towards the implementation of priority actions). By 2008, total allocations made by the IF Trust Fund amounted to only US$27 million, funded by contributions from multilateral and bilateral donors of US$50 million, although an indicative budget of US$400 million for an Enhanced IF (EIF) is in place for the next five years.

Even in terms of the countries to which the EIF is limited, the budget is modest relative to reasonable needs. The primary role is to help co-ordinate delivery of assistance. In the absence of substantive core funding for a systematic aid for trade programme, the credibility and effectiveness of the programme will be weakened, especially given the challenge of co-ordination with bilateral and multilateral donors. Increasing aid for trade provision will only improve the capacity of countries to create new export capabilities if the aid is disbursed appropriately and if the receiving countries are able to absorb and effectively utilise or mobilise the funds. Clearly, standard issues of aid effectiveness arise. The WTO is not a development agency, and administrative and technical support remains quite limited. Some enhancement of the WTO's capacity to mainstream trade development within national development strategies would be useful. It would improve the prospects for mainstreaming in a manner consistent with global trading rules, while allowing feedback on the evolution or revision of those rules. It would also allow trading rules, trade policy reform and trade development issues to be more effectively negotiated within the WTO's multilateral negotiating framework, and do this in a way that allows for differential treatment of developing countries.

There is a clear case for extending the programme to cover all countries that will experience adjustment costs from preference erosion and wider trade reform, and need assistance with export development. Indeed, the principle of differentiation ('special and

differential' treatment) is not restricted to a distinction between the least developed and other WTO members. Further, the widening of the programme's country coverage would increase the scope for regional coverage and co-ordination of adjustment support and trade development measures, where regional trading arrangements embody both least developed and developing country membership.

5.4 Conclusions: some questions answered

The focus of the preference-receiving countries in multilateral trade negotiations should be on how to implement MFN tariff liberalisation so as to sustain and maintain the benefits of preference margins for a sensible and feasible length of time, and to increase the utilisation and effectiveness of the margins that remain post-MFN reform.

Developing and least developed countries with the greatest exposure to preference erosion also tend to have the greatest need and scope for improving trade facilitation (narrowly and broadly defined). This is especially true of ACP countries, which account for the majority of the countries most exposed to preference erosion. Even if the most immediate direct effects of trade facilitation measures are on imports, there are potential large export-side benefits associated with the clearance of export goods through customs, borders and ports in a shorter time and at lower cost. These benefits are more likely to be realised at relatively lower cost if trade facilitation measures are incorporated into regional agreements, as there are cross-border externalities and economies of scale.

Current aid for trade initiatives of bilateral donors and multilateral agencies signal a greater commitment to direct assistance and more funding for comprehensive development of production and export capacity in LDCs. Greater funding, more ambitious country coverage, more effective integration into national policy formulation and clearer national ownership are required. But so too is stronger co-ordination across donors, agencies and regional country groupings.

The reform of the schemes themselves is, however, only part of the solution. Measures and accompanying funding support for export development (e.g. aid for trade initiatives) in the developing countries themselves are also required in order to increase the capacity of developing countries in general to take advantage of export market opportunities associated with preferences and, of equal if not greater importance, to adjust to the effects of loss of preferences. This is particularly the case for the relatively small number of countries that experienced loss of preferences in important products, notably sugar and bananas. It is also a wider requirement; trade development support measures should be seen both as support in the shorter term for preferential trade, but also as part of the preparation for a world without preferences.

The assessment of the effects of preference schemes and vulnerability to preference erosion answers questions of interest to policy-makers, especially in preference-receiving countries.

What has been the impact of non-reciprocal preferential trade arrangements? In general, for developing countries overall, their impact has been limited. The important

exception is developing countries and LDCs that have been beneficiaries of targeted preferences, notably ACP countries which have benefited from EU preference arrangements and African countries which have benefited from US provisions under AGOA.

Which countries and products or sectors would be most affected by the erosion of preferences? Essentially, it is those which benefited from targeted preferences that have already experienced or are vulnerable to further losses from preference erosion. These are mostly ACP countries (developing countries and LDCs, especially if they are dependent on exports of sugar or bananas), and especially sub-Saharan African countries (who also benefit from AGOA). Some Asian LDCs and north African countries are vulnerable to preference erosion on exports of apparel.

What are the key factors constraining a country's ability to benefit from trade preferences? In terms of the features of schemes, restrictive rules of origin are probably the single most important factor, as they impose high costs (in terms of the structure of production and acquiring information about the rules) and tend to be uncertain. Other product exclusions or restrictions, such as tariff peaks, and requirements for product standards, especially where these are uncertain and non-transparent, limit utilisation of preferences. Preference-receiving countries have often lacked the capacity or policy environment to encourage and support producers in availing themselves of preferences.

What are the most important measures that could mitigate constraints on preference utilisation? Preference-receiving countries should implement regulatory and institutional reforms to support trade and export diversification, so that they can benefit from preferences that continue and adapt to a more competitive global trading environment. These are sensible policy options for all countries, but beneficiaries may wish to initially focus on products facing preference erosion. Preference-giving countries should provide more flexible and transparent terms of access, especially for rules of origin and product standards, with targeted and predictable preference terms. The bilateral and multilateral donors also need to continue to support adjustment in the most adversely affected and vulnerable countries, and to ensure that there is additional support in general for aid for trade.

What policy measures are required to address the effects of preference erosion? In general, it is essential to recognise the features of vulnerable countries. Relatively few countries face potentially high losses and these are typically related to specific products, so measures should be targeted. There is a general need for financial and technical support to meet and mitigate adjustment costs and enhance trade facilitation. This will require external funding and co-ordination of effort. Beneficiary countries themselves should support producers and encourage export diversification; ultimately, no country wishes to depend on preferences.

Appendix to Chapter 2 (A2)

While a large number of preference schemes are offered by developed and developing country trade partners, the main preference-giving countries for developing and least developed countries are the QUAD+: the EU, USA, Japan, Canada and Australia. The EU and USA are discussed in Chapter 2, and we begin here with some information on the others (see relevant chapters in Hoekman *et al.*, 2009 for more detail). Japan offers GSP preferential tariff treatment to 141 developing countries, with LDCs being eligible for duty and quota free treatment on specified products. Canada imports most of its goods from the North American Free Trade Association (NAFTA) at significant margins of preference relative to MFN rates. Developing countries accounted for just under 20 per cent of its total imports in 2003, mostly under MFN, although about a quarter were subject to the General Preferential Tariff (GPT), which is generally less than half the MFN tariff. About three-quarters of preferential imports to Australia enter under developing country preferences, although since 2003 a more generous LDC preference scheme has been in place. The remainder of this appendix provides details and tables to supplement the discussion in Chapter 2.

Japan

Japan's GSP started in 1971. The current arrangements offer preferential tariff treatment to 141 developing countries, with LDCs being eligible for special preferential treatment (duty and quota free treatment on specified products). GSP treatment is granted to selected agricultural and fishery products (337 items) and industrial products (3,216 items). There is some duty free treatment under GSP for agricultural products (without ceilings), and presumption of duty free treatment for industrial products, with exceptions for sensitive items and ceilings on a significant proportion – about one-third – of industrial products subject to GSP treatment.

Canada

Canada's imports from developing countries accounted for just under 20 per cent of its total imports in 2003. About three-quarters of these were under MFN treatment, and the remaining imports from developing countries (4–5 per cent of total imports) were mainly subject to the General Preferential Tariff (GPT); the average GPT tariff was 2.2 per cent compared with the average MFN tariff in 2009 of 5.8 per cent. The least developed country tariff (LDCT), usually 0 per cent, covered a very small proportion (0.7%) of Canada's total imports.

The overall margin of preference offered by MFN tariffs is therefore limited and should be viewed in the context of Canada importing most of its goods from NAFTA at significant margins of preference relative to MFN rates: There are also further sources of dilution of the benefits (currently or to be expected in future) from Canada's bilateral Free Trade Agreements (with Israel, Chile and Costa Rica) and its participation in

broader schemes (Asia-Pacific Economic Cooperation (APEC) and the Free Trade Area for the Americas (FTAA)). The main beneficiaries of Canada's preferential arrangements are the more advanced developing countries (Mexico, Brazil and China), although a number of LDCs have benefited from the extension in 2003 of the LDCT to textiles and clothing.

Australia

Australia's non-reciprocal preferential tariff schemes can be grouped into developing country preferences, special rates for specific countries, Forum Island Country (FIC) preferences and preferences applicable mainly to LDCs. The developing country tariff is the broadest preference in terms of the number of economies that are eligible. It is by far the most heavily used preference, applicable to some US$14.5 billion in imports in 2004, i.e. about three-quarters of preferential imports to Australia. The volume of imports under this arrangement increased substantially during the period 1996–2004. Imports under the programme ranged from 33 to 40 per cent total imports from developing countries during this period. Again, given the low overall MFN the 'historical' preference for LDCs provides preferential access for a limited number of tariff lines for these economies, in addition to the benefits available under the developing country preferences. Flows under the 'historical' scheme amounted to just US$23 million in 2004. In 2003, a new and more generous LDC preference was introduced. The take-up has not resulted, however, in a large increase in import volumes under the new scheme; with goods receiving preference accounting for about 0.1 per cent of developing country exports to Australia.

Other schemes

Several other developed and developing countries offer preferential treatment to exports from least developed or marginalised economies. For example, in addition to the GSP preferences discussed above, nine other national GSP schemes have been notified to UNCTAD (by Belarus, Bulgaria, Estonia, Japan, New Zealand, Norway, Russian Federation, Switzerland and Turkey). Developing countries such as India also offer tariff preferences (in this case for a limited number of products, although further improved access for LDCs is under consideration).

Extent and trade coverage of preferential schemes

Table A2.1 reports the number of tariff lines imported by QUAD countries from beneficiaries of various QUAD preference schemes and the terms under which they are imported. Details of agricultural and non-agricultural tariff lines are provided in Tables AT1, AT2 and AT3. In 2003, QUAD countries imported between 8,497 and 10,496 (with an average of 9,673) tariff lines, over half (53%) of which are on preferential terms. The EU had the largest share of preferential tariff lines estimated at an average of 73 per cent of the total tariff lines under its various schemes, while Canada, with 40 per cent, provides the smallest proportion under the preferential schemes; however, Canada

has the largest share (50%) of tariff lines subject to zero MFN duties. Poor countries tend to have high export dependence on a few tariff lines, some of which are also considered as 'sensitive' in QUAD countries and therefore subject to non-zero MFN duties.

Table A2.1 Tariff lines of preferential imports by QUAD countries, 2003

	EU-15		USA		Japan		Canada		Average	
All schemes	**Tariff lines**	**%[a]**	**Tariff lines**	**%[a]**	**Tariff lines**	**%[a]**	**Tariff lines**	**%[a]**	**Tariff lines**	**%[a]**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(11)**	**(12)**
Total tariff lines	**10,404**	**100**	**10,496**	**100**	**9,296**	**100**	**8,497**	**100**	**9,673**	**100**
MFN duty free	2,176	21	3,220	31	3,349	36	4,261	50	3,252	34
MFN dutiable	640	6	1,935	18	1,931	21	814	10	1,330	14
Preferential access	7,588	73	5,341	51	4,017	43	3,422	40	5,092	53
Duty free preference	6,704	64	5,331	51	3,381	36	2,817	33	4,558	47
Preferential duties	884	8	10	0	636	7	605	7	534	6

[a]Ratio of MFN duty free, preferential access, duty free preference, etc. to all tariff lines.
Source: Calculated by authors using data from Table A1 in Low *et al.* (2005; 2006).

On average the GSP has the largest shares of dutiable tariff lines (both MFN and preferential duties), while the EU has the smallest shares of dutiable tariff lines across its preference schemes. However, the important issue is that often tariff lines (particularly for agricultural products) of significant export interest to beneficiary countries are either wholly excluded from preferential treatment or are subject to strenuous rules of origin and technical and product standards when allowed under preferential terms. (This issue is discussed further in Chapter 4.) It is now commonly acknowledged that successive rounds of multilateral trade agreements have reduced the relative importance of import duties and quota restrictions, while the importance of non-traditional and new generation non-tariff measures has increased. Ultimately, beneficiary countries fail to take full advantage of the preference schemes due to both their supply-side constraints and conditionality (rules of origin) or documentation barriers to accessing preference schemes.

Evolution of preferential trade

Table A2.2 shows that between 1994 and 2001 QUAD imports from 49 least developed countries (33 of which are African) receiving GSP preferences increased from US$999 million to US$4,920 million and the utilisation rate of the GSP by these countries increased on average from 48.2 per cent in 1994 to 68.5 per cent (although utilisation fell to 30 per cent in 1997). However, the increase in utilisation is largely due to a steady rise in oil exports (to a large extent from West African oil exporting countries) to the USA, where utilisation rate stood at 95.8 per cent in 2001 (UNCTAD, 2004). If oil exports lowers are excluded, utilisation of the US GSP falls to 47 per cent.

Table A2.2 Effectiveness of QUAD preference schemes for LDCs as measured by import coverage, utilisation rate and utility rate, 1994–2001

Country/ country group	Year	Total imports	Dutiable imports (US$ million)	Imports eligible for GSP preferences	Imports receiving GSP preferences	Imports covered by GSP scheme	Utilisation rate of GSP scheme	Utility rate of GSP scheme
		(a)	(b)	(c)	(d)	(c)/(b)	(d)/(c)	(d)/(a)
QUAD	1994	5,347.0	3,917.3	2,071.0	999.0	52.9	48.2	18.7
	1995	6,087.8	4,706.1	2,564.3	1,361.2	54.5	53.1	22.4
	1996	9,956.3	7,451.1	2,985.0	1,517.9	40.1	50.9	15.2
	1997	10,634.1	8,163.4	5,923.1	1,788.2	72.6	30.2	16.8
	1998	9,795.7	7,915.1	5,564.2	2,704.5	70.3	48.6	27.6
	1999	10,486.5	8,950.4	5,869.3	3,487.5	65.6	59.4	33.3
	2000	13,359.2	11,715.5	7,836.0	4,990.2	66.9	63.7	37.4
	2001	12,838.2	11,167.1	7,185.5	4,919.9	64.3	68.5	38.3
EU	1994	2,471.2	1,823.4	1,791.7	748.1	98.3	41.8	30.3
	1995	2,814.6	2,277.8	2,246.3	1,077.6	98.6	48.0	38.3
	1996	3,219.0	2,580.3	2,520.1	1,196.8	97.7	47.5	37.2
	1997	3,614.8	2,926.3	2,888.8	770.8	98.7	26.7	21.3
	1998	3,519.4	2,932.1	2,908.0	761.8	99.2	26.2	21.6
	1999	3,562.2	3,100.9	3,075.2	1,035.0	99.2	33.7	29.1
	2000	4,247.1	3,671.7	3,633.6	1,499.5	99.0	41.3	35.3
	2001	4,372.4	3,958.1	3,935.7	1,847.4	99.4	46.9	42.3
USA	1994	1,755.3	1,398.4	68.1	50.4	4.9	74.0	2.9
	1995	1,787.5	1,474.3	69.7	49.4	4.7	70.9	2.8
	1996	4,896.1	3,896.5	69.7	48.3	1.8	69.3	1.0
	1997	5,609.1	4,432.5	2,719.4	790.6	61.4	29.1	14.1
	1998	4,974.9	4,247.1	2,282.4	1,747.0	53.7	76.5	35.1
	1999	5,780.7	5,109.2	2,419.7	2,215.7	47.4	91.6	38.3
	2000	7,695.5	7,086.6	3,577.2	3,247.5	50.5	90.8	42.2
	2001	7,221.3	6,716.3	2,960.1	2,836.1	44.1	95.8	39.3

Table A2.2 (continued)

Country/ country group	Year	Total imports	Dutiable imports (US$ million)	Imports eligible for GSP preferences	Imports receiving GSP preferences	Imports covered by GSP scheme	Utilisation rate of GSP scheme	Utility rate of GSP scheme
		(a)	(b)	(c)	(d)	(c)/(b)	(d)/(c)	(d)/(a)
Japan	1994	1,120.5	695.5	211.2	200.5	30.4	94.9	17.9
	1995	1,309.8	912.7	241.9	230.1	26.5	95.1	17.6
	1996	1,504.3	939.8	388.9	269.9	41.4	69.4	17.6
	1997	1,204.9	757.3	306.3	222.1	40.4	72.5	18.4
	1998	1,045.4	643.8	364.0	189.9	56.5	52.2	18.2
	1999	989.0	679.6	366.2	231.9	53.9	63.3	23.4
	2000	1,236.5	881.3	615.3	236.0	69.8	38.4	19.1
	2001	1,001.3	398.1	278.3	228.4	69.9	82.1	22.8
Canada	1994	–	–	–	–	–	–	–
	1995	175.9	41.3	6.4	4.1	15.5	64.1	2.3
	1996	336.9	34.5	6.3	2.9	18.3	46.0	0.9
	1997	205.3	47.3	8.6	4.7	18.2	54.7	2.3
	1998	256.0	92.1	9.8	5.8	10.6	59.2	2.3
	1999	154.6	60.7	8.2	4.9	13.5	59.8	3.2
	2000	180.1	75.9	9.9	7.2	13.0	72.7	4.0
	2001	243.2	44.6	11.4	8.0	12.1	70.2	3.3

Source: UNCTAD (2004).

Composition of preferential trade

Table AT7 reports the values of preferential exports of selected developing and least developed countries to the QUAD countries and Australia in 2003.[24] The information in Table AT7 confirms the contrasting importance of the various schemes between developing and least developed countries. In terms of absolute bilateral import values of QUAD+, beneficiary developing countries exported more than 11 times more (US$151,313 million) than beneficiary LDCs (US$13,133 million) under preferential terms of market access.[25] For agricultural exports, the highest shares of exports for both developing (46%) and least developed (59%) countries entered the QUAD+ subject to zero MFN duties. However, for some LDCs, preference schemes are not important in their trade in agricultural products with the QUAD+. For example, Central African Republic, Chad, Burundi, Maldives, Rwanda, Mali, Sierra Leone, Guinea-Bissau, Guinea, Benin, Lesotho, Angola and Solomon Islands exported at least 90 per cent of their agricultural products to the QUAD+ on non-preferential access terms (albeit they exported under MFN duty free access terms).

Agricultural exports are important for many developing and most least developed countries and some have lower unit production cost conditions than the QUAD+ in certain products (e.g. sugar and beef). Preferential market access accounted for 23 per cent of agricultural exports for developing countries and 37 per cent for LDCs. This indicates the relatively more restricted market access for agricultural exports into the QUAD+, often hampered by trade barriers in the form of tariff peaks, tariff escalation, non-tariff barriers and technical barriers (some of which are genuinely important to safeguard health and safety of consumers). However, since these market access conditions apply to all exporters to the QUAD+ and beneficiary countries do export on preferential terms, there are beneficial preference margins accruing to beneficiary countries. Clearly, erosion of such preference margins under multilateral liberalisation is of concern to beneficiary countries.

Key preferential exports of developing and least developed countries

Beneficiary developing and least developed countries as a group export a wide variety of agricultural and non-agricultural products, including meat, fish (fresh, chilled or frozen and crustaceans), preserved fish, vegetables, fruit, cereals, vegetable oil, sugar, prepared fruit and vegetables, wine, tobacco, wood, and clothing and textiles.26 A few countries also export products from the extractive industries, such as precious metals, oil and gas. Table A2.3 shows a representative list of the key products (in descending order of value) of beneficiary developing and least developed countries based on key African exports to the EU.27 As the values of individual products are small, they are not given, but as a group they generated a gross sum of US$8.5 billion (representing 12 per cent of total EU imports from Africa in 2000). The export products reported in Table A2.3 can be placed into six major groups according to the broad relative terms of access they face in the QUAD countries: textiles and clothing; sugar; fresh fruit and vegetables; prepared fruit and vegetables, wine, tobacco and wood; meat; and fish.

Textiles and clothing

Table A2.4 shows the access terms for clothing and textile products exported by both north and sub-Saharan African countries to QUAD countries. Clothing and textiles cover a wide range of individual product items and are exported by a large number of developing and least developed countries. Table A2.5 shows the access terms for export products of north African countries only. For the EU market both groups (north Africa and sub-Saharan, and north Africa only) exported clothing products to the EU duty free (provided rules of origin were met). However, for the US market north Africa and sub-Saharan Africa as a group had better access terms, ranging from duty free access (mostly under AGOA for 19 qualifying African countries – see section on AGOA)[28] to the highest tariff rate of 32.7 per cent.

Table A2.3 Representative list of African exports to the EU (in descending order of value)

HS-4	CN8	Description
6203	17	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts
6204	21	Women's or girls' suits, ensembles, jackets, dresses, skirts, divided skirts, trousers, bib and brace overalls
6109	2	T-shirts, singlets and other vests, knitted or crocheted
6110	7	Jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted (excl. wadded waistcoats)
1604	8	Prepared or preserved fish; caviar and caviar substitutes prepared from fish eggs
8703	1	Motor cars and other motor vehicles principally designed for the transport of persons, including station
1701	3	Cane or beet sugar and chemically pure sucrose, in solid form
2401	5	Unmanufactured tobacco; tobacco refuse
0805	7	Citrus fruit, fresh or dried
6205	2	Men's or boys' shirts (excl. knitted or crocheted, nightshirts, singlets and other vests)
0803	1	Bananas, incl. plantains, fresh or dried
2204	6	Wine of fresh grapes, incl. fortified wines; grape must, partly fermented, of actual alcoholic strength of > 0.5
0302	4	Fish, fresh or chilled (excl. fish fillets and other fish meat of heading 0304)
6206	2	Women's or girls' blouses, shirts and shirt-blouses (excl. knitted or crocheted and vests)
0806	2	Grapes, fresh or dried
1509	3	Olive oil and its fractions, whether or not refined, but not chemically modified
6211	6	Track suits, ski suits, swimwear and other garments n.e.s. (excl. knitted or crocheted)
0306	4	Crustaceans, whether in shell or not, live, fresh, chilled, frozen, dried, salted or in brine
0808	4	Apples, pears and quinces, fresh

Table A2.3 (continued)

HS-4	CN8	Description
6108	4	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, negligées, bathrobes, dressing gowns
0303	3	Frozen fish (excl. fish fillets and other fish meat of heading 0304)
0708	1	Leguminous vegetables, shelled or unshelled, fresh or chilled
0702	1	Tomatoes, fresh or chilled
6105	1	Men's or boys' shirts, knitted or crocheted (excl. nightshirts, t-shirts, singlets and other vests)
0201	1	Meat of bovine animals, fresh or chilled
6302	5	Bed-linen, table linen, toilet linen and kitchen linen of all types of textile materials (excl. floor-cloths
2008	6	Fruits, nuts and other edible parts of plants, prepared or preserved, whether or not containing added sugar
6111	1	Babies' garments and clothing accessories, knitted or crocheted (excl. hats)
2005	3	Other vegetables prepared or preserved otherwise than by vinegar or acetic acid (excl. frozen, and tomatoes, fresh or chilled)
6107	2	Men's or boys' underpants, briefs, nightshirts, pyjamas, bathrobes, dressing gowns and similar articles
6209	2	Babies' garments and clothing accessories of all types of textile materials (excl. knitted or crocheted)
6201	5	Men's or boys' overcoats, car-coats, capes, cloaks, anoraks, incl. ski-jackets, windcheaters, wind-jackets
6104	5	Women's or girls' suits, ensembles, jackets, dresses, skirts, divided skirts, trousers, bib and brace overalls
0709	2	Other vegetables, fresh or chilled (excl. potatoes, tomatoes, alliaceous vegetables, edible brassicas, lettuce
0701	1	Potatoes, fresh or chilled
6210	3	Garments made up of felt or nonwovens, whether or not impregnated, coated, covered or laminated
6112	2	Track-suits, ski-suits and swimwear, knitted or crocheted
6202	2	Women's or girls' overcoats, car-coats, capes, cloaks, anoraks, incl. ski-jackets, windcheaters, wind-jackets
0810	1	Strawberries, raspberries, blackberries, black, white or red currants, gooseberries and other edible fruit
6106	2	Women's or girls' blouses, shirts and shirt-blouses, knitted or crocheted (excl. t-shirts and vests)
0304	2	Fish fillets and other fish meat, whether or not minced, fresh, chilled or frozen
6208	2	Women's or girls' vests, slips, petticoats, briefs, panties, nightdresses, pyjamas, negligées, bathrobes,
1605	2	Crustaceans, molluscs and other aquatic invertebrates, prepared or preserved

Table A2.3 (continued)

HS-4	CN8	Description
2009	2	Fruit juices, incl. grape must, and vegetable juices, unfermented, not containing added spirit
0202	2	Meat of bovine animals, frozen
0811	1	Fruit and nuts, uncooked or cooked by steaming or boiling in water, frozen, whether or not containing added sugar
0712	1	Dried vegetables, whole, cut, sliced, broken or in powder, but not further prepared
6207	1	Men's or boys' singlets and other vests, underpants, briefs, nightshirts, pyjamas, bathrobes, dressing gowns
4412	1	Plywood, veneered wood and similar laminated wood (excl. sheets of compressed wood, hollow-core)
8527	1	Reception apparatus for radio-telephony, radio-telegraphy or radio-broadcasting, whether or not combined
6103	1	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts
1007	1	Grain sorghum
6115	1	Panty hose, tights, stockings, socks and other hosiery, incl. stockings for varicose veins, knitted or crocheted
6911	1	Tableware, kitchenware, other household articles and toilet articles, of porcelain or china (excl. baths, bidets)
6304	1	Articles for interior furnishing, of all types of textile materials (excl. blankets and travelling rugs, bed-linen
0809	1	Apricots, cherries, peaches incl. nectarines, plums and sloes, fresh

Source: Stevens and Kennan (2004b).

The 'north Africa only' sub-group (most likely without AGOA beneficiaries) did not enjoy such levels of preferential access terms, as almost all their clothing exports to the USA were subject to non-zero duties (see Table A2.5). However, US tariffs on clothing were lower than those imposed by Japan and Canada, which implies that the USA was still a more attractive market destination for north Africa's exports of clothing. One of the reasons for lower volumes of African (except for least developed African countries) clothing exports to Japan and Canada is that they are accorded the same treatment as those from GSP-receiving countries, while clothing and GSP textiles imports into Japan and Canada face some of the highest tariffs and stricter rules of origin. Rules of origin may either prevent a country from obtaining the preferences notionally given or require firms to take commercially unviable decisions (e.g. buying expensive cloth inputs) in order to benefit (Stevens and Kennan, 2004b).

Table A2.4 Access terms for both north and sub-Saharan African clothing exports in the QUAD countries[a]

		Tariffs applied by QUAD countries[b]			
HS-4	**Description**	**EU**	**USA**	**Japan**	**Canada**
6105	Men's or boys' shirts, knitted or crocheted (excl. nightshirts, t-shirts, singlets and other vests)	0	0 or 20.1	8.5–12.7	18.5
6106	Women's or girls' blouses, shirts and shirtblouses knitted or crocheted (excl. t-shirts and vests)	0	0 or 15.5–32.8	8.5–12.7	18.5
6109	T-shirts, singlets and other vests, knitted or crocheted	0	0 or 5.7–32.6	8.5 - 12.7	18.5
6110	Jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted (excl. wadded waistcoats)	0 or 9.2	0 or 5–32.7	10.6–15.0	18.5
6203	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excl. knitted or crocheted)	0 or 8.1	0 or 0.9–28.4 or 17.7%+US$0.452/kg or 18.6%+US$0.159/kg	10.6–15.0	17.5 or 18.5
6204	Women's or girls' suits, ensembles, jackets, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts	0	0 or 1.4–29.1 or 18.6%+US$0.139/kg or 'rate unknown'	10.6–15.0	17.5 or 18.5
6205	Men's or boys' shirts (excl. knitted or crocheted, nightshirts, singlets and other vests)	0	0 or 2.4 to 26.4%+US$0.296/kg	8.5	17.5 or 18.5
6206	Women's or girls' blouses, shirts and shirtblouses (excl. knitted or crocheted and vests)	0	0 or 3.6–27.4	8.5–13	17.5 or 18.5

Source: Stevens and Kennan (2004b).

[a]In 2000, into EU.

[b]The tariffs or ranges shown are those applicable to the HS-6 sub-heads within the respective HS-4 headings in which there were exports to the EU by least one African country to a value of US$5 million or more in 2000, and to the countries making those exports. They do not necessarily represent the full range of tariffs applicable to the HS-4 heading.

Table A2.5 Access terms for north African clothing exports in the QUAD

		Tariffs applied by QUAD countries			
HS-4	**Description**	**EU**	**USA**	**Japan**	**Canada**
6112	Track-suits, ski-suits and swimwear, knitted or crocheted	0	25.4 or 28.7	11.8 or 12.7	18.5
6115	Panty hose, tights, stockings, socks and other hosiery, incl. stockings for varicose veins, knitted or crocheted (excl. for babies)	0	0–13.8	8.5	16%+0.3¢/pair
6103	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excl. wind-jackets and similar articles)	0	15–28.7	11.8 or 12.7	18.5
6104	Women's or girls' suits, ensembles, jackets, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts	0	10.5–28.7	11.8 or 12.7	18.5
6107	Men's or boys' underpants, briefs, nightshirts, pyjamas, bathrobes, dressing gowns and similar articles, knitted or crocheted	0	7.6 or 9.1	8.5	0 or 18.5
6108	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, negligées, bathrobes, dressing gowns, housecoats and similar articles	0	7.8–15.9	8.5	0 or 18.5
6111	Babies' garments and clothing accessories, knitted or crocheted (excl. hats)	0	8.2–20.1	8.5–12.6	18.5
6201	Men's or boys' overcoats, car-coats, capes, cloaks, anoraks, incl. ski-jackets, windcheaters, wind-jackets and similar articles	0	4.5–28.2	10.6 or 15	17.5–19
6202	Women's or girls' overcoats, car-coats, capes, cloaks, anoraks, incl. ski-jackets, windcheaters, wind-jackets and similar articles	0	4.5% to 17.7%+US$0.426/kg	10.6 or 15	17.5 or 18.5
6207	Men's or boys' singlets and other vests, underpants, briefs, nightshirts, pyjamas, bathrobes, dressing gowns and similar articles	0	6.2	8.5	17.5
6208	Women's or girls' vests, slips, petticoats, briefs, panties, nightdresses, pyjamas, negligées, bathrobes, dressing gowns and similar articles	0	7.8–16.3	8.5–13	17.5 or 18.5

Table A2.5 (continued)

		Tariffs applied by QUAD countries			
HS-4	**Description**	**EU**	**USA**	**Japan**	**Canada**
6209	Babies' garments and clothing accessories of all types of textile materials (excl. knitted or crocheted and hats)	0	0.9–24	8.5 - 13	17.5 or 18.5
6210	Garments made up of felt or non-wovens, whether or not impregnated, coated, covered or laminated; garments of textile materials	0	4.3–7.2	10.6 or 13	0 or 18.5
6211	Track suits, ski suits, swimwear and other garments n.e.s. (excl. knitted or crocheted)	0	3.2–16.3	10.6 or 15	0–18.5

Source: Stevens and Kennan (2004b).
[a]In 2000 into EU.
[b]The tariffs or ranges shown are those applicable to the HS6 sub-heads within the respective HS4 headings in which there were exports to the EU by least one African country to a value of $5 million or more in 2000, and to the countries making those exports. They do not necessarily represent the full range of tariffs applicable to the HS4 heading.

Rules of origin under the preferential schemes have played an important role in influencing what type of clothing products are exported to both the EU and USA. Often a distinction is made between knitwear products and woven products. For a long time, beneficiary countries have largely exported knitwear products to the EU, mainly because the rule of origin of substantial transformation is easily met by transforming yarn to knitted items on less capital-intensive knitting machines. Woven products, however, involve transforming yarn into the intermediate fabric item and then fabric into a woven item. The intermediate stage (fabric) is often capital-intensive, which most firms in beneficiary countries cannot afford; hence, they end up importing fabric. If fabric is imported from preference-giving countries, access to preferential treatment may be guaranteed; otherwise, preferences are forfeited. The problem with sourcing materials from preference-giving countries is that these countries may not always be the most competitive and this undermines the competitiveness of the finished product. Attempts to ease such restrictive elements of rules of origin have included allowing sourcing of imports within other beneficiary countries (by way of cumulation) or reducing the margin by which the value of imported inputs from third party countries does not exceed certain limits, for example, 40 per cent of the ex-work price.

Under AGOA, the distinction between woven and knitted clothing items is not important; instead the distinction is whether or not the clothing item is fully formed and where the transformation takes place. Very strict rules of origin apply where items of clothing are made from already cut pieces; in this case US yarn must be used and the

sewing or joining together of components must also be done in the USA or in an AGOA-eligible country. Unlimited duty free access is granted where these conditions are fully met. More relaxed rules of origin apply where clothing items are cut and assembled or knitted in one or more sub-Saharan African country. Here it is required that the fabrics must be woven in the sub-Saharan African region from yarns formed in either the USA or the beneficiary region. Again the fabric weaving is the difficult element for most beneficiary countries individually, but sourcing from the wider sub-Saharan African region under cumulation provisions reduces the difficulty (while also providing business opportunities to fabric producing countries, although there are only a few that are internationally competitive).

Sugar

In addition to exporting to the EU market under Sugar Protocol, African countries also export sugar to the other QUAD countries, the USA and Japan (and to Canada in the recent past); Australia has a specific sugar import regime that favours Pacific and Asian countries. Under the Sugar Protocol, ACP countries that benefit are allocated duty free quotas to supply to the EU at EU domestic prices which are set above world prices. Any excess is exported at MFN tariffs. In practice some protocol countries have not exhausted their quotas. African sugar is subject to tariffs in the USA and Japan (see Table A2.6).

Table A2.6 African sugar tariffs and export revenues in QUAD countries

Raw cane sugar, for refining	EU		USA		Japan		Canada
	Tariff	US$ m	Tariff	US$ m	Tariff	US$ m	Tariff
Total		**302.8**	**0 or $0.3387/kg**	**51.1**	**35.3 to 103.1 Y/kg**	**34.0**	**0**
Mauritius	0	172.4					
Swaziland	0	74.3					
Zimbabwe	0	21.6					
Malawi	0	8.1					
Tanzania	0	7.8					
Congo Rep.	0	7.0					
Côte d'Ivoire	0	6.2					
Zambia	0	5.4					
Raw cane sugar, not for refining							
Total		**40.9**	**0 or $0.3387/kg**		**35.3 to 103.1 Y/kg**		**0**
Mauritius	0	31.4					
Malawi	0	9.5					

Source: Stevens and Kennan (2004b).

The high EU domestic sugar prices set above world prices and the application of MFN tariffs against non-protocol exporters afford protocol countries substantial economic transfers that on a unit basis make the sugar protocol one of the most lucrative EU preferential arrangements for ACP countries. Milner, Morgan and Zgovu (2004) estimate income transfers accruing to sugar protocol beneficiary LDCs and non-LDCs and establish that sugar rents represent significant proportions of domestic economic activity. Unsurprisingly, EU sugar reforms are shown to have important adverse effects on economies where sugar export earnings account for significant shares of total export earnings and GDP, inter alia. The adverse effects are also be felt at other stages in the value-chain, for example, direct and indirect employment and wage incomes among households involved directly or indirectly in the sugar industry.

Fresh fruit and vegetables

Exports of fresh fruit and vegetables face formidable challenges in that some elements are highly perishable while others have high weight-to-value ratios. This means that proximity to destination markets plays an important role unless considerable capital outlays are made in storage facilities and reducing product transfer times. Although tariffs on most fresh fruit and vegetables are not highly restrictive, trade in fresh fruit and vegetables is weak. Stevens and Kennan (2004b) suggest that technical barriers in the form of SPS regulations are one of the major hindrances in this product range. In terms of specific products exported by specific countries, the data show that Cameroon and Côte d'Ivoire are the main African banana exporters, Kenya and Uganda export fresh vegetables (in addition to a successful Kenyan trade in roses and other cut flowers) and South Africa exports the largest variety of fresh fruit and vegetables – partly on account of more capital-intensive production combined with temperate climatic conditions in most parts of the country.

Prepared fruit and vegetables, wine, tobacco and wood

Only a handful of African countries are able to export prepared fruit and vegetables, and wine. Stevens and Kennan (2004b) note that, given the narrow tariff margins (MFN versus preferential duty free terms) and the limited number of African countries involved, most of the items under this category do not make it on the list of 'preference relevant items' exported to the G8 group of countries. It is worth highlighting some noteworthy cases of individual products and treatment by some QUAD countries.

On average, exports under this sub-heading face zero or negligible tariffs in the QUAD countries. Exceptions abound, however, with very high tariffs in place on specific products, for example on grape juice, wine and tobacco. South African exports of grape juice to Japan (but not to the EU) face a tariff of 19.1 per cent; Japan's tariffs on wine range between 19 and 92 per cent, whereas for Canada they range between 1 and 39 per cent. Tobacco enters duty free in all QUAD countries except the USA, where tariff barriers as high as 350 per cent are erected depending on tobacco items (others

enter duty free). Prepared fruit and fruit juice containing sugar generally attract high tariffs – as high as 30 per cent in Japan (but not in the USA or Canada).

Meat

The EU is the main and so far sole destination of meat exports from sub-Saharan Africa (mainly from Botswana, Namibia, Swaziland and Zimbabwe). Meat exports are exclusively chilled and frozen boneless beef, and the four Southern Africa countries are allocated quotas which they have not managed to satisfy on a regular basis (Stevens and Kennan, 2004b). South Africa produces sizeable quantities of beef for both domestic consumption and export, but it is a net importer and as a non-LDC country it faces MFN tariffs in the EU.

Beef prices are maintained at artificially high levels because of CAP policy and tariffs; the high beef prices provide ample preference margins and as quotas are not exhausted there is little incentive for African beef exporters to diversify markets, even to other QUAD countries (Stevens and Kennan, 2004b). It is clear therefore that pressures for CAP reform and multilateral liberalisation pressures on beef tariffs pose a considerable threat to the beef preferences incomes accruing to beef exporters to the EU.

Fish

Only a handful of African countries export fish and fish products, and the main export destination is the EU: two north African countries (Morocco and Tunisia), five West African countries (Mauritania, Senegal, Côte d'Ivoire, Nigeria and Gabon), and two southern African countries (South Africa and Namibia). Fresh and processed fish from all of these countries (except South Africa) enter the EU duty free – South African fish exports are taxed at 15 per cent. Tariffs on a wide variety of fish and processed fish products are generally low, ranging from 0 per cent for many fresh fish and 6 per cent; the highest tariff for processed fish is around 7 per cent, except for a few cases where tariffs are as high as 10 or 20 per cent. Despite these generally favourable tariffs, fish exports to the EU are very low, if not negligible. This suggests that there are other factors, presumably non-tariff barriers (including rules of origin) and technical barriers, that hinder imports of fish into the EU. EU rules of origin governing trade in fish accord fish originating status by reference to the nationality of not only the territory where the fish is caught, but also the nationality of the fishing vessel and certain nationality percentages of the fishing crew. The USA and Canada apply value-added criteria that do not involve consideration of the nationality of vessels or crew.

Appendix to Chapter 3 (A3)

The provision of trade preferences is embodied in preferential trade arrangements such as customs unions and free trade areas, typically those between developed and developing countries. Such PTAs tend to increase trade between members participating in the arrangement and may also affect trade with non-members. The PTAs can be reciprocal, where members reciprocate the treatment received in equal measure and form, or non-reciprocal, where some (typically lower-income) members are under no obligation to reciprocate the preferential treatment they receive from other members. A particular widespread non-reciprocal PTA is the generalised system of preferences, whereby developed countries (notably the QUAD) grant differential preferential tariffs to imports from developing, least developed and small and vulnerable countries. GSP preferences are granted unilaterally, without legal obligation on the part of the GSP-giving country, and as such may be withdrawn at any time. In cases where beneficiaries cannot be certain that the preferences will continue in the future, the potential benefits are less valuable, for example because there is less incentive for producers to invest in the production of goods that can benefit from such preferences.

Article XXIV of the GATT (1994) provides for the formation and operation of customs unions and free trade areas (forms of preferential trade arrangement) covering trade in goods. The so-called Enabling Clause (the 1979 Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries) refers to preferential trade arrangements in trade in goods between developing country members, and Article V of GATS provides for preferential treatment concerning trade in services for both developed and developing countries.

There is now considerable evidence that trade preference schemes do increase exports from beneficiary countries (see Table A3.1 below). Much of the evidence is from studies using gravity models of bilateral trade flows. A gravity model explains the volume of trade between countries in terms of economic mass (generally measured by GDP) and the distance between trading partners; that is, bilateral trade increases with economic mass and decreases with distance between partners, where distance is defined broadly to include geographical, cultural, historical and political dimensions of distance. This formulation can be extended to include other variables to represent characteristics of the countries covered, such as a measure of whether or not the trade partners participate in the same preferential scheme, measures of quality of infrastructure and measures of other impediments to trade. Gravity models have been used to answer questions such as whether or not PTAs lead to increased trade between members only, isolating non-members ('regional trade bias'), how much more trade is stimulated ('trade potential') and whether preferential arrangements stimulate non-members to join or form their own preferential arrangements among themselves (the 'domino' effect). We abstract here from any welfare evaluation of the balance of trade creating and diverting effects of trade preference schemes. In the case of non-reciprocal preferences, the preference provider is

clearly aware of the potential for diversion of imports from more competitive sources to recipient sources. The purpose of the preference is to promote the exports of these specific countries.

Many studies have analysed the trade effects of the major preferential arrangements involving developed countries (e.g. the EU or more recently NAFTA), because these arrangements have been in existence for a long time, are deeply integrated and have experienced tremendous internal expansion and also expanded their linkages with other countries, with some of which they share no common borders. Cases of preferential arrangements involving developed countries, on the one hand, and developing and least developed countries, on the other (e.g. EU-ACP arrangements), have been investigated. PTAs are a potentially important way of boosting trade between members participating in the arrangement. PTAs can be reciprocal, where members reciprocate the treatment received in equal measure and form, or non-reciprocal, where one or more members are under no obligation to reciprocate the preferential treatment received from one or more other members. Non-reciprocal preferential agreements (typically involving countries at different levels of development) require participating members to seek a waiver from WTO rules. Such waivers require the approval of three-quarters of WTO members. Examples of such agreements include the EC-ACP Lomé Conventions, the US-Caribbean Basin Economic Recovery Act, the CARIBCAN agreement, under which Canada offers duty free non-reciprocal access to most Caribbean countries, and Turkey's preferential treatment arrangement for Bosnia-Herzegovina.

The QUAD countries offer GSP in the form of standard GSP schemes for all developing and least developed countries, and special GSP schemes for least developed countries only (for example, the EU's EBA). There are also some specific schemes, such as those to encourage economic agents away from engaging in the production of drugs and narcotics in certain countries.

There is a substantial amount of evidence of the potential positive trade effects of preferential schemes, provided by numerous studies of the trade effects of PTAs. This is in spite of the fact that preference rents are concentrated on a few export products and the value of preferences in total exports is greater than 10 per cent for only a handful of LDCs (for example, in the case of Africa as reported in Brenton and Ikezuki, 2006). A number of the more important studies are summarised in Table A3.1. Many of these studies are based on the gravity modelling of bilateral trade flows, following the original work by Tinbergen (1962). The gravity model has performed extremely well in explaining bilateral trade flows, and is suitable for identifying if the presence of a PTA has an impact in addition to the other factors that help explain levels of bilateral trade. Studies have analysed the trade effects of the major preferential arrangements involving developed countries (e.g. the EU and more recently NAFTA) and preferential arrangements involving developed and developing and least developed countries (e.g. EU-ACP arrangements).

Table A3.1 Studies on the trade effects of preferential trade arrangements

Study	Countries/ PTA	Study period	Trade effects	Regional trade bias	Trade potential	Domino effect
Gamberoni (2007)	ACP, EU, GSPs, MED, drug scheme	1994–2005	✓			
Agostino, Aiello and Cardamone (2007)	All non-reciprocal RTAs	1995–2003	✓			
Milner (2007)	All RTAs used by Commonwealth countries	2005	✓			✓
Persson and Wilhelmsson (2006)	ACP, EU, GSPs, MED, drug-scheme	1960–2002	✓	✓		
Benedictis and Vicarelli (2004)	All RTAs	1991–2000			✓	
Rose (2004)	All GSPs, WTO	1948–99	✓			
Zarzoso (2003)	CACM, CARICOM, EU, MEDIT, NAFTA	1980–99	✓		✓	
Egger (2002)	OECD, CEECs	1986–97			✓	
Nilsson (2002)	EU, ACP	1973–92	✓			
Hassan (2001)	ASEAN, EEC, NAFTA, SAARC	1996, 1997	✓	✓		
Sapir (2001)	EU, EFTA	1960–92	✓			✓
Soloaga and Winters (2001)	All RTAs	1980–96	✓			
Nilsson (2002)	EU, CEECs	1989, 1992	✓		✓	
Greenaway (2000)	All RTAs	1965–93	✓	✓		
Sharma and Chua (2000)	ASEAN, APEC	1980–95	✓	✓		
Dhar and Panagariya (1999)	EC, East Asia, NAFTA	1980–91	✓	✓		
Endoh (1999)	EEC, CMEA, NAFTA	1960–94	✓	✓		
Finger, Ng and Sloaga (1998)	CARICOM, NAFTA, MERCOSUR	1988–96	✓			
Gros and Gonciarz (1996)	EU, CEECs	1992	✓		✓	
Bayoumi and Eichengreen (1995)	EEC, EFTA	1956–92	✓	✓		
Frankel, Stein and Wei (1995)	All RTAs	1965–90	✓	✓		
McCallum (1995)	CUSTA, NAFTA	1988	✓		✓	
Frankel and Wei (1993)	All RTAs	1965–90	✓	✓		
Brada and Mendez (1985)	All RTAs	1970,73,76	✓			
Aitken (1973)	EEC, EFTA	1951–67	✓	✓		

Ineffective PTAs (with no positive trade effects) have been found in the case of ASEAN by Sharma and Chua (2000), and in the case of MERCOSUR by Finger, Ng and Soloaga (1998) and Soloaga and Winters (2001). Perverse (reducing) trade effects have been reported by Hassan (2001) for both ASEAN and the South Asian Association for Regional Cooperation (SAARC). The weak or perverse trade effects in ASEAN and SAARC have also been established in a later study by Milner (2007), where they are attributed to significant but still under-liberalised (not as open as they might be) trade regimes (e.g. India) in the south Asian region. As a result, the countries show evidence of trading below their potential (at least as implied by the parameters of a gravity model).

Nilsson (2002) finds that the Lomé Convention preferences had a greater effect in stimulating the growth of ACP exports to the EU than had EU provision of GSP to ACP countries. Persson and Wilhelmsson (2006) confirm the strong positive effect of Lomé preferences, but find that the broad GSP of the EU had a rather marginal effect on beneficiary exports. However, GSP targeted at LDCs were found to have a significant and large effect on LDC exports. Persson and Wilhelmsson (2006) also find evidence showing that Mediterranean preferences from the EU led to gross trade creation estimated at 14 per cent of actual exports from the end of the 1960s onwards; Péridy (2005) found higher incidence of trade creation of 20–27 per cent occasioned by EU preferences to its Mediterranean beneficiaries from 1975 onwards. There is also evidence that preferential schemes have not only led to bilateral trade (export) growth but also brought about additional intra-regional trade involving some developing and least developed countries (Milner, 2007; Benedictis and Vicarelli, 2004; Zarzoso, 2003).

Table A3.2 Effects of preference erosion on exports (percentage losses) from a 40 per cent reduction in the average preference margin

	Percentage export losses for assumed supply elasticities		
Most vulnerable[a]	**e = 0**	**e = 1.0**	**e = 1.5**
Mauritius	−11.5	−19.6	−23.7
St Lucia	−9.8	−17.2	−20.9
Belize	−9.1	−16.1	−19.6
St Kitts and Nevis	−8.9	−15.9	−19.3
Guyana	−7.9	−14.2	−17.3
Fiji Islands	−7.8	−14.0	−17.2
Dominica	−5.5	−10.2	−12.6
Seychelles	−4.2	−7.7	−9.5
Jamaica	−3.5	−6.8	−8.4
St Vincent and the Grenadines[b]	−3.4	−6.6	−8.2
Albania	−3.3	−6.3	−7.7
Swaziland	−3.0	−5.8	−7.2
Serbia and Montenegro	−2.8	−5.4	−6.8
Tunisia	−2.2	−4.3	−5.3
Côte d'Ivoire	−2.2	−4.2	−5.2
Morocco	−2.1	−4.1	−5.1
Dominican Republic	−2.1	−4.0	−5.0
Honduras	−2.1	−4.2	−5.2
Suriname	−1.7	−3.4	−4.2
Bosnia and Herzegovina	−1.7	−3.4	−4.2
Brazil	−1.7	−3.3	−4.1
Region averages			
Africa	−2.2	−4.0	−4.9
Caribbean	−4.8	−8.8	−10.8
Pacific	−2.7	−4.8	−5.9
Latin America	−0.7	−1.4	−1.8
India	−0.3	−0.6	−0.7
Southeast Asia	−0.2	−0.4	−0.5
China	−0.1	−0.2	−0.3
Other middle-income countries	−0.7	−1.4	−1.7

[a]Countries for which the potential export loss from preference erosion under an export elasticity of zero is 1.7 per cent or greater of total exports.
[b]For St Vincent and the Grenadines, the percentage loss is for exports including re-exports. Excluding the latter, the percentage loss is considerably larger, although the absolute value remains at similar levels.
Source: Alexandraki and Lankes (2004).

Table A3.3 QUAD preference schemes given to middle-income developing countries (Analysed in Alexandraki and Lankes, 2004)

	EU	USA	Japan	Canada
Albania	EU-Albania	GSP	GSP	MFN
Argentina	GSP (excl. I,III, XI, XVII)	GSP	GSP	GPT
Armenia	GSP (excl. II, XXVI)	GSP	GSP	GPT
Belarus	GSP (excl. II, XV, XXV, XXVI, XXVII)	GSP	GSP	GPT
Belize	Cotonou	CBI	GSP	CARIBCAN
Bolivia	GSP-Drugs	ATPA	GSP	GPT
Bosnia and Herzegovina	EU-Bosnia and Herzegovina	GSP	GSP	GPT
Botswana	Cotonou	AGOA – Wearing Apparel Provision	GSP	GPT
Brazil	GSP	GSP	GSP	GPT
Bulgaria	Europe Agreement	GSP	GSP	GPT
Cameroon	Cotonou	AGOA – Wearing Apparel Provision	GSP	GPT
Chile	GSP (excl. V, IX, XV)	FTA	GSP	FTA
China	GSP (excl. IV, VIII, XIV, XXVI, XVIII, XXII, XXIII, XXIV, XXVII, XXXIII)	MFN	GSP	GPT
Colombia	GSP-Drugs	ATPA	GSP	GPT
Costa Rica	GSP	CBI	GSP	FTA
Côte d'Ivoire	Cotonou	AGOA	GSP	GPT
Croatia	SAA Croatia	GSP	GSP	GPT
Dominica	Cotonou	CBI	GSP	CARIBCAN
Domincan Rebuplic	Cotonou	CBI	GSP	GPT
Ecuador	GSP-Drugs	ATPA	GSP	GPT
Egypt	Coop Agreement	GSP	GSP	GPT
El Salvador	GSP	CBI	GSP	GPT
Fiji Islands	Cotonou	GSP	GSP	GPT
Georgia	GSP	MFN	GSP	GPT
Ghana	Cotonou	AGOA	GSP	GPT
Grenada	Cotonou	CBI	GSP	CARIBCAN
Guatemala	GSP-Drugs	CBI	GSP	GPT
Guyana	Cotonou	CBI	GSP	CARIBCAN
Honduras	GSP-Drugs	CBI	GSP	GPT
India	GSP	GSP	GPT	
Indonesia	GSP	GSP	GSP	GPT
Jamaica	Cotonou	CBI	GSP	CARIBCAN
Jordan	GSP	FTA	GSP	GPT
Kazakhstan	GSP (excl. II, XV, XXV, XXVI, XXVII)	GSP	GSP	GPT
Kenya	Cotonou	AGOA – Wearing Apparel Provision	GSP	GPT
Kyrgyz Republic	GSP	GSP	GSP	GPT
Lebanon	GSP	GSP	GSP	GPT
Macedonia, FYR	EU-FYROM	GSP	GSP	GPT
Malaysia	GSP (excl. VII, X, XVI, XIX, XXII, XXIX)	MFN	GSP	GPT

Table A3.3 (continued)

	EU	USA	Japan	Canada
Maldives	GSP	MFN	GSP	GPT
Mauritius	Cotonou	AGOA – Wearing Apparel Provision	GSP	GPT
Mexico	FTA	NAFTA	GSP	NAFTA
Moldova	GSP	GSP	GSP	GPT
Mongolia	GSP	MFN	GSP	MFN
Morocco	Association Agreement	GSP	GSP	GPT
Namibia	Cotonou	AGOA – Wearing Apparel Provision	GSP	GPT
Nicaragua	GSP	CBI	GSP	GPT
Pakistan	GSP	GSP	GSP	GPT
Panama	GSP-Drugs	CBI	GSP	GPT
Papua New Guinea	Cotonou	GSP	GSP	GPT
Paraguay	GSP	GSP	GSP	GPT
Peru	GSP-Drugs	ATPA	GSP	GPT
Philippines	GSP (excl. X)	GSP	GSP	GPT
Romania	Europe Agreement	GSP	GSP	GPT
Russian Federation	GSP (excl. II, XIII,XV, XXVI, XXVII)	GSP	MFN	GPT
Serbia Montenegro	EU-SM	MFN	GSP	MFN
Seychelles	Cotonou	AGOA	GSP	GPT
South Africa	GSP (excl. XXVI)+Cotonou	AGOA	GSP	GPT
Sri Lanka	GSP	GSP	GSP	GPT
St Kitts and Nevis	Cotonou	CBI	MFN	CARIBCAN
St Lucia	Cotonou	CBI	GSP	CARIBCAN
St Vincent and Gren.	Cotonou	CBI	GSP	CARIBCAN
Suriname	Cotonou	GSP	GSP	CARIBCAN
Syrian Arab Republic	GSP	MFN	GSP	GPT
Tajikistan	GSP	MFN	GSP	GPT
Thailand	GSP (excl. II, V, XI, XVI, XVIII, XXII, XXIII, XXV, XXXIII)	GSP	GSP	GPT
Tonga	Cotonou	GSP	GSP	GPT
Trinidad and Tobago	Cotonou	CBI	GSP	CARIBCAN
Tunisia	FTA	GSP	GSP	GPT
Turkey	CU (FTA)	GSP	GSP	GPT
Ukraine	GSP (excl. II, VIII, XV, XXVI)	GSP	GSP	GPT
Uruguay	GSP (excl. I)	GSP	GSP	GPT
Uzbekistan	GSP	GSP	GSP	GPT
Vietnam	GSP	MFN	GSP	GPT
Zimbabwe	Cotonou	GSP	GSP	GPT

Source: Alexandraki and Lankes (2004).

Estimates of losses from preference erosion

Table A3.2 reports estimates from Alexandraki and Lankes (2004), applying partial equilibrium techniques to the trade data of middle-income countries, of export losses from preference erosion. Table A3.3 shows the list of middle-income countries and the

preference schemes they benefit from. Using simplified but realistic assumptions, for example that trade liberalisation by QUAD countries causes a 40 per cent reduction in each preference-receiving country's aggregate preference margin and a maximum export supply elasticity of 1.5 per cent, it is found that preference erosion would be small overall – 0.5–1.2 per cent of total exports of middle-income countries, depending on export supply responses.[29] However, the impacts are significant for certain countries with typically heavy reliance on a narrow range of export products, particularly products that benefit from deep preferential access and rely heavily on QUAD markets. The scale of the adverse effects will be greater and more challenging to address for countries with fragile macroeconomic environments, such as small island economies. Table A3.4 presents the estimated export losses for selected most vulnerable countries by region. The results for all the countries covered in the study are reported in Table AT11.

Table A3.4 Income effects of full preference erosion

	Change in annual national income (US$ million)		
	Effects of EU liberalisation	**Effects of other OECD liberalisation**	**Overall preference loss**
African LDCs	**-458.2**	**347.9**	**-110.3**
Madagascar	-7.1	16.9	9.8
Malawi	-22.6	15.6	-7.0
Mozambique	-27.3	13.0	-14.3
Tanzania	4.6	-3.1	1.5
Uganda	-5.9	1.7	-4.2
Zambia	-18.9	-2.4	-21.3
Other sub-Saharan African LDCs	-381.2	289.9	-91.3
Asia/other LDCs	**93.4**	**-180.8**	**-87.4**
Bangladesh	-101.0	-37.2	-138.2
Other central/south Asian LDCs	194.4	-143.6	50.8
Other low-income	**587.4**	**1,463.1**	**2,050.5**
India	174.0	101.8	275.8
Vietnam	413.4	1,361.3	1,774.7
Total	**222.6**	**1,630.2**	**1,852.8**

Source: François *et al.* (2005).

François *et al.* (2005) provide an example of a computable general equilibrium (CGE) model to study the impact of the OECD's MFN liberalisation under Doha on national income and welfare through preference erosion. Using social accounting data from the 2001 GTAP database, which includes bilateral trade flows and national production, they cover most preference schemes, 34 regions and countries and 24 sectors. The analysis assumes full utilisation of EBA and AGOA preferences and full MFN liberalisation by OECD countries, and also eliminates ATC quotas on textiles and clothing on the benchmark.[30] Table A3.4 reports the results for selected sub-Saharan African LDCs, an

Asian LDC and two Asian low-income countries. The results support the evidence found in other studies indicating that generally African and a few non-African preference-receiving countries stand to be worse off post-Doha MFN liberalisation. Given the relative importance (in terms of numbers and depth) of EU preference schemes to the beneficiary LDCs and non-LDCs, it is not surprising that the EU's MFN liberalisation will be associated with significant adjustment costs, whereas MFN liberalisation in most other OECD countries will offer beneficial increased market access at reduced or zero MFN tariffs, other things remaining the same.

Erosion of preferences in manufacturing (NAMA)

Other studies have concentrated on the preference erosion implied by proposals under the Doha Round of WTO negotiations. Low *et al.* (2005) analyse the impact of MFN liberalisation in the QUAD on preference erosion in NAMA. Low *et al.* use the Swiss formula with a coefficient of 10 for the QUAD to calculate NAMA tariff cuts on 2003 MFN applied rates and through that simulate the effects on the value of preferences.[31] Both traditional and competition-adjusted impacts are estimated.[32] Results show that the estimated losses from preference erosion generally fall when competition from other preference-receiving countries is taken into account. Detailed simulation results for the effects on NAMA preferences are reported in Table A3.5. NAMA simulation results show the effects before and after adjusting for competition. The estimates are also expressed as percentages of each country's exports to the QUAD (summarised in Tables 3.4 and 3.5).

NAMA preference losses before adjusting for competition are estimated at US$3,349 million for non-LDCs (this loss in margins represents a negligible 0.4 per cent of exports) and US$840 million (representing a modest 3.8 per cent of exports) for LDC preference beneficiaries. When the estimates are adjusted for competition, the losses of LDCs are reduced substantially (to US$170 million or 0.8 per cent of exports), but the losses of non-LDCs are reversed, so that they end up with preference gains amounting to US$2,087 million. Some of the gains come at the expense of LDCs, who by and large have better preference arrangements than non-LDCs. This underscores the need for improved measures to assist beneficiaries, particularly LDC beneficiaries, who are likely to be worst off in terms of preference erosion post-Doha.

The need for enhanced measures for LDCs especially is also borne out by evidence which shows that LDCs have less scope for additional preferences (GSP) that Low *et al.* (2005) estimated at only US$217 million compared to US$11,718 million for non-LDC beneficiaries. That non-LDCs have a greater scope should, however, be seen in relation to the fact that only a handful command the bulk of this potential, for example China (which has scope for additional preferences of US$5,930 million), Republic of Korea ($1,292 million), Chinese Taipei ($797 million), India ($569 million), Indonesia ($527 million), Hong Kong, China ($505 million), Malaysia ($303 million), Brazil ($228 million) and Philippines ($188 million). Interestingly, each of these non-LDCs, except the

Philippines, has much larger scope for additional preferences than the additional scope of all LDCs combined ($217 million). Moreover, all these non-LDCs have well developed industrial bases in light manufacturing and in a few cases in heavy manufacturing.

Some of the main non-LDC losers (in relation to total exports, before adjusting for competition) are estimated to be El Salvador (9.1% of exports), Honduras (8.3%), Nicaragua (6.7%), Swaziland (5.8%), Mauritius (5.6%) and Dominican Republic (5.5%). When competition is allowed for, the main losers are El Salvador (5.2%), Honduras (4.6%), Guatemala (4.2%), Swaziland (3.6%) and Nicaragua (3.5%).

Preference losses by LDCs (before adjusting for competition) are much smaller in absolute terms compared to those by non-LDCs. However, in relation to LDCs' exports to the QUAD+, it is found that preference losses represent more significant resource losses. It has been estimated that the following LDCs will experience major losses: Lesotho (12.2% of exports), Haiti (11.3%), Cambodia (11%), Myanmar (9.1%), Bangladesh (5.2%), Madagascar (5%) and Senegal (4.9%).

Adjusting the results for competition reduces the preference losses, but most of these countries still record losses. For example, Lesotho is still projected to have preference losses equivalent to 7.4 per cent of its exports; Haiti has losses equivalent to 6.1 per cent; and Madagascar has losses equivalent to 2 per cent. Unlike for non-LDCs, only two LDCs end up with gains when the estimates are adjusted for competition: Nepal and Maldives, with respective preference gains equivalent to 1.3 and 1.1 per cent of exports, are the only two LDCs that will gain from a 'levelled' preference landscape. The results for other LDCs and non-LDCs show that they will not experience significant changes post-Doha MFN liberalisation by the QUAD+. As stated before, this is mainly because these countries rely on preferences to a limited extent, with a significant proportion of their exports entering the QUAD MFN duty free.

Erosion of preferences in agriculture

Low *et al.* (2006) analyse the impact of MFN liberalisation in the QUAD on preference erosion on agricultural exports of preference-receiving countries. Based on the G-20 proposal in relation to market access, Low *et al.* assume that agriculture bound tariffs within the ranges 0–20, 20–50, 50–75 and above 75 per cent will be cut by 45, 55, 65 and 75 per cent, respectively. They introduce an allowance for 2 and 4 per cent of sensitive tariff lines which they assume will be subject to only half the proposed cuts. Sensitive tariff lines in this case were those that attracted the highest tariffs in the QUAD. A tariff cap of 100 per cent was applied on all other tariffs. Detailed simulation results for the effects on agricultural preferences are reported in Table A3.6; these show the effects in the preference values before and after adjusting for competition and also with and without allowing for 'flexibilities'.

At the aggregate all-beneficiaries level, it is estimated that developing countries will lose US$1,054 million in agricultural preferences (representing 1.9 per cent of their exports to the QUAD) before adjusting for competition and with no flexibilities taken

Table A3.5 Impact of NAMA MFN tariff reduction on preference value and scope for future preferences, 2003

(Swiss formula cut with a =10 applied on MFN applied rates)

	QUAD + Australia					
	Change in the preference value for unadjusted and adjusted preference margin				Scope for additional preferences (US$ m)	Exports to QUAD+ Australia in % of total exports
	No adjustment		With adjustment			
	US$ m	% of imports	US$ m	% of imports		
Developing	**1**	**2**	**3**	**4**	**5**	**6**
Albania	-4.0	-1.9	-1.2	-1.6	0	46
Antigua and Barbuda	-0.3	-0.1	0.0	0.0	0	100[a]
Argentina	-40.6	-0.4	0.3	0.0	51	35
Armenia	-1.1	-0.5	0.1	0.0	1	30
Bahrain	-5.0	-0.7	8.3	1.1	20	12
Barbados	-0.2	-0.2	-0.1	-0.1	0	40
Belize	-1.3	-0.7	-0.7	-0.3	0	98
Bolivia	-1.5	-0.5	0.8	0.3	2	19
Botswana	-1.7	-0.1	-0.8	0.0	0	61
Brazil	-100.3	-0.2	7.3	0.0	228	55
Brunei Darussalam	-0.1	0.0	8.5	0.3	14	62
Cameroon	-2.8	-0.1	-1.0	0.0	1	96
China	-810.3	-0.2	1,274.6	0.4	5,930	80
Colombia	28.7	-0.3	19.5	0.2	36	70
Congo	-0.4	0.0	0.0	0.0	0	30
Côte d'Ivoire	-25.3	-0.7	-6.0	-0.2	0	59
Cuba	-3.2	-0.5	-0.4	-0.1	2	39
Dominica	-0.1	-0.3	0.0	-0.1	0	75
Dominican Republic	-262.4	-5.5	-139.2	-2.9	3	88
Ecuador	-43.7	-1.1	-6.8	-0.2	12	68
Egypt	-49.4	-1.1	5.8	0.1	42	75
El Salvador	-193.3	-9.1	-110.5	-5.2	4	67
Gabon	-3.5	-0.2	-0.5	0.0	0	68
Georgia	-0.7	-0.2	-0.1	0.0	5	79
Ghana	-19.9	-1.4	-4.4	-0.3	0	59
Grenada	-0.1	-0.6	0.0	-0.1	0	59
Guatemala	-220.5	-6.5	-141.7	-4.2	4	100[a]
Guyana	-1.6	-0.3	-1.0	-0.2	0	88
Honduras	-303.2	-8.3	-167.0	-4.6	4	100[a]
Hong Kong, China	-2.4	0.0	264.2	1.3	505	9
India	-226.7	-0.7	94.8	0.3	569	55
Indonesia	-159.1	-0.4	105.9	0.3	527	65
Jamaica	-17.8	-1.7	-6.4	-0.6	0	91
Kenya	-26.4	-2.2	-14.0	-1.2	0	49
Korea, Rep. of	-19.5	0.0	382.3	0.4	1,292	44
Kuwait	-9.7	-0.1	1.4	0.0	54	42
Kyrgyz Republic	-0.2	-0.3	0.4	0.7	1	9

Table A3.5 (continued)

	QUAD + Australia					
	Change in the preference value for unadjusted and adjusted preference margin				Scope for additional preferences US$ m	Exports to QUAD+ Australia in % of total exports
	No adjustment		With adjustment			
	US$ m	% of imports	US$ m	% of imports		
Developing	**1**	**2**	**3**	**4**	**5**	**6**
Macao, China	-8.7	-0.4	72.6	3.3	123	85
Malaysia	-70.1	-0.1	46.6	0.1	303	53
Mauritius	-81.9	-5.6	-31.0	-2.1	1	77
Moldova	-1.5	-0.6	1.5	0.6	5	31
Mongolia	-0.2	-0.1	6.9	3.0	12	37
Namibia	-19.7	-2.9	-10.7	-1.6	0	53
Nicaragua	-59.2	-6.7	-31.1	-3.5	1	100[a]
Nigeria	-6.6	0.0	-1.3	0.0	5	90
Oman	-3.3	-0.1	5.7	0.2	12	28
Pakistan	-139.7	-2.2	3.3	0.1	138	52
Panama	-3.9	-0.5	-0.4	-0.1	4	94
Paraguay	-0.3	-0.1	0.1	0.0	0	33
Peru	-14.9	-0.3	17.2	0.3	36	61
Philippines	-46.9	-0.2	66.0	0.3	188	66
Qatar	-2.1	0.0	3.0	0.0	19	55
St Kitts and Nevis	-0.2	-0.4	-0.1	-0.1	0	100[a]
St Lucia	-0.4	-1.1	-0.3	-0.7	0	95
Sri Lanka	-22.3	-0.6	56.7	1.6	137	69
St Vincent and Gren.	-0.1	-0.1	0.0	0.0	0	100[a]
Suriname	-2.4	-0.7	-0.2	-0.1	0	55
Swaziland	-19.2	-5.8	-11.9	-3.6	0	23
Taipei, Chinese	-6.0	0.0	245.2	0.3	797	47
Thailand	-182.5	-0.4	69.2	0.2	502	51
Trindad and Tobago	-15.6	-0.3	-2.8	-0.1	1	94
United Arab Emirates	-21.7	-0.1	13.3	0.1	78	30
Uruguay	-4,1	-0.4	-0.2	0.0	7	46
Venezuela	-22.6	-0.1	-3.7	0.0	33	70
Zimbabwe	-5.5	-0.7	-1.9	-0.3	4	62
Developing total	**-3,348.9**	**-0.4**	**2,087.1**	**0.2**	**11,718.5**	**53.5**
LDCs						
Angola	-0.9	0.0	-0.3	0.0	0	52
Bangladesh	-335.2	-5.2	-61.6	-1.0	111	93
Benin	-0.3	-0.7	0.0	-0.1	0	7
Burkina Faso	-0.1	-0.1	0.0	0.0	0	17
Burundi	0.0	0.0	0.0	0.0	0	81
Cambodia	-215.6	-11.0	-18.8	-1.0	74	96
Central Afrcian Rep.	0.0	0.0	0.0	0.0	0	87
Chad	-0.1	-0.1	0.0	0.0	0	15
Congo (DRC)	-0.1	0.0	0.0	0.0	0	

Table A3.5 (continued)

	QUAD + Australia					
	Change in the preference value for unadjusted and adjusted preference margin				Scope for additional preferences US$ m	Exports to QUAD+ Australia in % of total exports
	No adjustment		With adjustment			
	US$ m	% of imports	US$ m	% of imports		
Developing	**1**	**2**	**3**	**4**	**5**	**6**
Djibouti	0.0	−0.3	0.0	−0.2	0	6
Gambia, The	−0.2	−1.8	0.0	−0.4	0	80
Guinea	−2.1	−0.4	−0.2	0.0	0	84
Guinea-Bissau	−0.3	−3.2	0.0	−0.5	0	15
Haiti	−40.3	−11.3	−21.7	−6.1	0	100[a]
Lesotho	−49.6	−12.2	−30.1	−7.4	0	85
Madagascar	−48.7	−5.0	−19.1	−2.0	0	100[a]
Malawi	−3.3	−1.0	−2.0	−0.6	0	70
Maldives	−3.5	−2.5	1.6	1.1	5	91
Mali	−0.1	−0.1	0.0	−0.1	0	6
Mauritania	−9.3	−2.3	−1.7	−0.4	0	100[a]
Mozambique	−17.1	−2.5	−5.5	−0.8	0	81
Mynamar	−79.7	−9.1	−8.3	−1.0	15	35
Nepal	−2.6	−0.9	3.8	1.3	10	43
Niger	0.0	−0.2	0.0	−0.1	0	5
Rwanda	0.0	−0.2	0.0	−0.1	0	39
Senegal	−19.3	−4.9	−3.6	−0.9	0	30
Sierra Leone	−0.6	−0.4	−0.2	−0.2	0	100[a]
Solomon Islands	−0.3	−1.2	−0.1	−0.5	0	32
Tanzania	−7.2	−0.9	−1.2	−0.1	0	67
Togo	−0.6	−0.7	−0.2	−0.2	0	13
Uganda	−3.3	−1.0	−0.7	−0.2	0	57
Zambia	−0.4	−0.2	0.0	0.0	0	21
LDCs	**−840.5**	**−3.8**	**−170.3**	**−0.8**	**216.6**	**61.6**

[a]Imports from beneficiaries into the QUAD + Australia are greater than exports to world due to inconsistencies in data reporting.

into consideration. The results for LDCs show a similar pattern, although the figures involved are much smaller in absolute terms (estimated at US$48 million), but slightly larger in relation to exports to the QUAD (2.9 per cent). In this mode (before allowing for competition and flexibilities) no developing or least developed country makes any gains. Adjusting the results for competition reduces the losses of preference values with some countries ending up making gains from MFN liberalisation in the QUAD. Actually, preference-receiving LDCs (non-LDCs) as a group make net gains, as the remaining preference value losses of US$3.8 million (US$205 million) are exceeded by preference gains of US$14 million (US$461 million), yielding an overall positive net gain of US$267 million for the combined sample.

At country level, the top 10 non-LDCs estimated to record the largest preference value losses in relation to their exports before adjusting for competition are: St Kitts and Nevis (40.5% of exports), Mauritius (38%), Guyana (31.9%), Fiji Islands (31.2%), Swaziland (30.1%), Trinidad and Tobago (22.5%), Barbados (21.3%), Belize (20.8%), Botswana (17.3%) and St Lucia (15.8%).[33]

The major losers share the common characteristic of being beneficiaries of the most lucrative preference arrangements in sugar, bananas and beef. When the competition factor is taken into account, the situation changes markedly, with some countries making preference gains, others facing significantly reduced preference losses and the preference losses of some other countries showing small changes. This alters the list of the most affected countries. Thus the six non-LDCs that face the largest preference losses after adjusting for competition are: Botswana (15.5% of exports), St Lucia (12.1%), St Vincent and the Grenadines (11.9%), Namibia (9.5%), Dominica (8.9%) and Mauritius (7%).

The results for LDCs follow a similar pattern, although the scale of the losses is much lower in terms of preference losses as a ratio of exports before and after adjusting for competition. The eight LDCs estimated to record the largest losses before adjusting for competition are: Malawi (8.4% of exports), Mozambique (6.2%), Tanzania (4.8%), Bangladesh (4.3%), Democratic Republic of Congo (3.4%), The Gambia (2.8%), Senegal (2.8%) and Zambia (2.4%). Adjusting for competition brings dramatic reversals of preference rents for Nepal, whose preference exports increase (by 28.1% of total exports), Zambia (10.6%), Burkina Faso (4.1%) and Mozambique (2.5%); if competition is not taken into account these countries record preference losses: Nepal (–0.4% of exports), Zambia (–2.4%), Burkina Faso (–0.5%) and Mozambique (–6.2%). The gains are made as a result of other countries' losses from preference erosion.

The general trend emerging from the results of the effects of MFN liberalisation on the value of preferences in agricultural products is that it is mostly African and Caribbean LDCs and non-LDCs that fare worst post-Doha; these tend to be beneficiaries of the most generous preference schemes offered by the QUAD. Extending the analyses to allow for flexibilities (exclusion of 2 and 4 per cent of sensitive tariff lines in the preference-giving QUAD and preference-receiving countries) leaves the results largely unchanged, except for Argentina, Brazil, China, Guatemala, Malawi, Thailand and Zimbabwe. For these countries, the preference values appear to be reduced or reversed. The reason offered for this result is that it is likely that the QUAD-sensitive tariff lines (selected on the basis of having the highest MFN tariffs) are likely to be excluded from preference schemes, and available data show that under a number of the sensitive tariff lines there was no trade in 2003.

Table A3.6 Impact of MFN tariff reduction on preference value and scope for future (additional) preferences in agricultural products exported to the QUAD, 2003 (G20 proposal applied on 2003 MFN applied rates)

	Without 'flexibilities'					With 'flexibilities' (2% highest tariff)				
	No adjustment		With adjustment		Additional preferences	No adjustment		With adjustment		Additional preferences
	US$ million	% imports	US$ million	% imports	US$ million	US$ million	% imports	US$ million	% imports	US$ million
Country	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Developing countries										
Albania	-0.2	-1.0	0.0	-0.2	0.0	-0.2	-1.0	0.0	-0.2	0.0
Antigua and Barbuda	0.0	-0.4	0.0	-0.2	0.0	0.0	-0.4	0.0	-0.2	0.1
Argentina	-16.5	-0.3	34.9	0.7	190.2	-16.5	0.3	31.0	0.6	248.0
Armenia	0.0	-1.1	0.0	-0.1	0.1	0.0	-1.1	0.0	-0.1	0.1
Bahrain	0.0	-0.4	0.0	-0.1	0.0	0.0	-0.4	0.0	-0.1	0.0
Barbados	-9.5	-21.3	-1.2	-28.0	0.0	-1.0	-21.3	-1.2	-2.8	0.0
Belize	-24.3	-20.8	-9.5	-8.1	0.6	-24.3	-20.8	-9.5	-8.1	0.6
Bolivia	-3.2	-4.5	-0.7	-0.9	0.2	v3.2	-4.5	-0.7	-0.9	0.2
Botswana	-6.5	-17.3	-5.8	-15.5	8.6	-6.5	-17.3	-5.8	-15.5	10.8
Brazil	-39.5	-0.3	242.5	2.1	607.6	-39.5	-0.3	178.9	1.6	1,039.6
Brunei Darussalam	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Cameroon	-37.4	-6.1	-29.8	-4.9	0.1	-37.3	-6.1	-29.8	-4.9	0.1
China	-49.6	-0.6	44.3	0.6	282.1	-49.6	-0.6	24.9	0.3	304.5
Colombia	-43.7	-1.8	15.0	0.6	68.1	-43.7	-1.8	14.7	0.6	70.9
Congo	-2.5	-13.7	-0.5	-2.5	0.0	-2.5	-13.7	-0.5	-2.5	0.0
Côte d'Ivoire	-54.9	-2.1	-22.1	-0.8	1.5	-54.9	-2.1	-22.1	-0.8	1.5
Cuba	-13.9	-6.0	12.7	5.5	20.5	-13.9	-6.0	12.7	5.5	20.5
Dominica	-1.3	-12.1	-1.0	-8.9	0.0	-1.3	-12.1	-1.0	-8.9	0.0
Dominican Rep.	-54.0	-8.1	-21.0	-3.1	0.4	-54.0	-8.1	-21.0	-3.1	0.4
Ecuador	-24.4	-1.5	22.2	1.4	81.6	-24.4	-1.5	22.2	1.4	81.6
Egypt	-8.2	-2.0	-1.4	-0.4	15.0	-8.2	-2.0	-1.4	-0.4	15.0
El Salvador	-15.1	-7.7	-2.5	-1.3	0.3	-15.1	-7.7	-2.5	-1.3	0.3

Table A3.6 (continued)

	Without 'flexibilities'					With 'flexibilities' (2% highest tariff)				
	No adjustment		With adjustment		Additional preferences	No adjustment		With adjustment		Additional preferences
	US$ million	% imports	US$ million	% imports	US$ million	US$ million	% imports	US$ million	% imports	US$ million
Country	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Fiji Islands	-49.2	-31.2	-6.7	-4.3	7.7	-49.2	-31.2	-6.7	-4.3	19.1
Gabon	0.0	-0.6	0.0	-0.1	0.0	0.0	-0.6	0.0	-0.1	0.0
Georgia	-0.7	-2.2	-0.1	-0.4	0.9	-0.7	-2.2	-0.1	-0.4	0.9
Ghana	-5.3	-0.7	-0.6	-0.1	0.1	-5.3	-0.7	-0.6	-0.1	0.1
Grenada	-0.1	-0.5	0.0	-0.3	0.0	-0.1	-0.5	0.0	-0.3	0.0
Guatemala	-39.7	-3.5	-1.9	-0.2	8.7	-39.7	-3.5	-2.9	-0.3	21.3
Guyana	-51.5	-31.9	-6.6	-4.1	0.9	-51.5	-31.9	-6.6	-4.1	0.9
Honduras	-9.9	-1.9	0.9	0.2	2.1	-9.9	-1.9	0.1	0.0	2.9
Hong Kong, China	-0.3	-0.2	2.1	1.2	5.1	-0.3	-0.2	2.1	1.2	5.1
India	-13.6	-0.7	2.1	0.1	24.1	-13.6	-0.7	1.9	0.1	25.1
Indonesia	-11.9	-0.5	3.0	0.1	37.1	-11.9	-0.5	2.9	0.1	37.1
Jamaica	-40.8	-12.5	-8.5	-2.6	0.7	-40.8	-12.5	-8.5	-2.6	0.7
Kenya	-27.3	-3.2	-5.8	-0.7	2.0	-27.3	-3.2	-5.8	-0.7	2.0
Korea, Rep.	-0.2	0.0	5.5	0.6	52.4	-0.2	0.0	5.5	0.6	52.4
Kuwait	0.0	-0.6	0.0	-0.1	0.0	0.0	-0.6	0.0	-0.1	0.0
Kyrgyz Rep.	0.0	-0.7	0.0	0.0	0.0	0.0	-0.7	0.0	0.0	0.0
Macao, China	0.0	-0.2	0.0	0.1	0.0	0.0	-0.2	0.0	0.1	0.0
Malaysia	-14.5	-0.8	0.2	0.0	28.4	-14.5	-0.8	0.2	0.0	28.4
Mauritius	-127.6	-38.0	-23.4	-7.0	0.5	-127.6	-38.0	-23.4	-7.0	0.5
Moldova	-0.8	-1.3	0.2	0.3	1.5	-0.8	-1.3	0.2	0.3	1.5
Mongolia	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Namibia	-7.5	-11.0	-6.5	-9.5	11.7	-7.5	-11.0	-6.5	-9.5	12.4
Nicaragua	-6.3	-3.0	-1.2	-0.6	4.4	-6.3	-3.0	-1.2	-0.6	4.5

Table A3.6 (continued)

	Without 'flexibilities'					With 'flexibilities' (2% highest tariff)				
	No adjustment		With adjustment		Additional preferences	No adjustment		With adjustment		Additional preferences
	US$ million	% imports	US$ million	% imports	US$ million	US$ million	% imports	US$ million	% imports	US$ million
Country	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Nigeria	-1.2	-0.2	-0.1	0.0	0.1	-1.2	-0.2	-0.1	0.0	0.1
Oman	0.0	-0.1	0.0	0.2	0.2	0.0	-0.1	0.0	0.2	0.2
Pakistan	-8.0	-2.4	-2.7	-0.8	0.6	-8.0	-2.4	-2.7	-0.8	0.6
Panama	-6.2	-2.2	7.6	2.7	29.4	-6.2	-2.2	7.6	2.7	29.4
Papua New Guinea	-6.4	-1.8	-4.9	-1.4	0.0	-6.4	-1.8	-4.9	-1.4	0.0
Paraguay	-1.3	-0.4	0.8	0.2	2.3	-1.3	-0.4	0.8	0.2	2.7
Peru	-32.1	-4.2	-8.4	-1.1	4.1	-32.1	-4.2	-8.4	-1.1	4.1
Philippines	-65.1	-4.4	-15.5	-1.0	68.4	-65.1	-4.4	-15.6	-1.1	70.1
Qatar	0.0	-1.9	0.0	-0.2	0.0	0.0	-1.9	0.0	-0.2	0.0
St Kitts and Nevis	-3.9	-40.5	-0.5	-4.7	0.0	-3.9	-40.5	-0.5	-4.7	0.0
St Lucia	-4.0	-15.8	-3.1	-12.1	0.0	-4.0	-15.8	-3.1	-12.1	0.0
St Vincent & Gren.	-2.5	-15.5	-1.9	-11.9	0.0	-2.5	-15.5	-1.9	-11.9	0.0
Sri Lanka	-1.3	-0.7	-0.1	0.0	2.6	-1.3	-0.7	-0.1	0.0	2.6
Suriname	-0.2	-1.9	0.0	-0.4	0.2	-0.2	-1.9	0.0	-0.4	0.2
Swaziland	-39.1	-30.1	-5.6	-4.3	1.9	-39.1	-30.1	-5.6	-4.3	1.9
Taipei, Chinese	0.0	0.0	7.0	1.3	17.5	0.0	0.0	7.0	1.3	17.5
Thailand	-29.0	-0.8	55.7	1.6	312.4	-29.0	-0.8	35.7	1.0	550.5
Trinidad and Tobago	-13.3	-22.5	-1.8	-3.1	0.0	-13.3	-22.5	-1.8	-3.1	0.0
United Arab Emirates	-0.5	-0.3	-0.1	0.0	1.1	-0.5	-0.3	-0.1	0.0	1.1
Uruguay	-1.5	-0.3	4.8	0.9	46.3	-1.5	-0.3	4.8	0.9	57.3
Venezuela	-1.8	-1.1	-0.5	-0.3	1.9	-1.8	-1.1	-0.5	-0.3	2.0
Zimbabwe	-24.4	-5.5	-3.0	-0.7	16.7	-24.4	-5.5	-4.7	-1.1	39.1

Table A3.6 (continued)

	Without 'flexibilities'					With 'flexibilities' (2% highest tariff)				
	No adjustment		With adjustment		Additional preferences	No adjustment		With adjustment		Additional preferences
	US$ million	% imports	US$ million	% imports	US$ million	US$ million	% imports	US$ million	% imports	US$ million
Country	1	2	3	4	5	6	7	8	9	10
Total positives: Developing countries	0.0		461.3			0.0		353.3		
Total negatives: Developing countries	-1,054.1		-205.1			-1,054.1		-208.0		
Total developing countries	-1,054.1	-1.9	256.2	0.5	1,971.1	-1,054.1	-1.9	145.3	0.3	2,788.8
LDCs										
Angola	0.0	-2.6	0.0	-2.3	0.0	0.0	-2.5	0.0	-2.2	0.0
Bangladesh	-0.8	-4.3	-0.1	-0.5	0.3	-0.8	-4.3	-0.1	-0.6	0.8
Benin	-0.1	-0.3	0.0	-0.1	0.0	-0.1	-0.3	0.0	-0.1	0.0
Burkina Faso	-0.2	-0.5	1.6	4.1	1.0	-0.2	-0.5	1.6	4.1	1.0
Burundi	0.0	-1.0	0.0	0.0	0.0	0.0	-1.0	0.0	0.0	0.0
Cambodia	0.0	-1.2	0.0	-0.3	0.0	0.0	-1.2	0.0	-0.3	0.0
Central African Rep.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chad	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Congo (DRC)	-0.6	-3.4	-0.1	-0.6	0.0	-0.6	-3.4	-0.1	-0.6	0.0
Djibouti	0.0	-0.8	0.0	-0.1	0.0	0.0	-0.8	0.0	-0.1	0.0
Gambia, The	-0.2	-2.8	0.0	-0.4	0.0	-0.2	-2.8	0.0	-0.4	0.0
Guinea	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Guinea-Bissau	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Haiti	-0.1	-0.5	0.0	0.0	0.0	-0.1	-0.5	0.0	0.0	0.0

Table A3.6 (continued)

	Without 'flexibilities'					With 'flexibilities' (2% highest tariff)				
	No adjustment		With adjustment		Additional preferences	No adjustment		With adjustment		Additional preferences
	US$ million	% imports	US$ million	% imports	US$ million	US$ million	% imports	US$ million	% imports	US$ million
Country	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Lesotho	0.0	-0.7	0.0	-0.6	0.0	0.0	-0.7	0.0	-0.6	0.0
Madagascar	-3.0	-0.8	0.3	0.1	0.7	-3.0	-0.8	0.3	0.1	0.7
Malawi	-24.5	-8.4	-0.8	-0.3	19.5	-24.5	-8.4	-3.1	-1.1	48.1
Maldives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mali	-0.1	-0.1	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0
Mauritania	0.0	-1.6	0.0	-0.2	0.0	0.0	-1.6	0.0	-0.2	0.0
Mozambique	-3.4	-6.2	1.4	2.5	1.4	-3.4	-6.2	1.4	2.5	1.4
Myanmar	0.0	0.0	0.2	0.8	0.5	0.0	0.0	0.2	0.8	0.5
Nepal	0.0	-0.4	2.0	28.1	1.2	0.0	-0.4	2.0	28.1	1.2
Niger	-0.1	-1.1	0.0	-0.7	0.0	-0.1	-1.1	0.0	-0.7	0.0
Rwanda	0.0	-0.1	0.0	-0.1	0.0	0.0	-0.1	0.0	-0.1	0.0
Senegal	-2.7	-2.8	-0.5	-0.6	0.0	-2.7	-2.8	-0.5	-0.6	0.0
Sierra Leone	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Solomon Isl.	0.0	-0.3	0.0	-0.2	0.0	0.0	-0.3	0.0	-0.2	0.0
Togo	-0.4	-1.0	-0.1	-0.3	0.0	-0.4	-0.9	-0.1	-0.3	0.0
Uganda	-2.3	-1.1	-0.5	-0.2	0.0	-2.3	-1.1	-0.5	-0.2	0.0
Tanzania	-7.6	-4.8	-1.4	-0.9	0.0	-7.6	-4.8	-1.4	-0.9	0.0
Zambia	-1.9	-2.4	8.6	10.6	5.3	-1.9	-2.4	8.6	10.6	5.3
Total positives: LDCs	**0.0**		**14.1**			**0.0**		**14.1**		
Total negatives: LDCs	**-48.2**		**-3.8**			**-48.2**		**-6.0**		
Total: LDCs	**-48.2**	**-2.9**	**10.4**	**0.6**	**30.0**	**-48.2**	**-2.8**	**8.1**	**0.5**	**59.0**

Table A3.6 (continued)

	Without 'flexibilities'					With 'flexibilities' (2% highest tariff)				
	No adjustment		With adjustment		Additional preferences	No adjustment		With adjustment		Additional preferences
	US$ million	% imports	US$ million	% imports	US$ million	US$ million	% imports	US$ million	% imports	US$ million
Country	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Overall:										
Positives: Developing countries and LDCs	0.0		475.4			0.0		367.4		
Negatives: Developing countries	-1,102.3		-208.8			-1,102.2		-214.0		
Total: Developing countries and LDCs	-1,102.3	-1.9	266.6	0.5	2,001.1	-1,102.2	-1.9	153.4	0.3	2,847.8

Annex Tables

Table AT1 Tariff lines of imports by QUAD countries from beneficiary countries of various QUAD preference schemes, 2003

	EU-15		USA		Japan		Canada		Average	
Preferential scheme	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(11)**	**(12)**
All schemes										
All tariff lines	10,404	100	10,496	100	9,296	100	8,497	100	9,673	100
MFN duty free access	2,176	21	3,220	31	3,349	36	4,261	50	3,252	34
Preferential access	7,588	73	5,341	51	4,017	43	3,422	40	5,092	53
Duty free preference	6,704	64	5,331	51	3,381	36	2,817	33	4,558	47
Dutiable imports	*1,524*	*15*	*1,945*	*19*	*2,567*	*28*	*1,419*	*17*	*1,864*	*19*
Subject to MFN duties	*640.5*	*6*	*1,934.8*	*18*	*1,930.5*	*21*	*814.3*	*10*	*1,330*	*14*
Subject to preferential duties	*883.8*	*8*	*10.0*	*0*	*636.0*	*7*	*605.0*	*7*	*534*	*6*
GSP										
All tariff lines	10,404	100	10,496	100	9,296	100	8,497	100	9,673	100
MFN duty free access	2,176	21	3,220	31	3,349	36	4,261	50	3,252	34
Preferential access	7,022	67	3,660	35	3,430	37	2,781	33	4,223	44
Duty free preference	*3,932*	*38*	*3,660*	*35*	*2,163*	*23*	*1,232*	*14*	*2,747*	*28*
Dutiable imports	*4,296*	*41*	*3,616*	*34*	*3,784*	*41*	*3,004*	*35*	*3,675*	*38*
LDC										
All tariff lines	10,404	100	10,496	100	9,296	100	8,497	100	9,673	100
MFN duty free access	2,176	21	3,220	31	3,349	36	4,261	50	3,252	34
Preferential access	8,066	78	5,364	51	4,603	50	4,139	49	5,543	57
Duty free preference	*8,066*	*78*	*5,364*	*51*	*4,598*	*49*	*4,139*	*49*	*5,542*	*57*
Dutiable imports	*162*	*2*	*1,912*	*18*	*1,349*	*15*	*97*	*1*	*880*	*9*

Table AT1 (continued)

	EU-15		USA		Japan		Canada		Average	
Preferential scheme	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(11)**	**(12)**
ACP										
All tariff lines	10,404	100	–		–		–		10,404	100
MFN duty free access	2,176	21	–		–		–		2,176	21
Preferential access	7,457	72	–		–		–		7,457	72
Duty free preference	*7,204*	*69*	–		–		–		*7,204*	*69*
Dutiable imports	*1,024*	*10*							*1,024*	*10*
AGOA										
All tariff lines	–		10,496	100	–		–		10,496	100
MFN duty free access	–		3,220	31	–		–		3,220	31
Preferential access	–		6,071	58	–		–		6,071	58
Duty free preference	–		*6,071*	*58*	–		–		*6,071*	*58*
Dutiable imports	–		*1,205*	*11*					*1,205*	*11*
Caribbean Basin Economic Recovery Act										
All tariff lines	–		10,496	100	–		–		10,496	100
MFN duty free access	–		3,220	31	–		–		3,220	31
Preferential access	–		5,861	56	–		–		5,861	56
Duty free preference	–		*5,811*	*55*	–		–		*5,811*	*55*
Dutiable imports	–		*1,465*	*14*					*1,465*	*14*
Andean Trade Preference Act and Andean Trade Promotion and Drug Eradication Act										
All tariff lines	–		10,496	100	–		–		10,496	100
MFN duty free access	–		3,220	31	–		–		3,220	31
Preferential access	–		5,750	55	–		–		5,750	55
Duty free preference	–		*5,750*	*55*	–		–		*5,750*	*55*
Dutiable imports	–		*1,526*	*15*					*1,526*	*15*

Table AT1 (continued)

	EU-15		USA		Japan		Canada		Average	
Preferential scheme	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(11)**	**(12)**
Countries fighting drugs										
All tariff lines	10,404	100	–		–		–		10,404	100
MFN duty free access	2,176	21	–		–		–		2,176	21
Preferential access	7,805	75	–		–		–		7,805	75
Duty free preference	*7,613*	*73*	–		–		–		*7,613*	*73*
Dutiable imports	*615*	*6*							*615*	*6*
Commonwealth Caribbean countries										
All tariff lines	–		–		–		8,497	100	8,497	100
MFN duty free access	–		–		–		4,261	50	4,261	50
Preferential access	–		–		–		*3,345*	*39*	*3,345*	*39*
Duty free preference	–		–		–		*3,079*	*36*	*3,079*	*36*
Dutiable imports	–		–		–		*1,157*	*14*	*1,157*	*14*

Source: Adapted from Table A2 in Low *et al.* (2005) and Table A1 in Low *et al.* (2006).

Table AT2 Tariff lines of non-agricultural imports by QUAD+ countries from beneficiary countries of various QUAD preference schemes, 2003

	EU-15		USA		Japan		Canada		Australia		Average	
Preferential scheme	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
All schemes												
All tariff lines	8,289	100	8,688	100	7,438	100	7,125	100	5,330	100	7,374	100
MFN duty free access	1,774	21	2,836	33	2,888	39	3,710	52	2,332	44	2,708	37
Preferential access	6,335	76	4,290	49	3,615	49	2,859	40	1,894	36	3,798	52
Duty free preference	*5,737*	*69*	*4,280*	*49*	*3,075*	*41*	*2,319*	*33*	*1,578*	*30*	*3,398*	*46*
Dutiable imports	*778*	*9*	*1,572*	*18*	*1,476*	*20*	*1,096*	*15*	*1,420*	*27*	*1,268*	*17*
Subject to MFN duties	*180.3*	*2*	*1,562.4*	*18*	*935.0*	*13*	*556.0*	*8*	*1,104.0*	*21*	*868*	*12*
Subject to preferential duties	*597.8*	*7*	*10.0*	*0*	*540.5*	*7*	*539.7*	*8*	*316.0*	*6*	*401*	*5*
GSP												
All tariff lines	8,289	100	8,688	100	7,438	100	7,125	100	5,330	100	7,374	100
MFN duty free access	1,774	21	2,836	33	2,888	39	3,710	52	2,332	44	2,708	37
Preferential access	6,179	75	3,106	36	3,087	4	2,484	35	790	15	3,129	42
Duty free preference	*3,804*	*46*	*3,106*	*36*	*2,008*	*27*	*1,131*	*16*	*158*	*3*	*2,041*	*28*
Dutiable imports	*2,711*	*33*	*2,746*	*32*	*2,542*	*34*	*2,284*	*32*	*2,840*	*53*	*2,625*	*36*
LDC												
All tariff lines	8,289	100	8,688	100	7,438	100	7,125	100	5,330	100	7,374	100
MFN duty free access	1,774	21	2,836	33	2,888	39	3,710	52	2,332	44	2,708	37
Preferential access	6,414	77	4,215	49	4,143	56	3,415	48	2,998	56	4,237	57
Duty free preference	*6,414*	*77*	*4,215*	*49*	*4,141*	*56*	*3,415*	*48*	*2,998*	*56*	*4,237*	*57*
Dutiable imports	*101*	*1*	*1,637*	*19*	*409*	*5*	*0*	*0*	*0*	*0*	*429*	*6*

Table AT2 (continued)

	EU-15		USA		Japan		Canada		Australia		Average	
Preferential scheme	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
ACP												
All tariff lines	8,289	100	–		–		–		–		8,289	100
MFN duty free access	1,774	21	–		–		–		–		1,774	21
Preferential access	6,439	78	–		–		–		–		6,439	78
Duty free preference	*6,439*	*78*	–		–		–		–		*6,439*	*78*
Dutiable imports	*76*	*1*									*76*	*1*
AGOA												
All tariff lines	–		8,688	100	–		–		–		8,688	100
MFN duty free access	–		2,836	33	–		–		–		2,836	33
Preferential access	–		4,900	56	–		–		–		4,900	56
Duty free preference	–		*4,900*	*56*	–		–		–		*4,900*	*56*
Dutiable imports	–		*952*	*11*							*952*	*11*
Caribbean Basin Economic Recovery Act												
All tariff lines	–		8,688	100	–		–		–		8,688	100
MFN duty free access	–		2,836	33	–		–		–		2,836	33
Preferential access	–		4,668	54	–		–		–		4,668	54
Duty free preference	–		*4,618*	*53*	–		–		–		*4,618*	*53*
Dutiable imports	–		*1,234*	*14*							*1,234*	*14*

Table AT2 (continued)

	EU-15		USA		Japan		Canada		Australia		Average	
Preferential scheme	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
Andean Trade Preference Act and Andean Trade Promotion & Drug Eradication Act												
All tariff lines	–		8,688	100	–		–		–		8,688	100
MFN duty free access	–		2,836	33	–		–		–		2,836	33
Preferential access	–		4,559	52	–		–		–		4,559	52
Duty free preference	–		*4,559*	*52*	–		–		–		*4,559*	*52*
Dutiable imports	–		*1,293*	*15*							*1,293*	*15*
Countries fighting drugs												
All tariff lines	8,289	100	–		–		–		–		8,289	100
MFN duty free access	1,774	21	–		–		–		–		1,774	21
Preferential access	6,307	76	–		–		–		–		6,307	76
Duty free preference	*6,291*	*76*	–		–		–		–		*6,291*	*76*
Dutiable imports	*224*	*3*									*224*	*3*
Commonwealth Caribbean countries												
All tariff lines	–		–		–		7,125	100	–		7,125	100
MFN duty free access	–		–		–		3,710	52	–		3,710	52
Preferential access	–		–		–		2,678	38	–		2,678	38
Duty free preference	–		–		–		*2,412*	*34*	–		*2,412*	*34*
Dutiable imports	–		–		–		*1,003*	*14*	–		*1,003*	*14*

Source: Adapted from Table A1 in Low *et al.* (2005).

Table AT3 Tariff lines of agricultural imports by QUAD countries from beneficiary countries of various QUAD preference schemes, 20003

	EU-15		USA		Japan		Canada		Average	
Preferential scheme	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(11)**	**(12)**
All schemes										
All tariff lines	2,115	100	1,808	100	1,858	100	1,372	100	1,825	100
MFN duty free access	402	19	384	21	461	25	551	40	426	23
Preferential access	1,253	59	1,052	58	402	22	563	41	1,030	56
Duty free preference	*967*	*46*	*1,052*	*58*	*306*	*16*	*497*	*36*	*942*	*52*
Dutiable imports	*746*	*35*	*372*	*21*	*1,091*	*59*	*324*	*24*	*457*	*25*
GSP										
All tariff lines	2,115	100	1,808	100	1,858	100	1,372	100	1,788	100
MFN duty free access	402	19	384	21	461	25	551	40	450	25
Preferential access	843	40	554	31	343	18	297	22	509	28
Duty free preference	*128*	*6*	*554*	*31*	*155*	*8*	*101*	*7*	*235*	*13*
Dutiable imports	*1,585*	*75*	*870*	*48*	*1,242*	*67*	*720*	*52*	*1,104*	*62*
LDC										
All tariff lines	2,115	100	1,808	100	1,858	100	1,372	100	1,788	100
MFN duty free access	402	19	384	21	461	25	551	40	450	25
Preferential access	1,652	78	1,149	64	460	25	724	53	996	56
Duty free preference	*1,652*	*78*	*1,149*	*64*	*457*	*25*	*724*	*53*	*996*	*56*
Dutiable imports	*61*	*3*	*275*	*15*	*940*	*51*	*97*	*7*	*343*	*19*
ACP										
All tariff lines	2,115	100	–		–		–		2,115	100
MFN duty free access	402	19	–		–		–		402	19
Preferential access	1,018	48	–		–		–		1,018	48
Duty free preference	*765*	*36*	–		–		–		*765*	*36*
Dutiable imports	*948*	*45*							*948*	*45*

Table AT3 (continued)

	EU-15		USA		Japan		Canada		Average	
Preferential scheme	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(11)**	**(12)**
AGOA										
All tariff lines	–		1,808	100	–		–		1,808	100
MFN duty free access	–		384	21	–		–		384	21
Preferential access	–		1,171	65	–		–		1,171	65
Duty free preference	–		*1,171*	*65*	–		–		*1,171*	*65*
Dutiable imports	–		*253*	*14*					*253*	*14*
Caribbean Basin Economic Recovery Act										
All tariff lines	–		1,808	100	–		–		1,808	100
MFN duty free access	–		384	21	–		–		384	21
Preferential access	–		1,193	66	–		–		1,193	66
Duty free preference	–		*1,193*	*66*	–		–		*1,193*	*66*
Dutiable imports	–		*231*	*13*					*231*	*13*
Andean Trade Preference Act and Andean Trade Promotion & Drug Eradication Act										
All tariff lines	–		1,808	100	–		–		1,808	100
MFN duty free access	–		384	21	–		–		384	21
Preferential access	–		1,191	66	–		–		1,191	66
Duty free preference	–		*1,191*	*66*	–		–		*1,191*	*66*
Dutiable imports	–		*233*	*13*					*233*	*13*

Table AT3 (continued)

	EU-15		USA		Japan		Canada		Average	
Preferential scheme	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**	**Tariff lines**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(11)**	**(12)**
Countries fighting drugs										
All tariff lines	2,115	100	–		–		–		2,115	100
MFN duty free access	402	19	–		–		–		402	19
Preferential access	1,498	71	–		–		–		1,498	71
Duty free preference	*1,322*	*63*	–		–		–		*1,322*	*63*
Dutiable imports	*391*	*18*							*391*	*18*
Commonwealth Caribbean countries										
All tariff lines	–		–		–		1,372	100	1,372	100
MFN duty free access	–		–		–		551	40	551	40
Preferential access	–		–		–		667	49	667	49
Duty free preference	–		–		–		*667*	*49*	*667*	*49*
Dutiable imports	–		–		–		*154*	*11*	*154*	*11*

Source: Adapted from Table A1 in Low *et al.* (2005).

Table AT4 Total exports from preference scheme beneficiary countries to the QUAD countries, 2003 (US$ million)

	EU-15		USA		Japan		Canada		Australia		Total	
Preferential scheme	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
All schemes												
All tariff lines	496,086.5	100	237,453.9	100	172,042.1	100	45,802.3	100	19,760.2	100	971,145.0	100
MFN duty free access	255,138.6	51	79,333.5	33	114,019.2	66	26,682.7	58	9,747.1	49	484,921.1	50
Preferential access	200,701.1	40	56,198.3	24	23,005.3	13	12,068.7	26	1,866.3	9	293,839.7	30
Duty free preference	*104,431.8*	*21*	*56,119.0*	*24*	*14,794.2*	*9*	*2,902.9*	*6*	*147.8*	*1*	*178,395.7*	*18*
Dutiable imports	*136,516.1*	*28*	*102,001.4*	*43*	*43,228.7*	*25*	*16,216.7*	*35*	*9,865.3*	*50*	*307,828.2*	*32*
Subject to MFN duties	*40,246.8*	*8*	*101,922.1*	*43*	*35,017.6*	*20*	*7,050.9*	*15*	*8,146.8*	*41*	*192,384.2*	*20*
Subject to preferential duties	*96,269.3*	*19*	*79.3*	*0*	*8,211.1*	*5*	*9,165.8*	*20*	*1,718.5*	*9*	*115,444.0*	*12*
GSP												
All tariff lines	436,327.7	100	173,805.1	100	170,479.2	100	44,505.6	100	19,649.5	100	844,767.1	100
MFN duty free access	221,766.4	51	63,392.3	36	113,037.1	66	25,810.8	58	9,647.5	49	433,654.1	51
Preferential access	178,257.1	41	26,011.5	15	22,549.1	13	11,650.1	26	1,855.2	9	240,323.0	28
Duty free preference	*83,070.7*	*19*	*25,970.3*	*15*	*14,338.0*	*8*	*2,484.4*	*6*	*136.7*	*1*	*126,000.1*	*15*
Dutiable imports	*131,490.6*	*30*	*84,442.5*	*49*	*43,104.1*	*25*	*16,210.4*	*36*	*9,865.3*	*50*	*285,112.9*	*34*
LDC												
All tariff lines	13,704.3	100	10,042.2	100	1,562.9	100	739.0	100	110.7	100	26,159.1	100
MFN duty free access	5,986.5	44	699.0	7	982.1	63	401.3	54	99.6	90	8,168.5	31
Preferential access	7,583.2	55	5,071.2	50	456.2	29	337.7	46	11.1	10	13,459.4	51
Duty free preference	*7,583.2*	*55*	*5,071.2*	*50*	*456.2*	*29*	*337.7*	*46*	*11.1*	*10*	*13,459.4*	*51*
Dutiable imports	*134.6*	*1*	*4,272.0*	*43*	*124.6*	*8*	*0.0*	*0*	*0.0*	*0*	*4,531.2*	*17*

Table AT4 (continued)

	EU-15		USA		Japan		Canada		Australia		Total	
Preferential scheme	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
ACP												
All tariff lines	30,621.2	100	–		–		–		–		30,621.2	100
MFN duty free access	19,994.3	65	–		–		–		–		19,994.3	65
Preferential access	8,848.2	29	–		–		–		–		8,848.2	29
Duty free preference	*8,160.2*	*27*	–		–		–		–		*8,160.2*	*27*
Dutiable imports	*2,466.7*	*8*	–		–		–		–		*2,466.7*	*8*
AGOA												
All tariff lines	–		19,062.4	100	–		–		–		19,062.4	100
MFN duty free access	–		4,234.0	22	–		–		–		4,234.0	22
Preferential access	–		14,731.6	77	–		–		–		14,731.6	77
Duty free preference	–		*14,731.6*	*77*	–		–		–		*14,731.6*	*77*
Dutiable imports	–		*96.8*	*1*	–		–		–		*96.8*	*1*
Caribbean Basin Economic Recovery Act												
All tariff lines	–		23,523.0	100	–		–		–		23,523.0	100
MFN duty free access	–		7,454.7	32	–		–		–		7,454.7	32
Preferential access	–		4,142.6	18	–		–		–		4,142.6	18
Duty free preference	–		*4,104.5*	*17*	–		–		–		*4,104.5*	*17*
Dutiable imports	–		*11,963.8*	*51*	–		–		–		*11,963.8*	*51*

Table AT4 (continued)

	EU-15		USA		Japan		Canada		Australia		Total	
Preferential scheme	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
Andean Trade Preference Act and Andean Trade Promotion & Drug Eradication Act												
All tariff lines	–		11,021.2	100	–		–		–		11,021.2	100
MFN duty free access	–		3,553.5	32	–		–		–		3,553.5	32
Preferential access	–		6,241.4	57	–		–		–		6,241.4	57
Duty free preference	–		*6,241.4*	*57*	–		–		–		*6,241.4*	*57*
Dutiable imports	–		*1,226.3*	*11*	–		–		–		*1,226.3*	*11*
Countries fighting drugs												
All tariff lines	15,433.3	100	–		–		–		–		15,433.3	100
MFN duty free access	7,391.4	48	–		–		–		–		7,391.4	48
Preferential access	6,012.6	39	–		–		–		–		6,012.6	39
Duty free preference	*5,617.7*	*36*	–		–		–		–		*5,617.7*	*36*
Dutiable imports	*2,424.2*	*16*	–		–		–		–		*2,424.2*	*16*
Commonwealth Caribbean countries												
All tariff lines	–		–		–		557.7	100	–		557.7	100
MFN duty free access	–		–		–		470.6	84	–		470.6	84
Preferential access	–		–		–		80.9	15	–		80.9	15
Duty free preference	–		–		–		*80.8*	*14*	–		*80.8*	*14*
Dutiable imports	–		–		–		*6.3*	*1*	–		*6.3*	*1*

Source: Adapted from Table A1 in Low *et al.* (2005).

Table AT5 Non-agricultural exports from preference scheme beneficiary countries to the QUAD countries, 2003 (US$ million)

	EU-15		USA		Japan		Canada		Australia		Total	
Preferential scheme	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
All schemes												
All tariff lines	439,016.7	100	218,135.1	100	161,071.1	100	42,879.4	100	19,760.2	100	880,862.5	100
MFN duty free access	229,799.3	52	69,573.7	32	110,547.0	69	24,601.0	57	9,747.1	49	444,268.1	50
Preferential access	182,343.2	42	50,170.1	23	20,962.8	13	11,562.1	27	1,866.3	9	266,904.5	30
Duty free preference	*97,356.7*	*22*	*50,091.9*	*23*	*13,723.8*	*9*	*2,582.4*	*6*	*147.8*	*1*	*163,902.6*	*19*
Dutiable imports	*111,860.7*	*25*	*98,469.5*	*45*	*36,800.3*	*23*	*15,696.0*	*37*	*9,865.3*	*50*	*272,691.8*	*31*
Subject to MFN duties	*26,874.2*	*6*	*98,391.3*	*45*	*29,561.3*	*18*	*6,716.3*	*16*	*8,146.8*	*41*	*169,689.9*	*19*
Subject to preferential duties	*84,986.5*	*19*	*78.2*	*0*	*7,239.0*	*4*	*8,979.7*	*21*	*1,718.5*	*9*	*103,001.9*	*12*
GSP												
All tariff lines	393,955.5	100	160,732.0	100	159,684.1	100	41,656.9	100	19,649.5	100	775,678.0	100
MFN duty free access	202,725.2	51	57,070.5	36	109,728.6	69	23,778.7	57	9,647.5	49	402,950.5	52
Preferential access	165,321.0	42	22,771.2	14	20,513.4	13	11,168.0	27	1,855.2	9	221,628.8	29
Duty free preference	*80,639.3*	*20*	*22,731.1*	*14*	*13,274.4*	*8*	*2,188.4*	*5*	*136.7*	*1*	*118,969.9*	*15*
Dutiable imports	*110,591.0*	*28*	*80,930.4*	*50*	*36,681.1*	*23*	*15,689.8*	*38*	*9,865.3*	*50*	*253,757.6*	*33*
LDC												
All tariff lines	12,143.8	100	9,691.8	100	1,387.0	100	703.4	100	110.7	100	24,036.7	100
MFN duty free access	5,115.7	42	413.4	4	818.4	59	366.1	52	99.6	90	6,813.2	28
Preferential access	7,017.9	58	5,006.6	52	449.4	32	337.3	48	11.1	10	12,822.3	53
Duty free preference	*7,017.9*	*58*	*5,006.6*	*52*	*449.4*	*32*	*337.3*	*48*	*11.1*	*10*	*12,822.3*	*53*
Dutiable imports	*10.2*	*0*	*4,271.8*	*44*	*119.2*	*9*	*0.0*	*0*	*0.0*	*0*	*4,401.2*	*18*
ACP												
All tariff lines	22,101.5	100	–		–		–		–		22,101.5	100
MFN duty free access	15,803.9	72	–		–		–		–		15,803.9	72
Preferential access	5,516.8	25	–		–		–		–		5,516.8	25
Duty free preference	*5,516.8*	*25*	–		–		–		–		*5,516.8*	*25*
Dutiable imports	*780.8*	*4*	–		–		–		–		*780.8*	*4*

Table AT5 (continued)

	EU-15		USA		Japan		Canada		Australia		Total	
Preferential scheme	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
AGOA												
All tariff lines	–		18,018.1	100	–		–		–		18,018.1	100
MFN duty free access	–		3,470.1	19	–		–		–		3,470.1	19
Preferential access	–		14,457.1	80	–		–		–		14,457.1	80
Duty free preference	–		*14,457.1*	*80*	–		–		–		*14,457.1*	*80*
Dutiable imports	–		*90.9*	*1*	–		–		–		*90.9*	*1*
Caribbean Basin Economic Recovery Act												
All tariff lines	–		20,615.4	100	–		–		–		20,615.4	100
MFN duty free access	–		6,114.5	30	–		–		–		6,114.5	30
Preferential access	–		2,587.6	13	–		–		–		2,587.6	13
Duty free preference	–		*2,549.5*	*12*	–		–		–		*2,549.5*	*12*
Dutiable imports	–		*11,951.4*	*58*	–		–		–		*11,951.4*	*58*
Andean Trade Preference Act and Andean Trade Promotion & Drug Eradication Act												
All tariff lines	–		9,077.8	100	–		–		–		9,077.8	100
MFN duty free access	–		2,505.2	28	–		–		–		2,505.2	28
Preferential access	–		5,347.6	59	–		–		–		5,347.6	59
Duty free preference	–		*5,347.6*	*59*	–		–		–		*5,347.6*	*59*
Dutiable imports	–		*1,225.0*	*13*	–		–		–		*1,225.0*	*13*

Table AT5 (continued)

	EU-15		USA		Japan		Canada		Australia		Total	
Preferential scheme	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
Countries fighting drugs												
All tariff lines	10,815.9	100	–		–		–		–		10,815.9	100
MFN duty free access	6,154.5	57	–		–		–		–		6,154.5	57
Preferential access	4,487.5	41	–		–		–		–		4,487.5	41
Duty free preference	*4,182.7*	*39*	–		–		–		–		*4,182.7*	*39*
Dutiable imports	*478.7*	*4*	–		–		–		–		*478.7*	*4*
Commonwealth Caribbean countries												
All tariff lines	–		–		–		519.1	100	–		519.1	100
MFN duty free access	–		–		–		456.2	88	–		456.2	88
Preferential access	–		–		–		56.8	11	–		56.8	11
Duty free preference	–		–		–		*56.7*	*11*	–		*56.7*	*11*
Dutiable imports	–		–		–		*6.2*	*1*	–		*6.2*	*1*

Source: Adapted from Table A1 in Low *et al.* (2005).

Table AT6 Agricultural exports from preference scheme beneficiary countries to the QUAD countries, 2003 (US$ millions)

	EU-15		USA		Japan		Canada		Australia		Total	
Preferential scheme	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
All schemes												
All tariff lines	57,069.8	100	19,318.8	100	10,971.0	100	2,922.9	100	0.0		90,282.5	100
MFN duty free access	25,339.3	44	9,759.8	51	3,472.2	32	2,081.7	71	0.0		40,653.0	45
Preferential access	18,357.9	32	6,028.2	31	2,042.5	19	506.6	17	0.0		26,935.2	30
Duty free preference	*7,075.1*	*12*	*6,027.1*	*31*	*1,070.4*	*10*	*320.5*	*11*	*0.0*		*14,493.1*	*16*
Dutiable imports	*24,655.4*	*43*	*3,531.9*	*18*	*6,428.4*	*59*	*520.7*	*18*	*0.0*		*35,136.4*	*39*
Subject to MFN duties	*13,372.6*	*23*	*3,530.8*	*18*	*5,456.3*	*50*	*334.6*	*11*	*0.0*		*22,694.3*	*25*
Subject to preferential duties	*11,282.8*	*20*	*1.1*	*0*	*972.1*	*9*	*186.1*	*6*	*0.0*		*12,442.1*	*14*
GSP												
All tariff lines	42,372.2	100	13,073.1	100	10,795.1	100	2,848.7	100			69,089.1	100
MFN duty free access	19,041.2	45	6,321.8	48	3,308.5	31	2,032.1	71			30,703.6	44
Preferential access	12,936.1	31	3,240.3	25	2,035.7	19	482.1	17			18,694.2	27
Duty free preference	*2,431.4*	*6*	*3,239.2*	*25*	*1,063.6*	*10*	*296.0*	*10*			*7,030.2*	*10*
Dutiable imports	*20,899.6*	*49*	*3,512.1*	*27*	*6,423.0*	*59*	*520.6*	*18*	*0.0*		*31,355.3*	*45*
LDC												
All tariff lines	1,560.5	100	350.4	100	175.9	100	35.6	100			2,122.4	100
MFN duty free access	870.8	56	285.6	82	163.7	93	35.2	99			1,355.3	64
Preferential access	565.3	36	64.6	18	6.8	4	0.4	1			637.1	30
Duty free preference	*565.3*	*36*	*64.6*	*18*	*6.8*	*4*	*0.4*	*1*			*637.1*	*30*
Dutiable imports	*124.4*	*8*	*0.2*	*0*	*5.4*	*3*	*0.0*	*0*	*0.0*		*130.0*	*6*
ACP												
All tariff lines	8,519.7	100	–		–		–		–		8,519.7	100
MFN duty free access	4,190.4	49	–		–		–		–		4,190.4	49
Preferential access	3,331.4	39	–		–		–		–		3,331.4	39
Duty free preference	*2,643.4*	*31*	–		–		–		–		*2,643.4*	*31*
Dutiable imports	*1,685.9*	*20*	–		–		–		–		*1,685.9*	*20*

Table AT6 (continued)

	EU-15		USA		Japan		Canada		Australia		Total	
Preferential scheme	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
AGOA												
All tariff lines	–		1,044.3	100	–		–		–		1,044.3	100
MFN duty free access	–		763.9	73	–		–		–		763.9	73
Preferential access	–		274.5	26	–		–		–		274.5	26
Duty free preference	–		*274.5*	*26*	–		–		–		*274.5*	*26*
Dutiable imports	–		*5.9*	*1*	–		–		–		*5.9*	*1*
Caribbean Basin Economic Recovery Act												
All tariff lines	–		2,907.6	100	–		–		–		2,907.6	100
MFN duty free access	–		1,340.2	46	–		–		–		1,340.2	46
Preferential access	–		1,555.0	53	–		–		–		1,555.0	53
Duty free preference	–		*1,555.0*	*53*	–		–		–		*1,555.0*	*53*
Dutiable imports	–		*12.4*	*0*	–		–		–		*12.4*	*0*
Andean Trade Preference Act and Andean Trade Promotion & Drug Eradication Act												
All tariff lines	–		1,943.4	100	–		–		–		1,943.4	100
MFN duty free access	–		1,048.3	54	–		–		–		1,048.3	54
Preferential access	–		893.8	46	–		–		–		893.8	46
Duty free preference	–		*893.8*	*46*	–		–		–		*893.8*	*46*
Dutiable imports	–		*1.3*	*0*	–		–		–		*1.3*	*0*

Table AT6 (continued)

	EU-15		USA		Japan		Canada		Australia		Total	
Preferential scheme	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**	**Imports**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
Countries fighting drugs												
All tariff lines	4,617.4	100	–		–		–		–		4,617.4	100
MFN duty free access	1,236.9	27	–		–		–		–		1,236.9	27
Preferential access	1,525.1	33	–		–		–		–		1,525.1	33
Duty free preference	*1,435.0*	*31*	–		–		–		–		*1,435.0*	*31*
Dutiable imports	*1,945.5*	*42*	–		–		–		–		*1,945.5*	*42*
Commonwealth Caribbean countries												
All tariff lines	–		–		–		38.6	100	–		38.6	100
MFN duty free access	–		–		–		14.4	37	–		14.4	37
Preferential access	–		–		–		24.1	62	–		24.1	62
Duty free preference	–		–		–		*24.1*	*62*	–		*24.1*	*62*
Dutiable imports	–		–		–		*0.1*	*0*	–		*0.1*	*0*

Source: Adapted from Table A1 in Low *et al.* (2005).

Table AT7 Imports of non-agricultural products from preference beneficiaries by type of market access, 2003 (% of total bilateral imports, US$ million)

		QUAD + Australia					
		Imports (%)			Average percentage of:		
Country	Bilateral imports	MFN duty free access	MFN dutiable access	Preferential access	MFN duty free access	MFN dutiable access	Preferential access
	1	2	3	4	5	6	7
Developing countries							
Albania	184	30	2	68	0.50	0.14	0.86
Antigua and Barbuda	416	81	0	19	0.14	0.00	0.10
Argentina	5,055	30	37	32	3.68	2.18	4.00
Armenia	202	66	6	27	0.29	0.17	0.23
Bahrain	770	20	38	42	0.56	0.36	0.70
Barbados	39	54	0	45	0.42	0.03	0.30
Belize	84	70	7	23	0.23	0.06	0.16
Bolivia	233	49	16	35	0.52	0.43	0.48
Botswana	1,712	98	0	2	0.22	0.03	0.13
Brazil	28,711	52	24	23	8.98	5.61	8.06
Brunei Darussalam	2,579	88	12	0	0.25	0.31	0.13
Cameroon	1,534	79	1	20	0.64	0.11	0.65
China	343,804	46	40	14	24.86	27.40	11.78
Colombia	6,361	40	9	51	2.33	1.54	2.61
Congo	731	47	0	53	0.39	0.00	0.24
Côte d'Ivoire	778	62	0	37	0.58	0.04	0.64
Cuba	362	77	6	16	0.54	0.07	0.44
Dominica	18	13	22	64	0.13	0.06	0.07
Dominican Republic	4,135	23	1	76	1.64	0.61	1.78
Ecuador	2,496	19	6	75	1.49	0.52	1.16
Egypt	4,189	31	26	43	1.81	1.32	3.05
El Salvador	1,917	3	3	93	0.63	0.54	0.82
Gabon	1,934	27	0	73	0.43	0.00	0.26
Georgia	335	35	51	14	0.54	0.11	0.24
Ghana	647	46	1	54	0.78	0.11	0.62
Grenada	7	50	0	50	0.07	0.09	0.03
Guatemala	2,244	5	2	93	0.81	0.54	1.17
Guyana	294	93	0	7	0.40	0.02	0.18
Honduras	3,136	9	2	89	0.70	0.51	0.77
Hong Kong, China	20,332	46	52	0	11.79	21.17	1.47
India	29,057	31	28	41	12.07	12.36	10.65
Indonesia	37,349	57	22	21	8.68	7.86	7.44
Jamaica	740	44	0	56	0.52	0.06	0.35
Kenya	335	18	2	80	0.79	0.15	0.97
Korea, Republic of	84,674	53	45	2	16.36	29.67	2.08
Kuwait	8,591	68	25	7	0.64	0.26	0.54
Kyrgyz Republic	49	65	20	16	0.12	0.13	0.09
Macao, China	2,200	2	86	12	0.77	2.69	0.53
Malaysia	54,093	80	13	7	10.02	8.39	5.89

Table AT7 (continued)

	QUAD + Australia						
		Imports (%)			Average percentage of:		
Country	Bilateral imports	MFN duty free access	MFN dutiable access	Preferential access	MFN duty free access	MFN dutiable access	Preferential access
	1	2	3	4	5	6	7
Mauritius	1,125	6	1	92	0.77	0.40	1.53
Moldova	183	5	59	36	0.27	0.35	0.57
Mongolia	209	1	94	5	0.21	0.50	0.17
Namibia	615	39	1	60	0.40	0.05	0.39
Nicaragua	665	18	1	82	0.35	0.16	0.38
Nigeria	17,398	40	4	56	0.79	0.04	0.81
Oman	3,216	82	15	3	0.55	0.41	0.60
Pakistan	5,922	3	45	51	2.20	4.02	3.44
Panama	531	64	21	15	0.93	0.14	0.77
Paraguay	95	65	8	27	0.29	0.12	0.30
Peru	4,753	64	13	24	1.82	1.60	1.98
Philippines	23,065	75	12	13	7.22	4.52	5.12
Qatar	7,242	90	9	1	0.53	0.20	0.53
St Kitts and Nevis	50	35	1	63	0.22	0.01	0.16
St Lucia	13	25	0	75	0.15	0.01	0.16
St Vincent and Gren.	47	94	0	6	0.07	0.01	0.04
Sri Lanka	3,286	14	51	35	1.73	2.45	2.26
Suriname	341	71	4	25	0.32	0.01	0.20
Swaziland	173	9	3	88	0.37	0.03	0.29
Taipei, Chinese	70,460	65	35	0	17.42	32.42	0.31
Thailand	37,574	53	21	26	11.19	9.77	8.86
Trinidad and Tobago	4,796	58	1	41	0.71	0.04	0.55
United Arab Emirates	19,673	84	8	8	2.77	2.08	3.34
Uruguay	511	38	20	42	1.02	0.51	0.91
Venezuela, Bolivarian Rep.	16,611	41	53	6	1.79	0.56	1.55
Zimbabwe	321	28	2	70	0.48	0.21	0.46
Developing countries total	**871,202**	**52.1**	**31.8**	**15.9**	**na**	**na**	**na**
LDCs							
Angola	5,361	26	0	74	0.38	0.01	0.27
Bangladesh	6,460	3	30	67	0.69	0.81	2.15
Benin	11	34	1	65	0.13	0.01	0.11
Burkina Faso	16	32	0	67	0.21	0.01	0.18
Burundi	3	71	0	29	0.05	0.00	0.03
Cambodia	1,962	0	64	36	0.30	0.49	0.99
Central African Rep.	98	97	0	3	0.10	0.00	0.05
Chad	22	3	0	97	0.06	0.00	0.06
Congo (DRC)	970	86	0	14	0.30	0.00	0.15
Djibouti	4	82	0	18	0.07	0.00	0.06
Gambia, The	3	16	1	83	0.10	0.01	0.11

Table AT7 (continued)

		QUAD + Australia					
		Imports (%)			Average percentage of:		
Country	Bilateral imports	MFN duty free access	MFN dutiable access	Preferential access	MFN duty free access	MFN dutiable access	Preferential access
	1	2	3	4	5	6	7
Guinea	474	88	0	12	0.24	0.01	0.18
Guinea-Bissau	8	30	0	70	0.03	0.00	0.03
Haiti	330	2	0	98	0.28	0.01	0.43
Lesotho	406	1	0	99	0.03	0.00	0.19
Madagascar	594	4	0	95	0.51	0.06	1.10
Malawi	25	4	0	96	0.10	0.00	0.09
Maldives	138	1	79	21	0.09	0.12	0.18
Mali	13	44	1	55	0.30	0.03	0.27
Mauritania	406	50	0	49	0.26	0.01	0.32
Mozambique	640	2	0	98	0.20	0.00	0.15
Myanmar	844	14	31	55	0.52	0.78	0.75
Nepal	276	4	57	23	0.49	0.56	1.39
Niger	13	77	1	22	0.28	0.01	0.20
Rwanda	8	88	0	12	0.08	0.00	0.06
Senegal	297	9	1	90	0.55	0.03	0.68
Sierra Leone	121	87	0	13	0.41	0.00	0.58
Solomon Islands	22	39	30	31	0.14	0.02	0.02
Tanzania	656	75	0	25	0.50	0.01	0.33
Togo	39	61	0	39	0.21	0.02	0.19
Uganda	102	24	0	76	0.33	0.00	0.27
Zambia	113	60	0	40	0.26	0.01	0.19
LDC total	**20,435**	**20.2**	**18.3**	**61.2**	**na**	**na**	**na**
Overall total	**891,637**	**51.4**	**31.5**	**17.0**	**na**	**na**	**na**

Source: Low *et al.* (2005).

Table AT8 Weighted duty margins for agricultural products in 2003 (weighted by bilateral imports)

Country	Weighted preference margin					Adjusted weighted preference margin				
	QUAD	Canada	EU	Japan	USA	QUAD	Canada	EU	Japan	USA
Developing countries	**1**	**3**	**4**	**5**	**6**	**7**	**9**	**10**	**11**	**12**
Albania	2	0	3	1	0	0	-1	1	0	0
Antigua and Barbuda	1	1	1	0	2	0	0	0	0	1
Argentina	0	0	0	2	1	-1	0	-1	1	-4
Armenia	2	0	3	0	2	0	-1	-1	0	0
Bahrain	0	0	0	–	–	0	0	0	–	–
Barbados	34	4	45	0	8	4	0	6	0	1
Belize	35	0	38	0	31	14	0	15	0	16
Bolivia	8	0	8	0	9	2	0	2	0	2
Botswana	17	2	17	–	0	16	-2	16	–	0
Brazil	1	11	0	0	0	-3	0	-1	0	-17
Brunei Darussalam	0	3	0	0	0	0	0	0	0	0
Cameroon	11	0	12	0	0	9	0	9	0	0
China	1	1	2	1	0	-1	-2	-5	0	-1
Colombia	3	12	2	0	4	-1	-1	-3	0	1
Congo	21	0	16	0	37	4	0	2	0	10
Cuba	7	7	8	0	–	-12	2	-13	0	–
Côte d'Ivoire	4	0	5	0	0	2	0	2	0	0
Dominica	22	0	23	0	4	17	0	18	0	1
Dominican Republic	14	1	19	4	13	6	0	12	0	4
Ecuador	3	0	3	5	3	-2	0	-5	0	0
Egypt	2	1	3	0	1	0	-2	0	0	0
El Salvador	12	79	2	0	14	2	0	0	0	4
Fiji Islands	48	0	64	0	8	7	-1	9	0	2
Gabon	1	0	3	–	0	1	0	1	–	0
Georgia	3	0	3	0	0	-1	0	-1	0	0
Ghana	2	0	2	0	2	0	0	0	0	0
Grenada	1	0	1	0	0	1	0	1	0	0

Table AT8 (continued)

Country	Weighted preference margin					Adjusted weighted preference margin				
	QUAD	Canada	EU	Japan	USA	QUAD	Canada	EU	Japan	USA
Developing countries	**1**	**3**	**4**	**5**	**6**	**7**	**9**	**10**	**11**	**12**
Guatemala	6	19	5	0	5	0	0	1	0	0
Guyana	58	78	59	0	29	8	0	8	0	7
Honduras	4	0	2	0	5	0	0	0	0	0
Hong Kong, China	0	2	0	0	0	-2	-2	-5	0	-2
India	1	1	1	1	1	0	0	-1	0	0
Indonesia	1	1	1	3	0	-1	0	-1	0	0
Jamaica	20	2	41	0	3	5	0	9	0	1
Kenya	7	0	8	2	0	2	0	3	1	0
Korea, Republic of	0	1	0	0	0	-1	-2	-3	0	-3
Kuwait	1	0	1	–	0	0	-2	0	–	-1
Kyrgyz Republic	1	0	1	0	0	0	0	0	0	0
Macao, China	0	1	0	0	0	0	-1	0	0	0
Malaysia	1	2	1	4	0	0	-1	-1	2	0
Mauritius	58	4	60	0	12	11	0	11	0	3
Moldova	2	0	2	0	1	-1	-1	-1	0	0
Mongolia	0	0	0	0	0	0	0	0	0	0
Namibia	11	0	11	0	0	10	0	10	0	0
Nicaragua	5	0	5	0	6	1	0	1	0	1
Nigeria	0	0	1	0	0	0	0	0	0	0
Oman	0	0	2	0	0	0	-2	-1	0	-1
Pakistan	6	0	7	0	1	2	0	3	0	0
Panama	4	0	1	2	21	-5	0	-7	1	5
Papua New Guinea	4	0	4	0	5	3	0	3	0	1
Paraguay	1	3	0	0	8	0	-2	-1	0	1
Peru	8	0	7	1	11	3	0	4	0	2
Philippines	6	2	1	7	8	1	0	-1	2	2
Qatar	2	–	2	–	0	-1	–	-1	–	0

Table AT8 (continued)

Country	Weighted preference margin					Adjusted weighted preference margin				
	QUAD	Canada	EU	Japan	USA	QUAD	Canada	EU	Japan	USA
Developing countries	**1**	**3**	**4**	**5**	**6**	**7**	**9**	**10**	**11**	**12**
St Kitts and Nevis	64	3	65	0	0	7	0	8	0	0
St Lucia	29	0	29	–	4	22	0	22	–	1
St Vincent & Grenadines	29	3	29	–	1	22	0	22	–	1
Sri Lanka	1	0	1	1	0	0	0	0	0	0
Suriname	7	0	8	0	0	2	0	2	0	0
Swaziland	47	0	48	0	53	7	0	7	0	14
Taipei, Chinese	0	0	0	0	0	-2	-2	-4	-1	-2
Thailand	1	1	1	2	2	-2	-1	-7	1	-1
Trinidad and Tobago	35	4	48	0	15	5	1	6	0	4
United Arab Emirates	0	2	0	0	0	0	-1	0	-1	-1
Uruguay	0	0	0	2	2	-2	-4	-1	0	0
Venezuela	2	1	3	0	1	1	0	1	0	0
Zimbabwe	10	7	11	0	0	2	2	4	0	-24
Total developing countries	**1.3**	**1.6**	**1.5**	**0.4**	**1.7**	**-0.4**	**-0.4**	**-0.3**	**0.1**	**-1.4**
LDCs	**1**	**3**	**4**	**5**	**6**	**7**	**9**	**10**	**11**	**12**
Angola	4	–	4	–	0	4	–	4	–	0
Bangladesh	10	0	11	2	5	2	0	3	2	-3
Benin	1	0	1	0	0	0	0	0	0	0
Burkina Faso	1	0	2	0	0	-6	0	-8	0	0
Burundi	0	0	0	1	0	0	0	0	1	0
Cambodia	8	0	15	–	1	2	0	4	–	0
Central African Republic	0	1	0	–	0	0	0	0	–	0
Chad	0	–	0	0	0	0	–	0	0	0
Dem. Rep. of Congo	6	0	7	0	0	1	0	1	0	0
Djibouti	2	–	2	0	0	0	–	1	0	0
Gambia, The	6	0	6	0	–	2	0	2	0	–

Table AT8 (continued)

Country	Weighted preference margin					Adjusted weighted preference margin				
	QUAD	Canada	EU	Japan	USA	QUAD	Canada	EU	Japan	USA
Guinea	0	0	0	0	1	0	0	0	0	0
Guinea-Bissau	0	–	0	–	0	0	–	0	–	0
Haiti	1	0	1	0	1	0	0	0	0	0
Lesotho	1	–	1	–	–	1	–	1	–	–
Madagascar	2	0.1	3.8	0	0	0.1	0	0.2	0	0
Malawi	14	0	17	1	10	2	0	3	1	-4
Maldives	0	0	0	–	0	0	0	0	–	-4
Mali	0	0	0	0	0	0	0	0	0	0
Mauritania	4	7	4	2	0	1	1	1	1	0
Mozambique	11	1	6	0	59	-3	0	-6	0	16
Myanmar	0	0	0	0	0	-1	0	-8	0	0
Nepal	1	0	1	2	2	-43	0	-48	1	2
Niger	2	0	2	0	3	2	0	1	0	3
Rwanda	0	0	0	3	0	0	0	0	3	0
Senegal	6	7	6	0	1	3	1	3	0	0
Sierra Leone	0	0	0	7	1	0	0	0	7	0
Solomon Islands	1	0	1	0	0	0	0	1	0	0
Tanzania	8	0	11	0	0	2	0	2	0	0
Togo	2	0	2	0	0	1	0	1	0	0
Uganda	2	0	3	0	0	1	0	1	0	0
Zambia	5	0	6	0	1	-16	0	-18	0	0
Total LDCs	**2.5**	**0**	**2.9**	**0.1**	**1.8**	**0.1**	**0**	**0.2**	**0.1**	**-0.3**
Total	**1.4**	**1.6**	**1.5**	**0.3**	**1.7**	**-0.4**	**-0.4**	**-0.2**	**0.1**	**-1.4**

Source: Low *et al.* (2006)

Table AT9 Weighted duty margins for non-agricultural products in 2003 (weighted by bilateral imports)

Country	Weighted preference margin						Adjusted weighted preference margin						Adj. weighted preference margin further adj. for comp. and util.[a]
	QUAD + Aus	Aus	Canada	EU	Japan	USA	QUAD + Aus	Aus	Canada	EU	Japan	USA	USA
Developing countries	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
Albania	5	0	0	5	0	2	1	0	-1	2	0	1	2
Antigua and Barbuda	0		0	0	4	2	0		0	0	3	2	0
Argentina	1	0	0	3	0	0	0	0	0	0	0	0	0
Armenia	1	0	0	1	0	4	0	0	-4	0	0	1	1
Bahrain	1	0	0	3	0	1	-2	0	-3	-1	0	-4	-3
Barbados	1	0	1	2	0	1	1	0	0	1	0	0	0
Belize	3	1	1	1	0	3	2	0	-1	0	0	2	1
Bolivia	2	1	0	1	0	2	0	0	0	0	0	0	0
Botswana	0	3	0	0	0	12	0	3	0	0	0	7	8
Brazil	1	1	1	1	0	1	0	0	-1	0	0	0	0
Brunei Darussalam	0	0	0	0	0	0	-1	0	-4	-1	0	-4	-3
Cameroon	1	5	0	1	0	0	0	2	0	0	0	0	0
China	0	0	1	1	1	0	-1	-1	-1	-1	0	-1	-1
Colombia	1	0	0	2	2	1	0	0	-1	0	0	-1	0
Congo	0	5	0	0	0	0	0	1	0	0	0	0	0
Côte d'Ivoire	5	4	0	5	0	0	1	1	0	1	0	0	0
Cuba	1	0	0	4	0	0	0	0	0	-1	0	0	1
Dominica	2	0	3	2	0	4	1	0	-1	1	0	2	2
Domonican Republic	10	0	1	3	2	11	5	0	-2	1	0	6	4
Ecuador	3	0	1	16	0	0	0	0	0	3	0	0	0
Egypt	3	0	0	4	0	0	0	0	-1	1	0	-3	-3
El Salvador	16	0	0	7	0	16	9	0	-5	2	0	9	5

Table AT9 (continued)

Country	Weighted preference margin						Adjusted weighted preference margin						Adj. weighted preference margin further adj. for comp. and util.[a]
	QUAD + Aus	Aus	Canada	EU	Japan	USA	QUAD + Aus	Aus	Canada	EU	Japan	USA	USA
Developing countries	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
Gabon	1	5	0	2	0	0	0	2	0	0	0	0	0
Georgia	1	0	0	0	2	1	0	0	0	0	1	0	0
Ghana	5	2	0	6	0	2	1	0	0	1	0	1	1
Grenada	4		2	7		0	1		0	1		0	0
Guatemala	15	0	0	8	0	15	10	-1	-4	0	0	10	2
Guyana	1	0	0	1	0	2	1	0	0	0	0	2	1
Honduras	15	0	0	9	0	15	8	0	-5	2	0	9	7
Hong Kong, China	0	0	0	0	0	0	-2	0	-2	-2	0	-3	-2
India	1	0	1	2	1	1	-1	0	-2	-1	0	0	0
Indonesia	1	0	1	2	0	1	0	0	-1	-1	0	-1	-1
Jamaica	5	0	0	6	0	6	2	0	0	2	0	3	2
Kenya	12	0	1	6	0	17	7	0	-4	1	0	10	11
Korea, Republic of	0	0	0	0	0	0	-1	0	-2	-2	0	-1	-1
Kuwait	0	0	0	1	0	0	0	0	0	0	0	0	0
Kyrgyz Republic	1	0	1	2	0	0	-1	0	0	-1	0	-5	-4
Macao, China	0	0	0	1	0	0	-5	-1	-3	-5	0	-6	-4
Malaysia	0	0	0	1	0	0	0	0	0	0	0	0	0
Mauritius	12	0	0	11	0	16	5	-1	-4	3	0	10	4
Moldova	1	0	0	1	0	0	-2	-8	-2	-1	0	-4	-3
Mongolia	0	0	0	2	0	0	-5	0	-5	-3	0	-5	-4
Namibia	6	0	0	6	0	6	4	0	0	4	0	4	3
Nicaragua	14	1	0	6	0	14	7	0	-1	0	0	8	0

Table AT9 (continued)

Country	Weighted preference margin						Adjusted weighted preference margin						Adj. weighted preference margin further adj. for comp. and util.[a]
	QUAD + Aus	Aus	Canada	EU	Japan	USA	QUAD + Aus	Aus	Canada	EU	Japan	USA	USA
Developing	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
Nigeria	0	0	0	0	0	0	0	0	0	0	0	0	0
Oman	0	0	0	3	0	0	0	0	-4	-1	0	-2	-1
Pakistan	5	0	1	9	1	0	0	0	-5	4	0	-3	-2
Panama	1	0	1	2	0	1	0	-1	-2	0	0	0	0
Paraguay	1	0	0	1	1	1	0	-5	0	0	0	-1	0
Peru	1	0	1	1	0	1	0	0	0	0	0	-1	-1
Philippines	0	0	0	1	0	1	0	0	0	0	0	-1	-1
Qatar	0	0	0	1	0	0	0	0	0	0	0	-2	-2
St Kitts and Nevis	2		2	3	0	2	1	–	1	1	0	1	1
St Lucia	6		0	3	1	6	4	–	-1	1	0	4	0
St Vincent and Grenadines	0	0	0	0	0	4	0	-2	0	0	0	2	2
Sri Lanka	1	0	1	2	1	0	-3	0	-3	-3	0	-4	-3
Suriname	2	0	0	3	0	0	0	0	0	1	0	0	0
Swaziland	17	0	1	3	0	18	10	0	-1	1	0	11	12
Taipei, Chinese	0	0	0	0	0	0	-1	0	-2	-1	0	-1	-1
Thailand	1	1	1	1	0	1	0	0	-1	-1	0	0	0
Trinidad and Tobago	1	0	2	4	0	1	0	0	0	1	0	0	0
United Arab Emirates	0	0	1	2	0	0	0	0	-2	0	0	-1	-1
Uruguay	1	0	1	2	0	1	0	-1	0	0	0	0	0
Venezuela, Bolivarian Rep.	0	3	0	1	0	0	0	1	0	0	0	0	0
Zimbabwe	3	2	0	3	0	3	1	0	0	0	2	0	0
Total developing countries	**0.7**	**0.3**	**0.7**	**1.1**	**0.3**	**0.6**	**-0.51**	**-0.40**	**-1.30**	**-0.95**	**0.15**	**-0.4**	**6**

Table AT9 (continued)

Country	Weighted preference margin						Adjusted weighted preference margin						Adj. weighted preference margin further adj. for comp. and util.[a]
	QUAD + Aus	Aus	Canada	EU	Japan	USA	QUAD + Aus	Aus	Canada	EU	Japan	USA	USA
LDCs	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
Angola	0	1	0	0	0	0	0	0	0	0	0	0	0
Bangladesh	9	3	17	12	46	0	2	3	13	4	10	-4	-3
Benin	5	–	7	5	0	0	1	–	0	1	0	0	0
Burkina Faso	2	5	1	2	3	1	0	4	0	0	2	0	0
Burundi	1	–	11	1	3	0	0	–	9	0	3	0	0
Cambodia	13	12	18	12	202	0	1	11	14	5	50	-5	-4
Central African Rep.	0	–	1	0	0	0	0	–	0	0	0	0	0
Chad	1	15	0	4	–	0	0	14	0	2	–	0	0
Congo (DRC)	0	15	5	0	0	0	0	14	0	0	0	0	0
Djibouti	1	–	0	1	0	0	1	6	0	1	0	0	0
Gambia, The	10	–	1	11	0	1	3	–	0	4	0	1	0
Guinea	1	8	0	1	3	0	0	–	0	0	2	0	0
Guinea-Bissau	8	–	–	10	7	0	2	–		3	4	0	0
Haiti	18	25	14	8	6	19	10	24	9	2	6	10	7
Lesotho	19	15	18	3	10	19	11	14	13	1	10	11	13
Madagascar	14	0	16	13	1	16	6	0	12	4	1	10	11
Malawi	19	–	16	1	2	20	12	–	11	1	1	12	14
Maldives	4	8	17	19	1	0	-2	7	12	6	0	-5	-5
Mali	2	0	1	2	2	2	1	0	0	1	1	1	1
Mauritania	5	1	2	4	7	2	2	1	1	1	5	1	0
Mozambique	6	0	0	7	1	17	3	0	0	3	1	7	8
Myanmar	12	1	0	10	51	0	2	1	-2	4	9	-4	-3

Table AT9 (continued)

Country	Weighted preference margin						Adjusted weighted preference margin						Adj. weighted preference margin further adj. for comp. and util.[a]
	QUAD + Aus	Aus	Canada	EU	Japan	USA	QUAD + Aus	Aus	Canada	EU	Japan	USA	USA
LDCs	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
Nepal	2	6	12	8	5	0	-2	5	8	4	3	-5	-3
Niger	1	3	3	1	0	1	0	2	1	0	0	1	0
Rwanda	1		1	1	0	1	0		0	0	0	1	0
Senegal	11	1	1	12	5	0	3	0	1	3	3	0	0
Sierra Leone	1	5	4	1	3	3	0	3	2	0	3	2	0
Solomon Islands	3	1	0	2	3	1	2	0	0	2	2	1	0
Tanzania	2	1	1	3	0	1	0	1	0	0	0	1	1
Togo	3	0	5	4	3	0	1	0	0	2	3	0	0
Uganda	7	0	1	7	3	6	1	0	0	1	3	3	3
Zambia	1	2	3	1	2	0	1	2	1	0	1	0	0
Total LDCs	**6.4**	**2.3**	**14.8**	**7.4**	**41.9**	**2.1**	**1.6**	**2.1**	**11.3**	**2.6**	**10.2**	**-0.7**	
Overall total	**0.8**	**0.3**	**0.9**	**1.4**	**0.5**	**0.7**	**-0.5**	**-0.4**	**-1.1**	**-0.8**	**0.2**	**-0.5**	

[a]Preference margin further adjusted for competition effects and utilisation rates
Source: Low et *al.* (2005).

Table AT10 QUAD preference schemes given to middle-income developing countries, analysed in Alexandraki and Lankes (2004)

	EU	USA	Japan	Canada
Albania	EU-Albania	GSP	GSP	MFN
Argentina	GSP (excl. I,III, XI, XVII)	GSP	GSP	GPT
Armenia	GSP (excl. II, XXVI)	GSP	GSP	GPT
Belarus	GSP (excl. II, XV, XXV, XXVI, XXVII)	GSP	GSP	GPT
Belize	Cotonou	CBI	GSP	CARIBCAN
Bolivia	GSP-Drugs	ATPA	GSP	GPT
Bosnia and Herzegovina	EU-Bosnia and Herzegovina	GSP	GSP	GPT
Botswana	Cotonou	AGOA – Wearing Apparel Provision	GSP	GPT
Brazil	GSP	GSP	GSP	GPT
Bulgaria	Europe Agreement	GSP	GSP	GPT
Cameroon	Cotonou	AGOA – Wearing Apparel Provision	GSP	GPT
Chile	GSP (excl. V, IX, XV)	FTA	GSP	FTA
China	GSP (excl. IV, VIII, XIV, XXVI, XVIII, XXII, XXIII, XXIV, XXVII, XXXIII)	MFN	GSP	GPT
Colombia	GSP-Drugs	ATPA	GSP	GPT
Costa Rica	GSP	CBI	GSP	FTA
Côte d'Ivoire	Cotonou	AGOA	GSP	GPT
Croatia	SAA-Croatia	GSP	GSP	GPT
Dominica	Cotonou	CBI	GSP	CARIBCAN
Dominican Republic	Cotonou	CBI	GSP	GPT
Ecuador	GSP-Drugs	ATPA	GSP	GPT
Egypt	Coop Agreement	GSP	GSP	GPT
El Salvador	GSP	CBI	GSP	GPT
Fiji Islands	Cotonou	GSP	GSP	GPT
Georgia	GSP	MFN	GSP	GPT
Ghana	Cotonou	AGOA	GSP	GPT
Grenada	Cotonou	CBI	GSP	CARIBCAN
Guatemala	GSP-Drugs	CBI	GSP	GPT
Guyana	Cotonou	CBI	GSP	CARIBCAN
Honduras	GSP-Drugs	CBI	GSP	GPT
India	GSP	GSP	GPT	

Table AT10 (continued)

	EU	USA	Japan	Canada
Indonesia	GSP	GSP	GSP	GPT
Jamaica	Cotonou	CBI	GSP	CARIBCAN
Jordan	GSP	FTA	GSP	GPT
Kazakhstan	GSP (excl. II, XV, XXV, XXVI, XXVII)	GSP	GSP	GPT
Kenya	Cotonou	AGOA – Wearing Apparel Provision	GSP	GPT
Kyrgyz Republic	GSP	GSP	GSP	GPT
Lebanon	GSP	GSP	GSP	GPT
Macedonia, FYR	EU-FYROM	GSP	GSP	GPT
Malaysia	GSP (excl. VII, X, XVI, XIX, XXII, XXIX)	MFN	GSP	GPT
Maldives	GSP	MFN	GSP	GPT
Mauritius	Cotonou	AGOA – Wearing Apparel Provision	GSP	GPT
Mexico	FTA	NAFTA	GSP	NAFTA
Moldova	GSP	GSP	GSP	GPT
Mongolia	GSP	MFN	GSP	MFN
Morocco	Association Agreement	GSP	GSP	GPT
Namibia	Cotonou	AGOA – Wearing Apparel Provision	GSP	GPT
Nicaragua	GSP	CBI	GSP	GPT
Pakistan	GSP	GSP	GSP	GPT
Panama	GSP-Drugs	CBI	GSP	GPT
Papua New Guinea	Cotonou	GSP	GSP	GPT
Paraguay	GSP	GSP	GSP	GPT
Peru	GSP-Drugs	ATPA	GSP	GPT
Philippines	GSP (excl. X)	GSP	GSP	GPT
Romania	Europe Agreement	GSP	GSP	GPT
Russian Federation	GSP (excl. II, XIII,XV, XXVI, XXVII)	GSP	MFN	GPT
Serbia Montenegro	EU-SM	MFN	GSP	MFN
Seychelles	Cotonou	AGOA	GSP	GPT
South Africa	GSP (excl. XXVI)+Cotonou	AGOA	GSP	GPT
Sri Lanka	GSP	GSP	GSP	GPT

Table AT10 (continued)

	EU	USA	Japan	Canada
St Kitts and Nevis	Cotonou	CBI	MFN	CARIBCAN
St Lucia	Cotonou	CBI	GSP	CARIBCAN
St Vincent and the Grenadines	Cotonou	CBI	GSP	CARIBCAN
Suriname	Cotonou	GSP	GSP	CARIBCAN
Syrian Arab Republic	GSP	MFN	GSP	GPT
Tajikistan	GSP	MFN	GSP	GPT
Thailand	GSP (excl. II, V, XI, XVI, XVIII, XXII, XXIII, XXV, XXXIII)	GSP	GSP	GPT
Tonga	Cotonou	GSP	GSP	GPT
Trinidad and Tobago	Cotonou	CBI	GSP	CARIBCAN
Tunisia	FTA	GSP	GSP	GPT
Turkey	CU (FTA)	GSP	GSP	GPT
Ukraine	GSP (excl. II, VIII, XV, XXVI)	GSP	GSP	GPT
Uruguay	GSP (excl. I)	GSP	GSP	GPT
Uzbekistan	GSP	GSP	GSP	GPT
Vietnam	GSP	MFN	GSP	GPT
Zimbabwe	Cotonou	GSP	GSP	GPT

Source: Alexandraki and Lankes (2004).

Table AT11 Effects of preference erosion on exports (percentage losses) from a 40 per cent reduction in the average preference margin

	Percentage export losses for assumed supply elasticities		
Country	**e = 0**	**e =1.0**	**e =1.5**
Mauritius	−11.5	−19.6	−23.7
Seychelles	−4.2	−7.7	−9.5
Swaziland	−3.0	−5.8	−7.2
Tunisia	−2.2	−4.3	−5.3
Côte d'Ivoire	−2.2	−4.2	−5.2
Morocco	−2.1	−4.1	−5.1
Zimbabwe	−1.1	−2.0	−2.4
Cameroon	−0.8	−1.6	−2.1
Ghana	−0.7	−1.3	−1.6
Botswana	−0.7	−1.3	−1.7
Kenya	−0.6	−1.2	−1.5
South Africa	−0.5	−1.0	−1.2
Egypt	−0.4	−0.8	−1.0
Namibia	−0.4	−0.7	−0.9
Brazil	−1.7	−3.3	−4.1
St Lucia	−9.8	−17.2	−20.9
Belize	−9.1	−16.1	−19.6
St Kitts and Nevis	−8.9	−15.9	−19.3
Guyana	−7.9	−14.2	−17.3
Dominica	−5.5	−10.2	−12.6
Jamaica	−3.5	−6.8	−8.4
St Vincent and the Grenadines	−3.4	−6.6	−8.2
Dominican Republic	−2.1	−4.0	−5.0
Suriname	−1.7	−3.4	−4.2
Grenada	−0.7	−1.3	−1.7
Trinidad and Tobago	−0.4	−0.9	−1.1
China	−0.1	−0.2	−0.3
India	−0.3	−0.6	−0.7
Honduras	−2.1	−4.2	−5.2
El Salvador	−1.5	−2.9	−3.6
Nicaragua	−1.4	−2.7	−3.3
Mexico	−1.0	−2.0	−2.5
Guatemala	−0.9	−1.8	−2.2
Costa Rica	−0.7	−1.4	−1.8
Panama	−0.6	−1.2	−1.6
Colombia	−0.2	−0.3	−0.4
Peru	−0.2	−0.4	−0.5
Paraguay	−0.1	−0.1	−0.2
Ecuador	0.0	0.0	0.0
Bolivia	−0.1	−0.2	−0.3
Albania	−3.3	−6.3	−7.7
Serbia and Montenegro	−2.8	−5.4	−6.8
Bosnia and Herzegovina	−1.7	−3.4	−4.2

Table AT11 (continued)

Country	Percentage export losses for assumed supply elasticities		
	e = 0	e =1.0	e =1.5
Macedonia, FYR	–1.4	–2.8	–3.4
Romania	–1.4	–2.8	–3.4
Croatia	–1.2	–2.2	–2.8
Bulgaria	–1.1	–2.1	–2.6
Turkey	–1.0	–1.9	–2.4
Syria	–0.6	–1.2	–1.5
Jordan	–0.5	–1.0	–1.2
Chile	–0.3	–0.7	–0.8
Tajikstan	–0.3	–0.6	–0.7
Armenia	–0.2	–0.5	–0.6
Belarus	–0.2	–0.4	–0.5
Lebanon	–0.2	–0.3	–0.4
Moldova	–0.2	–0.3	–0.4
Ukraine	–0.2	–0.3	–0.4
Uzbekistan	–0.2	–0.4	–0.5
Argentina	–0.1	–0.3	–0.3
Georgia	–0.1	–0.2	–0.2
Kazakhstan	–0.1	–0.3	–0.4
Russian Federation	–0.1	–0.2	–0.3
Uruguay	-0.1	–0.2	–0.3
Kyrgyz Republic	0.0	–0.1	–0.1
Mongolia	0.0	–0.1	–0.1
Fiji Islands	–7.8	–14.0	–17.2
Tonga	–0.2	–0.3	–0.4
Papua New Guinea	–0.1	–0.2	–0.2
Vietnam	–0.2	–0.5	–0.6
Malaysia	0.0	–0.1	–0.1
Pakistan	–0.3	–0.6	–0.7
Philippines	–0.3	–0.6	–0.7
Sri Lanka	–0.3	–0.6	–0.8
Indonesia	–0.2	–0.4	–0.5
Thailand	–0.2	–0.5	–0.6
Maldives	–0.1	–0.2	–0.2
Total	–0.5	–1.0	–1.2

Source: Alexandraki and Lankes (2004)

Table AT12 List of AGOA-eligible countries

Country	Date declared AGOA eligible	Date declared eligible for special rule for apparel	Eligible for special rule for apparel
Angola	30-Dec-03		
Benin	02-Oct-00	28-Jan-04	Yes
Botswana	02-Oct-00	27-Aug-01	Yes
Burkina Faso	10-Dec-04	04-Aug-06	Yes
Burundi	01-Jan-06		
Cameroon	02-Oct-00	01-Mar-02	Yes
Cape Verde	02-Oct-00	28-Aug-02	Yes
Chad	02-Oct-00	26-Apr-06	Yes
Congo	02-Oct-00		
Congo (DRC)[a]	01-Jan-03		
Djibouti	02-Oct-00		
Ethiopia	02-Oct-00	02-Aug-01	Yes
Gabon	02-Oct-00		No
Gambia, The	01-Jan-03		
Ghana	02-Oct-00	20-Mar-02	Yes
Guinea	02-Oct-00		
Guinea-Bissau	02-Oct-00		
Kenya	02-Oct-00	18-Jan-01	Yes
Lesotho	02-Oct-00	23-Apr-01	Yes
Liberia	29-Dec-06		Yes
Madagascar	02-Oct-00	06-Mar-01	Yes
Malawi	02-Oct-00	15-Aug-01	Yes
Mali	02-Oct-00	11-Dec-03	Yes
Mauritius	02-Oct-00	18-Jan-01	Yes
Mozambique	02-Oct-00	08-Feb-02	Yes
Namibia	02-Oct-00	03-Dec-01	Yes
Niger	02-Oct-00	17-Dec-03	Yes
Nigeria	02-Oct-00	14-Jul-04	Yes
Rwanda	02-Oct-00	04-Mar-03	Yes
São Tomé and Principe	02-Oct-00		
Senegal	02-Oct-00	23-Apr-02	Yes
Seychelles	02-Oct-00		No
Sierra Leone	23-Oct-02	05-Apr-04	Yes
South Africa	02-Oct-00	07-Mar-01	No
Swaziland	02-Oct-00	26-Jul-01	Yes
Uganda	02-Oct-00	23-Oct-01	Yes
United Republic of Tanzania	02-Oct-00	04-Feb-02	Yes
Zambia	02-Oct-00	17-Dec-01	Yes

[a]The effective date of designation of the Democratic Republic of Congo as an AGOA beneficiary country was determined by the US Trade Representative to be 31 October 2003.
Source: http://www.agoa.info/index.php?view=about&story=country_eligibility

Notes

1 Table A2.1 reports the number of tariff lines and the terms under which they are imported by QUAD countries from beneficiaries of various preference schemes. In 2003 imports in over half of tariff lines were on preferential terms; the EU had the largest share and Canada the lowest.

2 The countries are: China, India, Indonesia, Vietnam, Brazil, Thailand, South Africa, Bangladesh, Pakistan and Argentina. To the extent that the first three countries are home to the vast majority of the world's poor, it could be argued that the GSP is pro-poor. However, unlike some poor African countries, India and China are better placed to mobilise resources both domestically and internationally, and have industries capable of competing on international markets, regardless of preferential treatment.

3 Based on Table 2 in Mold (2005), which is the same as Table 51 in UNCTAD (2004). Expresses trade values as a ratio of GDP of the preference-receiving countries.

4 The countries are: Lesotho (99%), Mozambique (98%), Haiti (98%), Chad (97%), Malawi (96%), Madagascar (95%) and Senegal (90%).

5 These are: Bangladesh (80%), Senegal (76%), Malawi (69%), The Gambia (63%), Niger (58%), Mozambique (56%) and Zambia (50%).

6 Based on Table 6 in Stevens and Kennan (2004b).

7 Stevens and Kennan (2004b) assess G8 preferences for Africa, especially the EU and USA, identifying the major products affected (clothing, sugar, fruit and vegetables, fish and some meat) and including a number of case studies. Manchin (2005) considers the effect of Lomé preferences on exports of non-LDC ACP countries to the EU, concentrating on what determines the take-up of preferences, in particular whether there is a threshold level of preference margin required to increase exports. Gamberoni (2007) provides information on the impact of EU unilateral preferences. Relevant information may also be found in Hoekman and Ozden (2005), who consider the differential treatment of developing countries under different preference regimes (as discussed in Chapter 2), and Persson and Wilhelmsson (2006).

8 Reforms to the EU Sugar Regime in recent years have reduced the EU price and significantly eroded the margin of preference for exporters to the EU under the Sugar Protocol.

9 The EU proposal for EPAs is a '30 per cent local value added' threshold, compared to the current Cotonou rules of origin, which are equivalent to a 60 per cent threshold. The details have not been agreed, and some ACP countries favour a 'change of tariff heading' test, i.e. if the activity in the ACP countries changes the tariff classification, the exported product is deemed to have origin in that country.

10. Strictly speaking this is not preference erosion, but represents increased competition at a given preference. Consider the case where ACP countries are allowed to export a product duty free to the EU. Preference erosion arises when the (MFN) tariff imposed by the EU on non-preference countries is reduced (i.e. the preference margin is reduced). If a new country, such as Chile or South Africa, signs an agreement and gains duty free access to the EU, then preference competition increases, but the margin relative to MFN remains unchanged. The value (exports) of the preference is reduced.

11 See François *et al.* (2005). Because of these 'impediments', African exporters appropriate only a third of the available rents from exports of clothing to the USA under AGOA (Ozden and Olarreaga, 2005). Tangermann (2002) reports evidence showing that exporters do not receive all the rents; the share of rents for some products ranges from the lowest rate of 13 per cent in Malawi to the highest share of 53 per cent in Mauritius.

12 A good example of a niche market with potential is fair trade and/or organic products. This is already important for bananas from the Caribbean, but is also evident in coffee, cocoa (chocolate) and cotton.

13 In paragraph 16 of the Doha Ministerial Declaration, WTO trade ministers agreed to 'negotiations which shall aim, by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries. Product coverage shall be comprehensive and without a priori exclusions. The negotiations shall take fully into account the special needs and interests of developing and least-developed Members, including through less than full reciprocity in reduction commitments, in accordance with the relevant provisions of Article XXVIII *bis* of GATT 1994 and the provisions cited in paragraph 50 of the Doha Ministerial Declaration.'

14 It is expected that 40 members will apply the Swiss formula; these account for 90 per cent of world trade in non-agricultural products.

15 Recently acceded members not required to cut tariffs are: Albania, Armenia, Cape Verde, former Yugoslav Republic of Macedonia, Kyrgyz Republic, Moldova, Mongolia, Saudi Arabia, Tonga, Vietnam and Ukraine.

16 Many of the countries in Table 4.1 also appear in the list in Low *et al.* (2005) of the 11 non-LDCs exposed to the largest preference value losses as a percentage of exports due to agriculture liberalisation under Doha: St Kitts and Nevis, Mauritius, Guyana, Fiji Islands, Swaziland, Belize, St Lucia, St Vincent and the Grenadines. The three additional countries are Trinidad and Tobago, Barbados and Botswana, although Namibia is also relatively exposed. Combined with Table 4.1, this provides a list of 20 most exposed developing countries.

17 Stevens and Kennan (2004b) find evidence that almost half of South African export garments to the USA were not exported under the AGOA scheme because they could not satisfy the rules of origin and remain competitive.

18 Ianchovichina *et al.* (2002) and Hoekman *et al.* (2001) show that granting sub-Saharan African exports full access to QUAD markets would mean significant trade gains for sub-Saharan African countries, but limited adverse effects on other developing countries because sub-Saharan African exports are not large enough to have a significant impact on prices in QUAD export markets.

19 Low *et al.* (2005) estimate, based on actual trade statistics, that developing countries receiving preferences from the QUAD have scope for additional preferences of some US$11,718 million. Of this, US$10,425 million (89 per cent) accrues to eight Asian developing countries: China (US$5,930 million), Republic of Korea (US$1,292 million), Chinese Taipei (US$797 million), India (US$569 million), Indonesia (US$527 million), Hong Kong (US$505 million), Thailand (US$502 million) and Malaysia (US$303 million). Only five LDCs were found to have scope for additional preferences totalling US$215 million; all five are Asian – Bangladesh (US$111 million), Cambodia (US$74 million), Myanmar (US$15 million), Nepal (US$10 million) and Maldives (US$5 million).

20 For example Ozden and Olarreaga (2005) find that because of these 'impediments', African exporters appropriate only a third of the available rents from exports of clothing to the USA under AGOA. Tangermann (2002) reports that exporters in Malawi and Mauritius received only 13 per cent and 53 per cent, respectively, of the preference rents on certain products. See also François *et al.* (2005).

21 Measures compiled by the World Bank (http://www.doingbusiness.org) show that while most sub-Saharan African developing countries have made improvements in recent years, they still lag behind their counterparts in other regions (notably southeast Asia) in terms of the quality of the business and investment environment.

22 The discussion here is based on Falvey *et al.* (2008).

23 Examples are taken from sources cited in Milner *et al.* (2008).

24 Based on table A2 in Low *et al.* (2005) and table A3 in Low *et al.* (2006).

25 According to Low *et al.* (2005) and Low *et al.* (2006) (see tables A2 and A3, respectively), beneficiary developing (least developed) countries' preferential access exports of non-agricultural products were 15.9 per cent (61.2%) of their total non-agricultural exports of US$871,202 million (US$20,436 million), while their agricultural exports under preferential access were 23 per cent (37%) of total agricultural exports of US$55,617 million (US$1.691 million).

26 Based on Table 6 in Stevens and Kennan (2004b).

27 These products are also exported to the other QUAD countries.

28 There are 38 of the 48 potentially AGOA-eligible sub-Saharan African countries. However, only 26 have been certified to benefit from the preferential terms of access concerning apparel following the implementation of an efficient visa system and related legislation as required under AGOA.

29 Other assumptions include that preferences are fully utilised, that world market prices are constant, that the full dynamic effects of multilateral liberalisation are ignored and that preference-receiving countries appropriate the full amount of preference rents. However, Ozden and Olareaga (2005) find that African exporters appropriate only a third of the available rents from exports of clothing to the USA under AGOA.

30 François *et al.* (2005: 18) contend that imposing the elimination of ATC quotas (an event which occurred on 1 January 2005) 'is an important dimension of preference erosion in its own right insofar as the constraint on the most efficient producers under the ATC implied there was an 'implicit' preference for the non or less constrained developing country exports'.

31 The use of applied rates rather than bound rates as the base rate for tariff cuts is justified on the grounds that there is little difference between the QUAD's bound and applied rates.

32 Adjusting for competition recognises the fact that bilateral imports depend on bilateral trade barriers relative to the rest of the world (Anderson and van Wincoop, 2004). The value of preferences can also be adjusted for the extent of preference utilisation where the preference margin is weighted by the volume of trade that actually benefits from preferences.

33 St Vincent and the Grenadines follow closely with preference losses representing 15.5 per cent of its exports to the QUAD.

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It was hoped that trade preferences, offered to exports from developing countries by industrialised countries, would give greater economic benefits than has been the case. Now continuing multilateral tariff liberalisation threatens to further erode even those benefits that remain.

This study looks at how best developing countries should respond to this erosion of trade preferences, either through restructuring individual preference arrangements or by acting to offset the adverse effects of preference erosion.

ISBN 978-1-84929-009-8

Commonwealth Secretariat