

# 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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