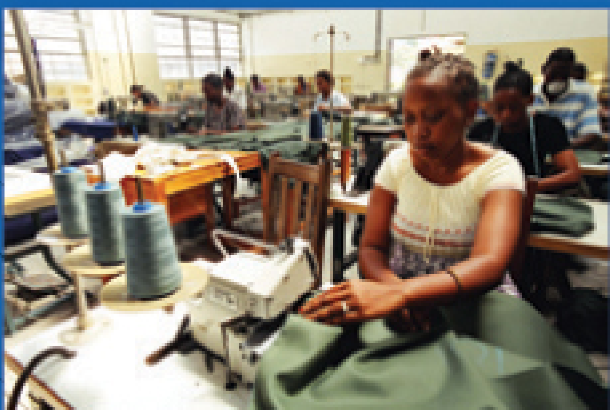
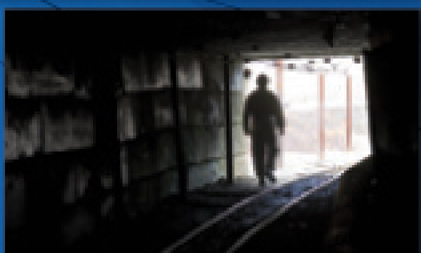
UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Erosion of trade preferences in the post-Hong Kong framework:

From «trade is better than aid» to «Aid for Trade»





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Executive summary

The slow pace of the Doha Development Agenda (DDA) provides a window of opportunity for considering the possible implication of preference erosion once the DDA concludes. Trade preferences proved to be a difficult negotiating subject during the Sixth Ministerial Conference of the World Trade Organization, held in Hong Kong (China). Although there has been progress in widening the scope of trade preferences for least developed countries (LDCs), the issue of erosion of trade preferences remains to be defined and addressed to the satisfaction of a number of developing countries. A close analysis in this study concerning the measures in favour of LDCs as a result of the duty-free, quota-free initiative for at least 97 per cent of products reveals that actual preferences granted by the European Union (EU), the United States and Japan under their respective initiatives already meet requirements. This means that current product exclusion, notably textile and garments for the United States and some agricultural products for Japan, may remain unaltered, even in spite of recent improvements. Despite a proposal by LDCs , there has been no substantive progress in liberalizing the restrictive rules of origin that continue to affect the utilization of trade preferences granted to LDCs especially those granted by the EU under the Everything But Arms initiative in the textiles and clothing sectors.

This study begins with the assertion that preferential trade flows detected under the country/tariff lines approach may be relatively small, but may have significant poverty implications. It provides examples of linkages and pinpoints which country and products are benefiting most from recent preferential market access initiatives in favour of LDCs by the EU, Japan and the United States. It shows that the benefits of trade preferences are heavily concentrated on a relatively small number of product/country pairs, and highlights the possible consequences of multilateral tariff negotiations for trade preferences and preferential margins. The study underscores the significance of the value of trade preferences granted by the EU, the United States and Japan for the LDCs. This value represented in 2004 approximately $800 million for utilized preferences in terms of revenue forgone i.e. The non-collection of the duties that would otherwise be levied on imports from LDCs. To put this in context, the total value of revenue foregone over a five-year period may be equivalent to an estimated $4 billion for the European Union, the United States and Japan ($800 million * 5 years = $4 billion). As a matter of comparison, this exceeds by far the $200–400 million indicated in a World Bank/IMF paper presented in the Development Committee to finance the Enhanced Integrated Framework (EIF). Moreover, it should be noted that the $200–400 million of the EIF is to be spread over a five-year period, and that a part of that amount is expected to finance the EIF secretariat.

The study also discusses the magnitude of the erosion of preferential margins for products from LDCs that have most effectively utilized trade preferences. Some LDCs and vulnerable countries may be expected to suffer a decline in their exports to the QUAD countries (Canada, the EU, Japan and the United States) following trade liberalization at the most-favoured-nation level. Other countries that do not rely on trade preferences or are not utilizing them effectively may stand to gain from multilateral tariff liberalization. This study discusses the recent Aid for Trade Initiative and the EIF as initiatives for possible frameworks for measures that may be enacted to alleviate and mitigate the possible trade effects of the erosion of trade preferences for some LDCs' products/pairs. Given the impact that preference erosion may have on poverty and the household income of workers in the industries or sectors potentially affected, a remedial strategy could be addressed through insertion in the Poverty Reduction Strategy Paper process. To this end, the study concludes by recommending that the lessons learned in the previous phases of the Integrated Framework and other trade-related technical assistance at the bilateral level should guide the international community, currently engaged in designing the operational features of the EIF and Aid for Trade. In particular, sound operational mechanisms and effective approval procedures have to be established at the country level and in the EIF secretariat to ensure a quick and effective disbursement of available funds under the EIF.

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