In Search of Market Access: Why the Doha "Plan B" for December 2011 is likely to fail

Effective Market Access (Part I)

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Once again the Doha Round negotiators are struggling to reach an agreement, this time by mid-December on a "plan B" package that would give increased market access to Least Developed Countries (LDCs) in the form of duty-free-quota free (DFQF) access accompanied by simplified rules of origin.

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•••/••• Estimating 'effective market access' to the two largest 'preference-givers', the US and EU preferences, this note shows that remaining market access left for the LDCs is negligible at around 3 percent in the EU but negative in the US (because textiles are excluded from the Generalized System of Preferences). An accompanying note assesses that the administrative costs that have to be borne to meet the origin requirements to obtain preferential status in OECD markets is likely to wipe out any remaining effective market access computed here, implying negligible market access to be obtained under "plan B".

Because of the successful rounds of multilateral tariff reductions, the preference margin afforded under the Generalized System of Preferences (GSP) and more generally what has been called "Trade-preferences-for-development" has dwindled. Yet, a perceived lack of market access for the fifty Least Developed Countries (LDCs) continues to be cited as a major reason for the failure to conclude the Doha Round talks. Only a few weeks ago, once again, market access resurfaced as Pascal Lamy tries to revive the negotiations with a "plan B" package. The package would be a "three lane" approach, in which the first lane (called 'early harvest' even though the negotiations have been ongoing for almost a decade!) should be agreed by December 2011, the middle and slow lanes being kept for the more contentious issues on the agenda. The 'fast lane', dubbed the "LDC-plus" package would, at its core, consist of duty-free quota-free (DTQF) access and simplified rules of origin.

If successfully adopted by this December (unlikely without a "plus" necessary to assuage among others the US legislature) this package might, according to some observers, amount to a 'down-payment' that would gather much needed momentum in the faltering negotiations. This would occur if LDCs were to be convinced of getting some or greater preferential market access to OECD countries. By greater market access is understood greater market access than other non-LDC developing countries who also receive some "Trade-Preferences-for-Development".

As in the previous attempts at concluding the Round, this time again, there is disagreement about what the "plus" should include. Soon after the launch, warnings were issued that this plan B might be heading for trouble as countries are already indicating that they are unlikely to agree on what would be included under the "plus" in this package. For example if cotton is included, the US has stated that the other big subsidizers in cotton should participate while Korea and Japan have opposed a US proposal to limit government support in the fisheries sector-see the ICSTD (June 20, 2011, http://ictsd.org/i/news/bridgesweekly/109165/)

This note deals with market access, as 'preference erosion' continues to appear on the multilateral agenda. For example, duty-free-quota free (DFQF) access for 97% of tariff lines in the QUAD was proposed in 2009, along with a simplification of Rules of Origin as a package to conclude the Doha Round Negotiations. This proposal is again at the core of the "plan B" for December 2011. In this note, we show that this DFQF access to the markets of the two largest preference givers, the EU and the US, is negligible while the companion note concentrates on the administrative costs associated with rules of origin.

▶ A Graphical Representation of Effective Market Access

Inspired from Low et al (2005), Carrère, de Melo and Tumurchudur (2010) develop a graphic representation of a synthetic measure (called *adjusted preferential access*) that summarizes the effective market access a country receives from a given preferential once it is taken into account that the grantor country is in effect also granting access to other partners. This measure is the adjusted preferential access measure. For exam-

ple, if the MFN tariff for men's shirts in the US is

$$t_{MFN} = 10\%$$

but country x has a preferential tariff

$$t_{PREF} = 4\%,$$

then the 'standard' preferential access would be

$$t_P = (0.1 - 0.04)/(1 + 0.04) \approx 5.77\%.$$

However, if only 40% of men's shirts' enter the US at the MFN tariff and all other shirt exporters also enter at the preferential tariff of 4%, then the adjusted preferential margin for x would be

$$t^A_P = [((0.4)(0.1) + (0.6)(0.04)) - 0.04)/ (1 + 0.04)] \approx 2.31\%.$$

The actual (or adjusted) market access for men's shirts in the US is then half the standard's one.[1]

Aggregating across products gives the overall adjusted preferential access for a country and aggregating across all 50 LDCs gives the preferential access of all LDCs. For 2004, Carrère and de Melo (2010) show an average preferential (adjusted preferential) margin for LDC exports to the EU-27 of 4.6% (3.1%), and of 0.86% (-0.29%) for the US. So, in spite of the GSP, because the US has so many FTAs, as a group, LDCs have negative market access, i.e. they are discriminated against relative to their competitors (in particular the LDCs that do not benefit from the African Growth Opportunity Act (AGOA)).

Figure 1 gives a representation of preferential market access, unadjusted and adjusted for all LDCs in the EU and in the US markets the two prominent GSP grantors but also the two countries engaged in most preferential trading arrangements. The figure reports the cumulative preferential margins (unadjusted and adjusted) for the top 100 products ranked by decreasing shares in total exports for aggregate exports of LDCs to the EU and to the US. As shown in Car-
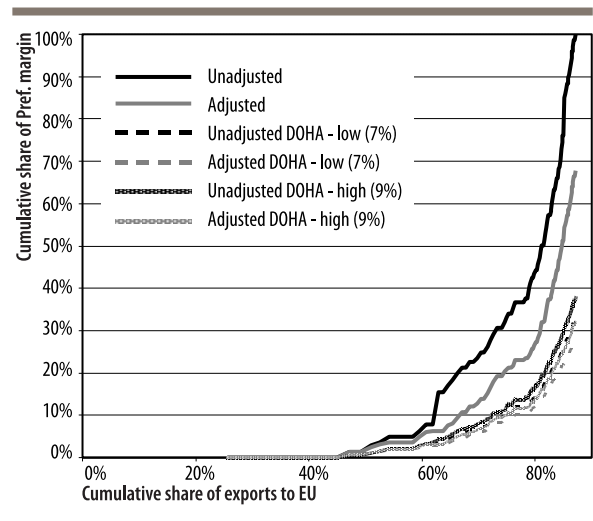
rère et de Melo (2010), the adjusted measure is bounded between 0 and 1 on the up side but is not bounded on the down side.
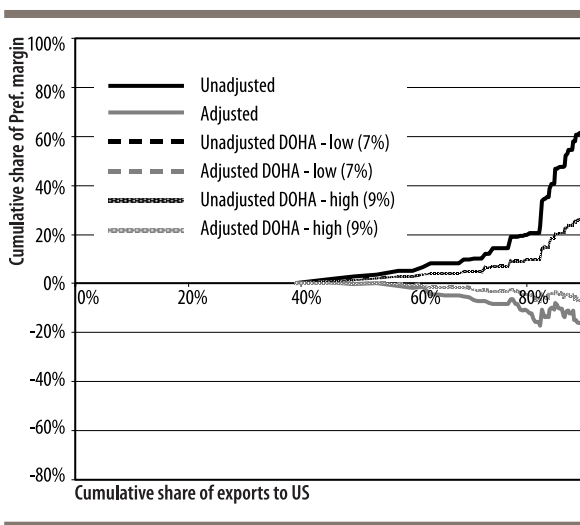
Given that the sum of the value of exports for the top 100 products is very close to total exports (close to or above 90% of export value), and given the selection of normalization (the adjusted measure is normalized by the cumulative unadjusted preferential margins for the top 100 products), in effect, figure 1 traces "Lorenz-like" curves in the export/preference-margin space. Thus, just like a standard Lorenz curve depicting the extent of income inequality, the more convex the curve, the more skewed preferences are towards products that count little in the total value of exports. These curves, however, are not quite Lorenz curves: first the cumulative export shares do not add up to the same total (this is a deliberate choice to show the market share covered by the top 100 products for each country) so that the slopes of the curves are not strictly comparable, and; second, the shares on the horizontal axis are not of the same size (e.g. quintiles or deciles) since the length of each segment depends on the importance of the product in total export value registered on the axis.

Figure 1. Cumulative exports against Cumulative Preferences (top 100 exported products, 2004)

1a. to the EU27

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1. This "adjusted" measure is easily implementable, relying on easily accessible data. Carrère (2011) develops a more satisfactory measure of market access based on microeconomic foundations that gives largely similar results to the simple measure developed here, but is more demanding in terms of data as it requires data on production in the preference-granting countries.

1b. to the US

Cumulative share of Pref. margin
Cumulative share of exports to US

Legend:
- Unadjusted
- Adjusted
- Unadjusted DOHA - low (7%)
- Adjusted DOHA - low (7%)
- Unadjusted DOHA - high (9%)
- Adjusted DOHA - high (9%)

As a reference, suppose that each product had a preferential access proportional to its share in export value.Then the solid unadjusted black line would bisect the graph (i.e. correspond to the 450 for the countries where the top 100 products exhaust all exports to the EU or US). Hence, once the products are sorted in decreasing order (in terms of export value), the more convex is the solid black curve below the diagonal, the more preferential access is biased towards products with small export shares. This strong convexity shows that preferences are only for products that count little in total LDC exports. Why? First, LDCs have comparative advantage in raw materials and unprocessed products for which, largely for political-economyreasons, tariffs in developed countries are low. Second, non-participation in the reciprocal tariff reductions negotiated under the GATT auspices means that LDCs have not secured market access for many of the products in which they have a comparative advantage. Third, as shown in the accompanying note, restrictive rules of origin (RoO) apply mostly to products with high preferential margins.

Both the adjusted and unadjusted curves are quite steep in the upper portions in figure 1, i.e. the preference margins are important for those products that don't count, i.e. prod-

ucts that have low shares in total exports.Both curves also show that no preference margin is granted for the top 45% (40%) of sales to the EU (US) market. In the EU, the big vertical jump is around 62% for sugar which receives a 66% unadjusted preferential margin. The curves become steep for the last 25 products indicating large preferential margins. However, all these products are negligible in the export basket of LDCs, never reaching 1/10 of one percent of export value, even though as shown by Brenton (2003), they can figure prominently in the export basket of the beneficiary countries (e.g.market access for fish products sold by the Seychelles orMaldives). The figure also shows that the US curve is much flatter indicating less preferential margin for the top 100 products. The figure also shows that the top 100 products count for close to 90% of total sales in both markets.

Comparing the unadjusted and adjusted (which are by construction always under the unadjusted) curves shows how much preferential access LDCs lose from the granting of preferences to competitors by the EU and US. It is clear that LDCs lose relatively more in the US than in the EU market. Second, and most importantly, the adjusted preferential margin turns negative and remains so meaning that they receive less preferential margin than their competitors (i.e. non-LDCs like Mexico engaged in an FTA with the US.

Finally, figure 1 shows the remaining market access if successful negotiations were to return to plan B after successful completion of the 'early harvest' in the first lane, i.e. if the negotiators were to tackle successfully the issues in the middle lane (other issues with a development focus) and then the issues in the slow lane (i.e. contentious issues such as NAMA and agriculture) by applying the "Swiss formula" under a small and large across-the-board tariff cut reflecting the two options that have been under consideration since 2009.

► How Much Market Access from an LDC package?

Let's return to the December package and ask what might happen if the EU and US were to grant DFQF access for 97% of tariff lines. In the EU-27 market, the 50 LDCs get DFQF access as the special regimes for bananas, rice, and sugar have been assumed to have expired in the calculations presented here (Carrère and de Melo, 2010). In calculating the 3% of tariff lines that would be excluded from DFQF access in the OECD, Carrère and de Melo assume that countries would either: (i) continue to protect the most inefficient industries by excluding them from DFQF access, or (ii) exclude tariff lines that give high tariff revenue on imports from LDC, this being a measure of the visibility of the sector. For the US, this amounts to excluding 153 tariff lines, all of which have an MFN tariff over 15%.

As discussed in our accompanying note on the costs of establishing origin, there is no market access to be gained in the EU market unless RoO are simplified since LDCs already have DFQF access to the EU market. What about the US where only 40% of the lines are DFQF? Suppose RoO are not simplified, but also that they do not impinge on market access uptake. In illustrative ex-ante simulations in which excluded lines are selected as indicated above, with 97% (100%) DFQF, Carrère and de Melo estimate that aggregate LDC exports would expand by between 10 percent and 15 percent (under an assumed export supply elasticity of 10). Since LDC exports to the US amounted to 26$ billion in 2010, the estimated increase in export earnings from DFQF access to the US market would be between 2.6 and 4.0 $ billion .As a benchmark, according to official US data, subsidies to cotton producers in the US in 2010 amounted to 843 $ million[2]. Since cotton and other agricultural goods subject to subsidies and tariff protection in OECD markets are not likely to be included in

the "plus" column of the fast lane package up for approval by this December, no wonder that there is widespread skepticism about success of this new summer launch unless the BRICs (i.e. Brazil, Russia, India and China) were also to join in and give DFQF access to LDCs.

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