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LDCS AND THE MULTILATERAL TRADING SYSTEM

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Trade Preferences For Development (TPFD) is "giving away with one hand (preferences) and taking away with the other (restrictive Rules of Origin)"

- Market Access LDCs from zero duty for 97 percent of tariff lines
- Simplification of Rules of Origin for increased market access
- Based on 2004 data for US and EU imports but results broadly applicable now
- More results reported in

OUT OF THE TRAP – forthcoming

Supporting the Least Developed Countries

Chapter VI «Trade marginalisation

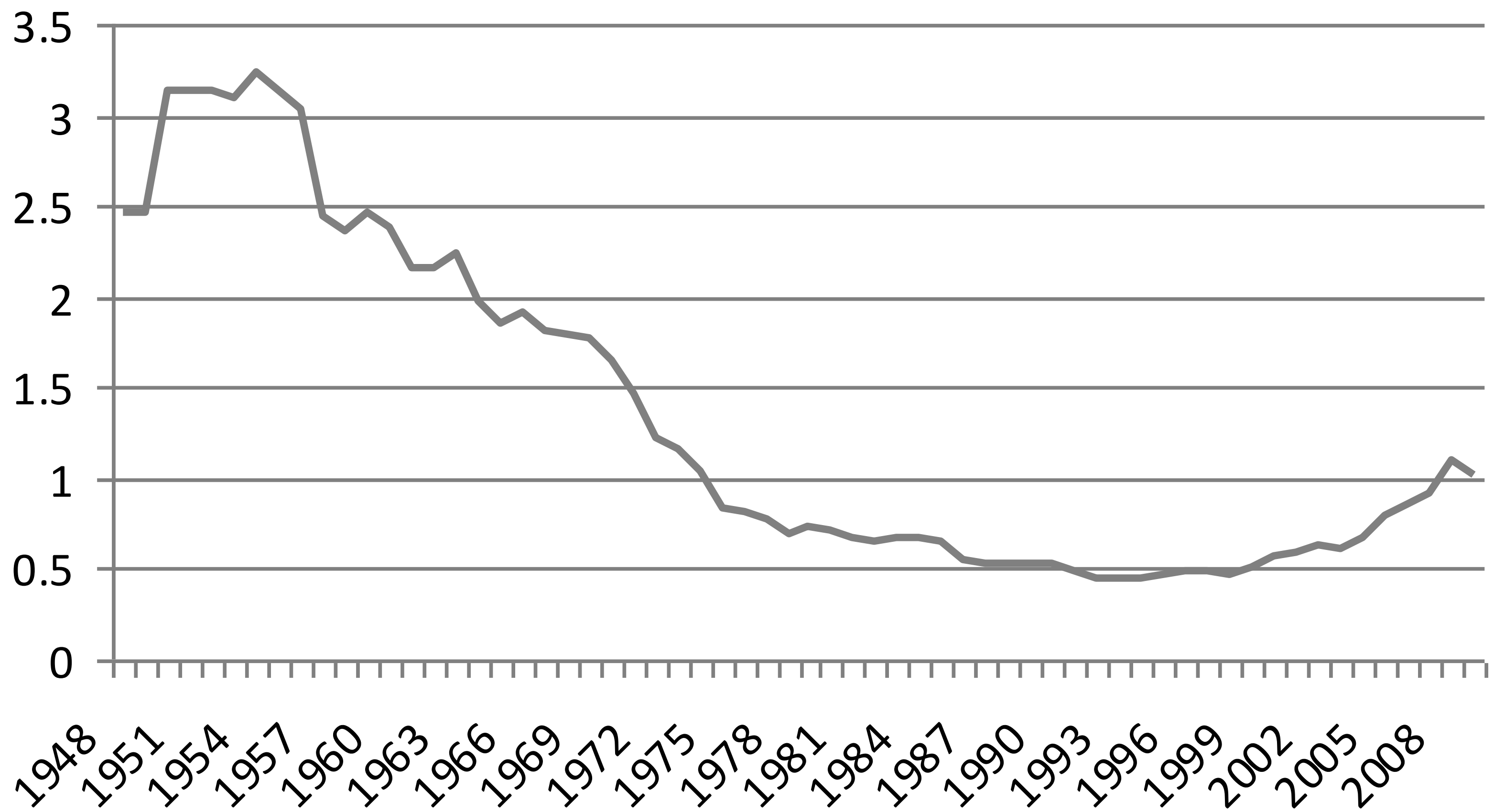
in spite of preferences: what is failing?"

- And on two «warning» FERDI Blogs from July

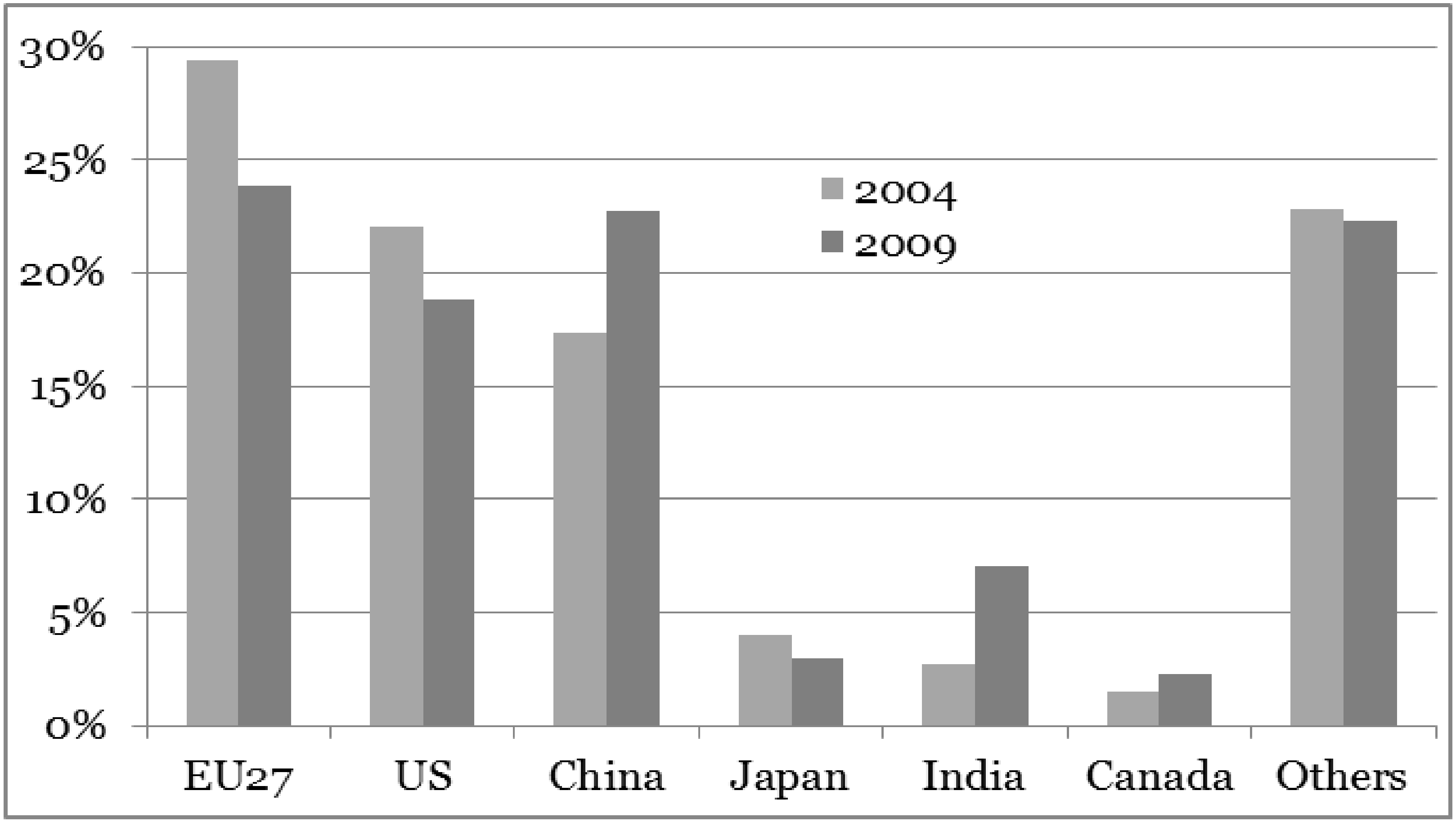
http://www.ferdi.fr/uploads/sfCmsContent/html/111/B24-I-Carrere-deMelo.pdf

http://www.ferdi.fr/uploads/sfCmsContent/html/111/B24-II-Carrere-deMelo.pdf

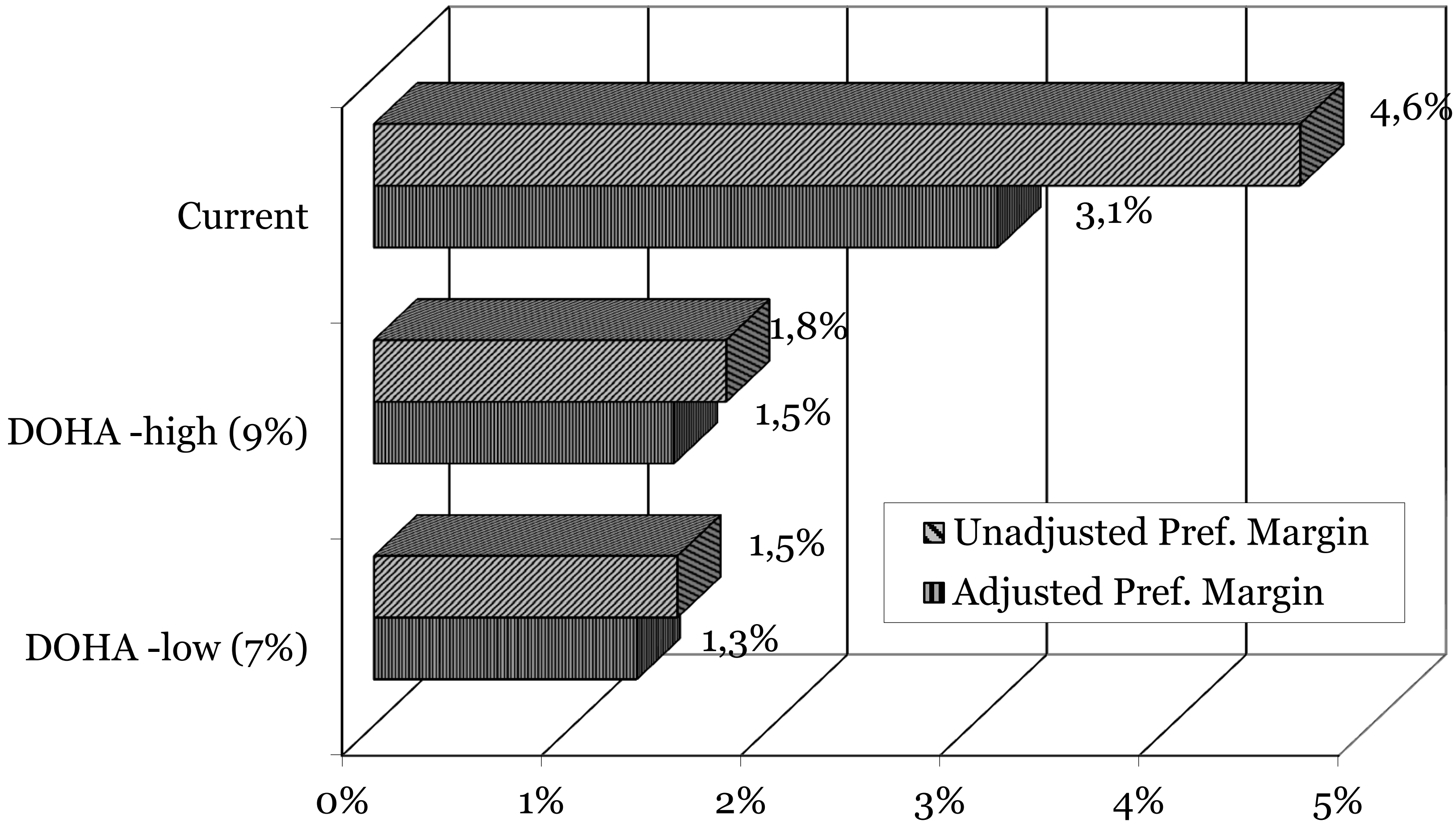
LDCs sharein world exports of goods in the long-term 1948-2009



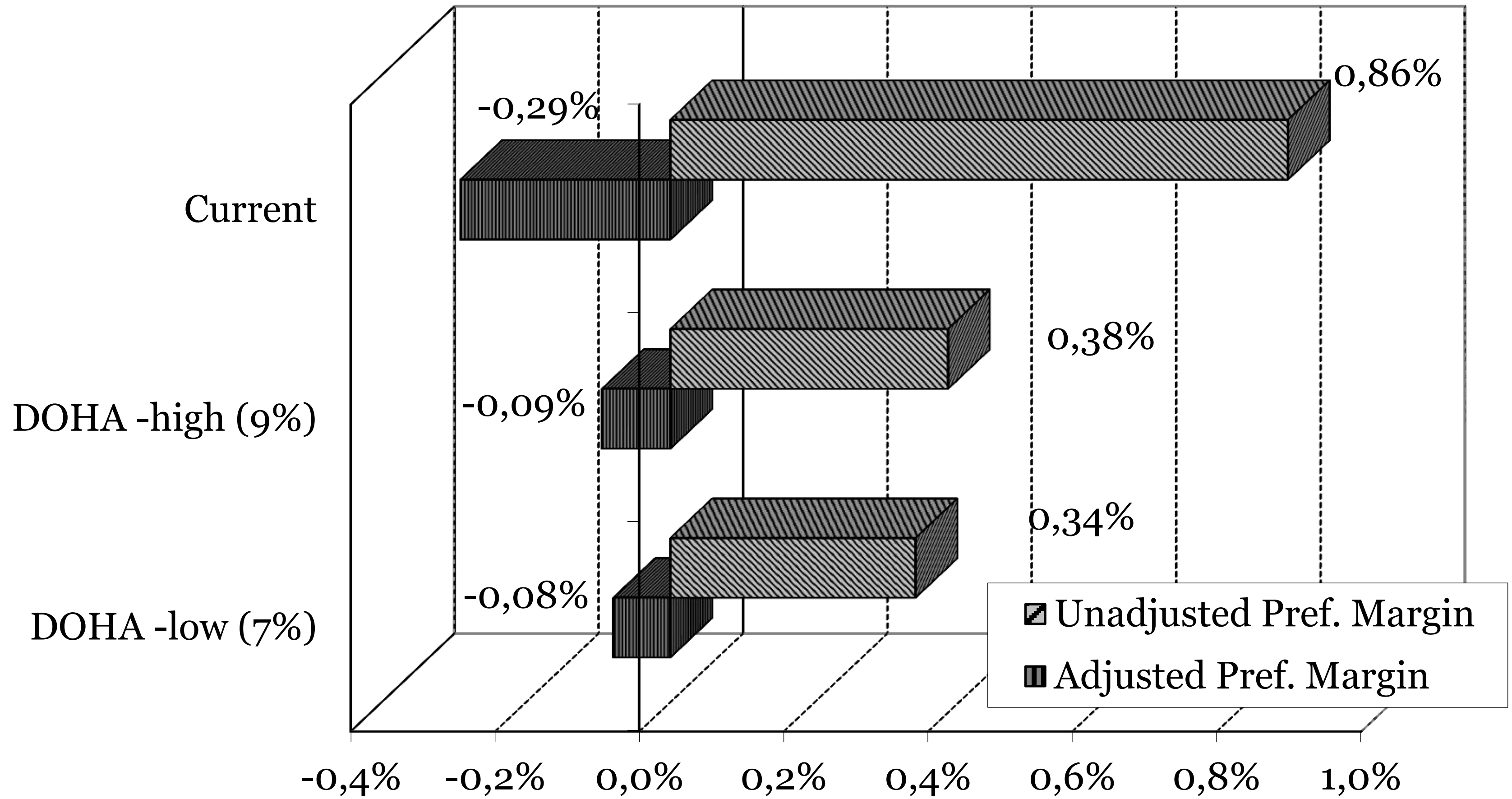
LDCs exports by main markets
(in % of total LDC trade), 2004 and 2009



How Much Preferential Access (EU-27) ?



Negative Preferential Access for LDCs in US!



Applying the 3% exclusion benchmark on US tariff lines

able 5: Selection of US Tariff lines for exclusion from duty-free status for LDC (HS6 lev

	All US HS6 lines		Tariff Lines with positive LDC exports		Tariff Lines with positive LDC exports and positive applied tariff			
	Nber	% of total lines	Nber	% of total lines	Nber	% of total lines	% of total LDC exports to US	Trade weighted applied tariff
Excluded ***a)***	153	3%	89	5%	71	12.2%	7.7%	15.65%
Non Excluded ***b)***	4960	97%	1694	95%	510	87.8%	38.4%	7.29%
Total	5113	100%	1783	100%	581	100.0%	46.1%	8.69%

Source: authors' computations.

Notes:

a) Excluded: see annex A.2.3 for description of exclusion from duty-free status for LDC;

b) Non Excluded: lines with zero tariff for US imports from LDCs.

Supply response of LDC exports (Partial equilibrium estimates)

Table 6: LDC Export expansion from "97%" duty-free status proposal

Elasticities *a)*	1. 97% duty Free Total Change in LDC's exports to US *b)* *% of total initial LDC exports* (1a)	(1b)	2. 100% duty Free Total Change in LDC's exports to US *c)* *% of total initial LDC exports* (2a)	(2b)
Export supply	∞	10	∞	10
central	+15.6%	+10.9%	+22.3%	+15.5%
low	+5.6%	+4.9%	+8.0%	+7.0%
high	+26.9%	+16.0%	+38.4%	+22.6%

Source: authors' computations.

Note:
Increase from total initial LDC exports to the US (US$ 11,433 million

Rules of Origin

- complex and vary greatly across sectors
- generally more stringent for the products with the highest preference margins
- Different across countries for the same tariff line
- EU has over 500 Product-specific RoO !!!!
- Countries do not want to simplify (even though the EU has followed US lead on AGOA and moved to single transformation rule on T& A in 2010 for interim EPAs and in 2011 on EBA beneficiaries—see estimates in additional material at the end)

Preferential Margins and the PSRO index

- EU

	Nber of lines with positive LDC export	Weighted Average Preference margin	Weighted Average R-Index value
Preferential Margin peaks[b]	570	17.13%	6.08
Low Preferential Margin[b]	824	0.01%	3.19
Total number of tariff lines	3509	4.64%	3.93

[a]/LDC as a group

[b]/ the Preferential Margin tariff peaks are defined for tariff lines with preference margins in excess of 12% and low margins for tariff lines below 1% preferential margins

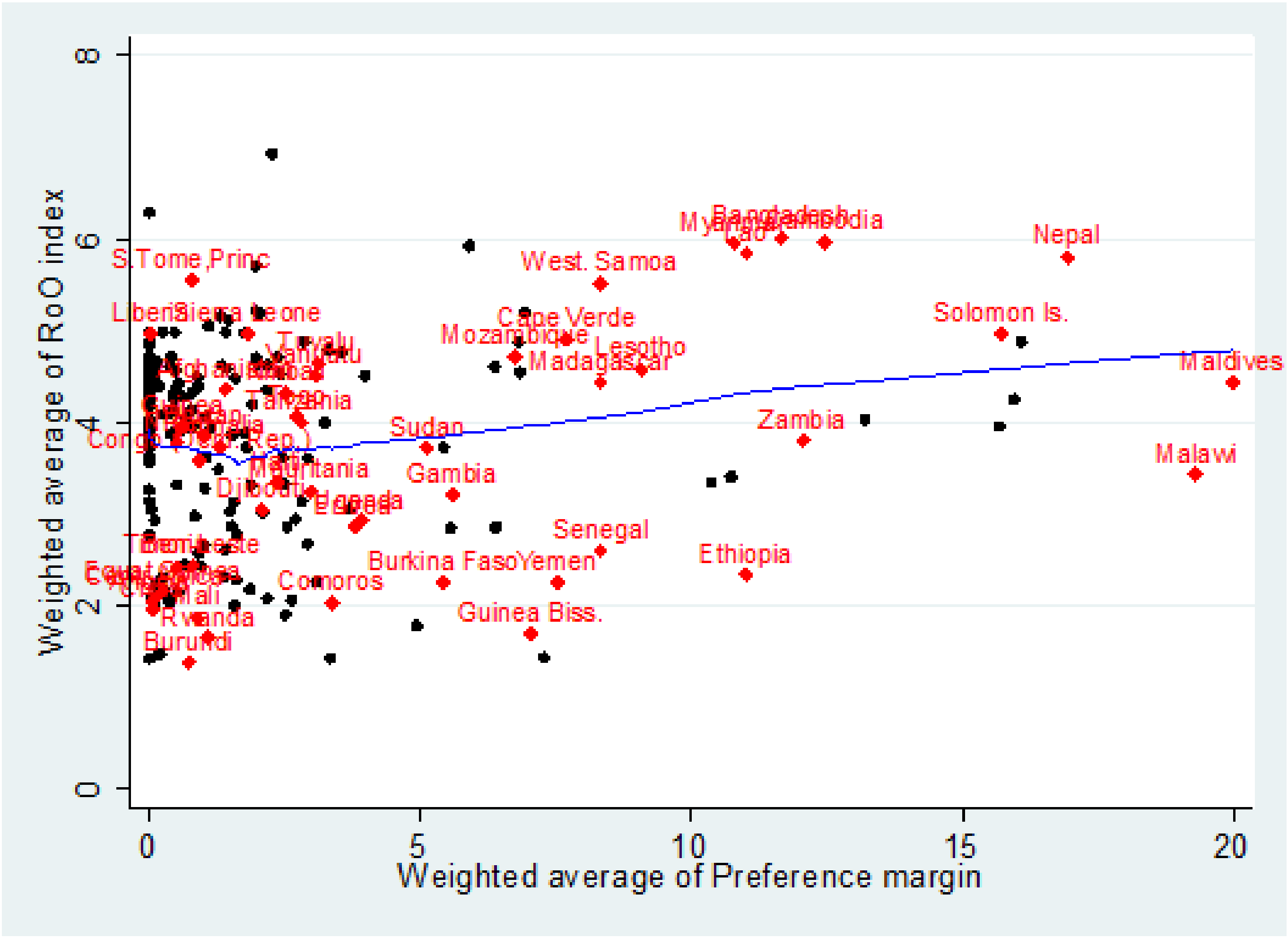
- US

	Nber of lines with positive LDC export	Weighted Average Preference margin	Weighted Average R-Index value
Preferential Margin peaks[b]	267	8.08%	6.64
Low Preferential Margin[b]	1009	0.002%	6.10
Total number of tariff lines	1783	0.86%	6.33

[a]/LDC as a group

[b]/ the Preferential Margin tariff peaks are defined for tariff lines with preference margins in excess of 3% and low margins for tariff lines below 0.05% preferential margins.

EU PSRO index against preferential margin (219 countries)



Conclusions (1)

- Preferential access is greater in the EU than the US (where T&A are excluded from preferential status except for AGOA beneficiaries) as LDCs virtually have DFQF access to the EU market
- Taking into account that the EU and the US are both engaged in FTAs with countries that compete with the LDCs diminishes substantially the effective preferential margin received by LDCs to about 3% in the EU market
- Taken as a group, on a trade-weighted basis, the LDC group is discriminated against in the US market, this in spite of AGOA which gave DFQF access to 22 LDCs from SSA in 2004. Thus, as a group, i.e. if they were considered to be one country, the 50 LDCs are getting less preferential access in the US market than other exporters of the goods exported by the LDCs.

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Conclusions (2)

- Should DOHA eventually come to a successful ending in the sense that tariffs are reduced according to a “Swiss formula”, effective preferential access to LDCs will be negligible in the EU and still negative in the US.
- If the US were to apply the “97% rule”, LDC might increase exports to the US by about 10% or about $1billion.
- RoO applied by the US and the EU to GSP beneficiaries are complicated and different even when defined at the HS-6 line level. This implies that an LDC exporting any product will have to meet different requirements for different destinations thereby adding costs to exporting.

Conclusions (3)

- The PSRO applied by the EU and US are complex. They reduce further the effective market access for LDCs in the EU and US markets.
- Recent simplifications in RoO for textiles i.e. move from triple () to single transformation () by the US under AGOA, then by the EU in 2010 for the EPAs and in 2011 for EBA are welcome.
- New preference givers to LDCs (e.g. China) should adopt simple rules , e.g. a single rule (e.g. minimum value-added content rule of say 20% as in ASEAN) across all goods and avoid product-specific rules that raise the costs of preference receivers

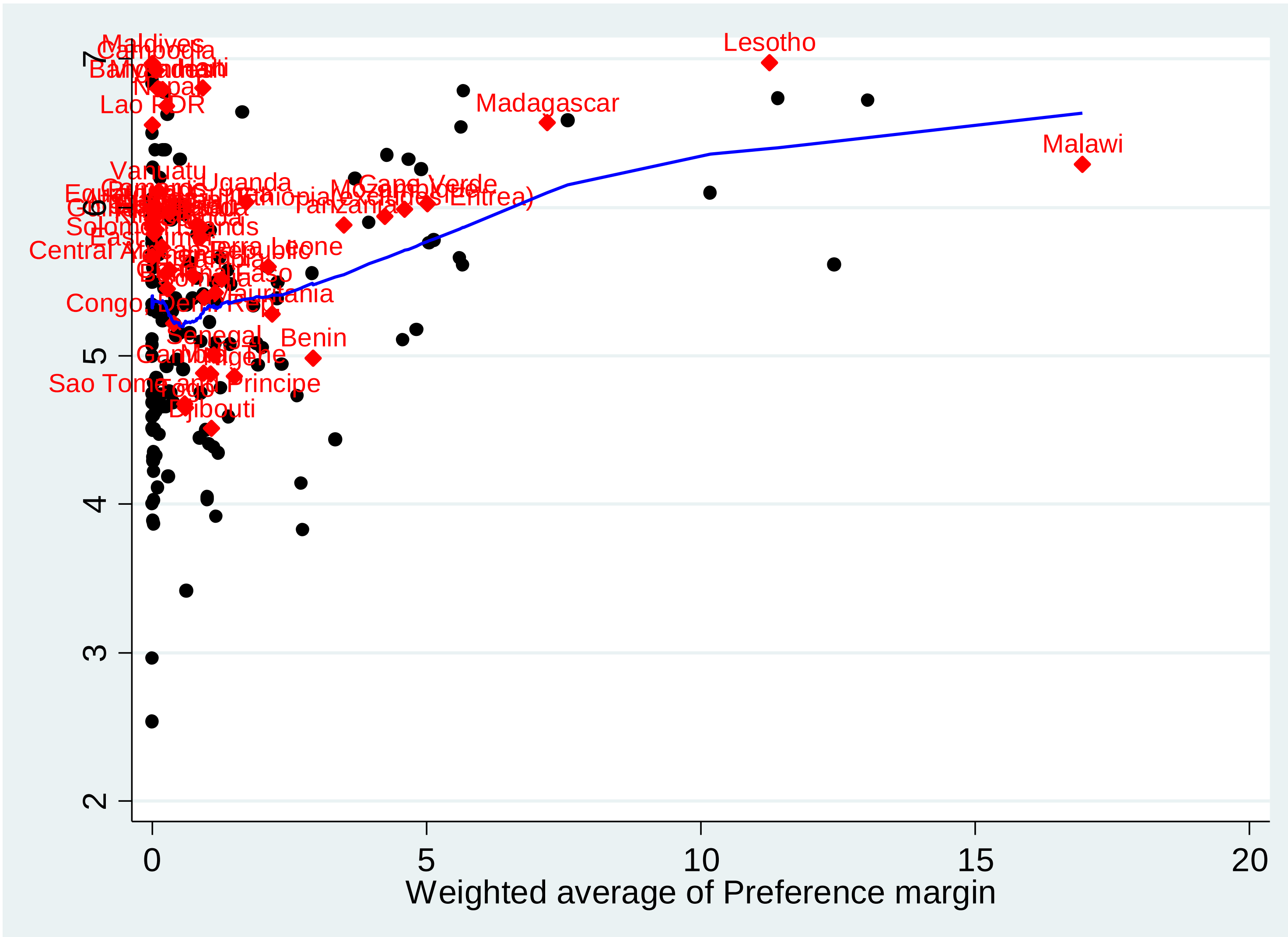
Additional Material

An ordinal index of restrictiveness

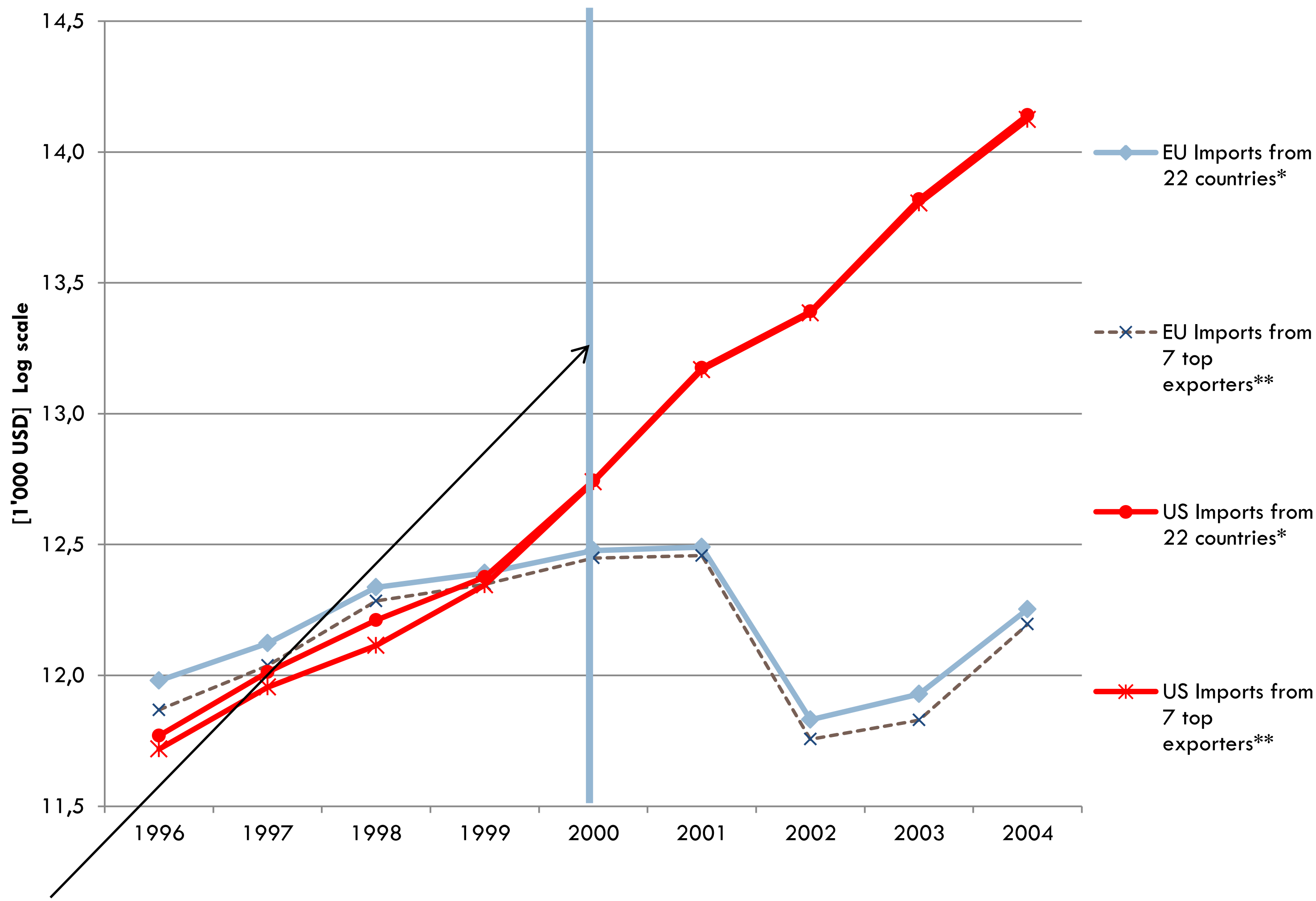
- Ordinal index computed at the HS-6 tariff line level
- R =1 Change of tariff classification at the tariff line
- R =4 CTC + other criterion (e.g. minimum VC)
- R=7 Multiple criteria
- Higher values of R correspond to more restrictive PSRO

- Table in text shows that high preference margin products face restrictive PSRO

US PSRO index against preferential margin (219 countries)



AGOA vs. EBA: Duty-free access for SSA textile & apparel export ans sme MFN tariff for EU and US (≈11%)



US moves from triple (cotton → yarn→fabric →apparel) to single (fabric from any origin to apparel) rule. EU keeps double transformation rule (originating yarn → textile → apparel)