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Developed Country Trade Barriers and the Least Developed Countries

The Economic Results of Freeing Trade

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Abstract

The Doha Ministerial Declaration emphasized that priority should be given to improving market access for products originating in the Least Developed Countries (LDCs). In this paper, we analyze the importance of this proposition with respect to market access in the Triad economies. We first present a brief history of non-reciprocal preferences granted by the Triad. This covers Generalized System of Preference (GSP) programmes in each, and further preferences granted to African, Caribbean and Pacific countries by the EU and preferences granted to Caribbean Basin, Andean, and African countries by the US. This history is followed by an assessment of trade generated by these preferences in the year 2000, and of the extent to which LDC exports might be expected to increase should the preferences be made comprehensive. Preferences in 2000 are shown to have led to an increase of US$3.5 billion in LDC exports, while a complete duty-free treatment could expand LDC exports by as much as US$7.6 billion, 90 per cent of which will be absorbed by the US. As this represents a doubling of LDC exports to these countries, we interpret these results as an endorsement of this priority in the Doha Round of negotiations.

Keywords: Least Developed Countries, Generalized System of Preferences, Doha Round

JEL Classification: F1, F13, F14, F17, O1

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1 Introduction

In the work programme laid out by the Doha Ministerial Declaration of 20 November 2001 (World Trade Organization 2001), the assembled trade representatives committed themselves 'to the objective of duty-free, quota-free market access for products originating from LDCs (Least Developed Countries)'.[1] Through a large number of programmes, the Triad economies of the European Union (EU), Japan, and the United States (US) already offer broad duty-free and preferential treatment to developing countries. Some, such as the Generalized System of Preferences programme, are decades old. Others, such as the African Growth and Opportunity Act of the United States, the Everything But Arms Initiative of the European Union, and the 99 Per cent Initiative of Japan, are just getting started.

The drive to grant substantial trade preferences to the LDCs, however, is relatively new. While there is no formal system for identifying countries as 'developing', the 'least developed countries' are selected by the United Nations Economic and Social Council based on a number of criteria and confirmed by a vote of the UN General Assembly. First created in 1971, the list is updated every three years, and there are now 49 UN-designated LDCs.

An initiative to improve market access for the LDCs was broached in the World Trade Organization's Singapore Ministerial Declaration of 1996.[2] At the WTO's Seattle Ministerial of 1998, the EU formally proposed duty-free access for essentially all LDC exports. This and other efforts resulted in the Doha commitment.

This paper will confront the Doha commitment directly by investigating episodes of unilateral trade liberalization for goods of poor countries and projecting the effect on LDC exports were the Triad economies to eliminate tariffs on all LDC goods. A companion paper characterizes the duty and quota barriers that currently face the poor countries of the world.[3]

To understand trade liberalization and changing trade patterns, the paper will describe the programmes previously instituted by the Triad to ease restrictions on trade of the poorest countries, provide formal estimates of the effect of these programmes, and then project the effect of moving to a zero-tariff world for LDC goods. Examples of previous programmes include the Generalized System of Preferences (GSP), offered by all three Triad economies; the Caribbean Basin Economic Recovery Act (CBERA), the Caribbean Basin Trade Partnership Act (CBTPA), the Andean Trade Preferences Act (ATPA), and the African Growth and Opportunity Act (AGOA), offered by the US; and successive iterations of benefits for former colonies in Africa, the Caribbean, and the Pacific (ACP), offered by the EU. Table 1 shows programmes uniquely offered by the US and the EU.

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1 Paragraph 42, page 9. Available at:
http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm or
http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.pdf.

2 Inama *et al*. (2001).

3 Haveman and Shatz (2003).

Table 1
US and EU preference programmes

A. Preference programmes of the US

Programme	Relevant dates
Caribbean Basin Economic Recovery Act (Caribbean Basin Initiative)	Enacted 5 August 1983, extended and expanded in 1990. No expiration date.
Andean Trade Preference Act	Enacted 4 December 1991 with expiration set for 3 December 2001. Extended (retroactively) and expanded in 2002 through 31 December 2006.
Caribbean Basin Trade Partnership Act	Enacted 18 May 2000. Preferences expire 30 September 2008 or with the entry into force of a Free Trade Area of the Americas.
African Growth and Opportunity Act	Enacted 18 May 2000. Preferences expire 1 October 2008.

Sources: United States Congress (2000 and 2002) and United States General Accounting Office (2001).

B. Preference programmes of the EU

Programme	Relevant dates
Yaoundé I	Yaoundé I signed 1963, effective 1964.
Yaoundé II Arusha	Yaoundé II and Arusha signed 1969, effective 1971.
ACP-EC Convention of Lomé I	Lomé I signed in 1975, effective 1976-1980.
ACP-EC Convention of Lomé II	Lomé II effective 1982-1985.
ACP-EC Convention of Lomé III	Lomé III effective 1986-1990.
ACP-EC Convention of Lomé IV	Lomé IV effective 1991-2000.
Revised Convention of Lomé IV	Revised Lomé IV amended the agreement.
ACP-EC Partnership Agreement, the 'Cotonou Agreement'	Signed 23 June 2000, effective 20 years.
'Everything But Arms' Council Regulation	Effective 5 March 2001.

ACP refers to the African, Caribbean, and Pacific countries. EC refers to the European Communities.

Sources: Agreements Office, The Council of the European Union (2003), European Union (2001), European Union (1995-2002) and United States General Accounting Office (2001).

This paper will proceed in six sections. The next section describes the GSP, while Section 3 discusses regional non-reciprocal Triad preference programmes. Section 4 reviews the impact of four US programmes – CBERA, CBTPA, ATPA, and AGOA – on developing country exports. Section 5 uses econometric analysis to attack two key questions. The first asks: How have current preference programmes affected LDC

exports to the Triad economies? The second asks: How will LDC exports to the Triad economies expand if all tariff barriers against them are removed? This is the heart of the Doha proposal. Section 6 concludes.

2 The first non-reciprocal preference programme: the GSP

The GSP was proposed at the first session of the United Nations Conference on Trade and Development, held in March-May 1964, and later that year a committee of the General Agreement on Tariffs and Trade proposed a GATT amendment to allow members to grant trade preferences to developing countries.[4] The amendment was necessary because such a preference programme violates the GATT's Most Favoured Nation clause, which requires all signatory trading partners to receive benefits equal to the most favourable benefits offered any trading partner. The amendment, known as the enabling clause, was approved for a limited period of 10 years in 1971, giving birth to GSP programmes, and then was made permanent in 1979. At least 18 economies currently offer or have offered a GSP programme.[5]

Though helping to expand developing-country exports, the GSP has come under criticism for a number of reasons.[6] Originally, the programmes offered benefits for only a limited range of products, and they still hold some products sacred – the EU limits agricultural goods, the US limits textiles and apparel, and Japan limits footwear and prepared food. Rules of origin are sometimes complex making it difficult for exporters to meet programme requirements. The programmes also sometimes cap the quantity of developing-country exports that can receive benefits, so it is possible for a country to be too successful. Finally, there is some evidence that such unilateral preference programmes stunt trade liberalization in developing countries themselves.[7]

The GSP in the Triad

The US first approved a GSP programme in the Trade Act of 1974 with the programme taking effect on 1 January 1976. It was to last only until 1985, but remains in place today. In their reports on the bill, both the US House of Representatives and the US Senate said they instituted the programme to enhance economic development, economic diversification, and exports of less developed countries.[8] Benefits included duty-free treatment for designated commodities and designated countries.

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4 United States International Trade Commission, Office of Industries and Office of Economic Research (1978).

5 The earliest such preference programmes actually were offered well before the passage of the enabling clause – by the Union of Soviet Socialist Republics in 1965 and by Australia in 1966. Australia gained a GATT waiver for its programme (US International Trade Commission 1978).

6 Inama *et al*. (2001).

7 Özden and Reinhardt (2002).

8 United States International Trade Commission, Office of Industries and Office of Economic Research (1978).

The commodity list set the standard for future US trade programmes until the Trade and Development Act of 2000 (discussed in Section 3). In particular, it excluded certain textile and apparel items, watches, import-sensitive electronic items, import-sensitive steel products, some footwear, and import-sensitive glass products.[9] It also established competitive need limits, under which a product from a particular country would come off the GSP list if its exports to the US hit a certain value. The initial beneficiary list included 98 independent countries and 40 non-independent countries and territories, among which were 26 of the 27 then-UN-designated LDC, excluding Uganda.[10] However, the initial programme contained no special benefits for the LDCs.

The Trade and Tariff Act of 1984 authorized the president to waive competitive needs limits on LDCs, known under US trade law as least developed beneficiary developing countries. In 1985 President Reagan designated 32 such countries in 1985 – most, but not all of the UN-designated LDCs. LDCs gained more benefits in 1997 when President Clinton named about 1,770 additional items duty free exclusively for them.

Under the rules of its GSP, the US can exclude countries on a number of grounds, such as having a communist government, harbouring terrorists, or belonging to an organization that withholds vital supplies from the world economy. This has led to the exclusion of LDCs at times, including Afghanistan in 1980 and the Central African Republic and Myanmar in 1989. Laos and Sudan are among those currently excluded.

The European Union (then the European Economic Community) was the first economy to implement a GSP after approval of the GATT enabling clause. Unlike the US programme, the EU programme does not offer duty-free market access on all goods. Instead, the programme in its current revision designates goods as non-sensitive and sensitive, the latter of which compete more directly with European producers. Non-sensitive goods enter at zero duty, while sensitive goods enter at reduced duty compared to the MFN rate.[11] While not all GSP products enter duty free, the EU eliminated quotas and quantitative restrictions on these products in 1995.

The EU GSP provided more favourable treatment for LDCs from the beginning. It now offers more favourable benefits to a number of different types of countries based on promotion of labour rights, protection of tropical forests, or combating of drug production and trafficking. The most favourable arrangements are reserved for LDCs.

The EU has expanded benefits for LDCs over at least the last three revisions of its programme. In each case, the benefits apply to all UN-designated LDCs. The latest expansion is the Everything But Arms (EBA) initiative, effective 1 March 2001, in which the EU allows duty-free and quota-free access to all products except arms and ammunition. Bananas, rice, and sugar are also excluded, though trade in these three goods is to be liberalized in stages by the end of 2009.[12] Rules of origin,

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[9] United States International Trade Commission, Office of Industries and Office of Economic Research (1978: 7).

[10] Executive Order No. 11888, 24 November 1975 (United States International Trade Commission, Office of Industries and Office of Economic Research, 1978: 8-9).

[11] European Union (1999 and 2002).

[12] Council Regulation 416/2001 (European Union 2001a and 2001b).

documentation, and other requirements of the GSP programme still apply, though unlike other GSP benefits, the EBA programme has no expiration date.

Japan first offered its GSP in 1971 for 10 years and has since extended it through 2011.[13] The current iteration of the programme offers benefits on a positive list of 226 agricultural products and all industrial products except for a negative list of 105 items. Tariffs on agricultural products range from zero to a reduction of the MFN rate, while tariffs on industrial products are zero except for items designated sensitive. These items have a value or quantity ceiling, and tariffs are zero or a reduction of the MFN rate.[14]

The programme as of April 2002 includes 149 countries and 15 territories and grants LDC benefits to all but three of the 49 UN-designated LDCs – Comoros and Djibouti are not in the programme and Japan does not designate Zambia as an LDC for GSP purposes.

Japan was early in giving special benefits to LDCs, extending special preferences in April 1980. Special benefits include duty-free treatment to all products covered by the GSP and the elimination of import ceilings. As of 1 April 2001, Japan went even further with its 99 Per cent Initiative, in which it added about 360 items duty-free and quota-free to the GSP list exclusively for LDCs.[15] New products include all textile and apparel items. By the estimate of the Ministry of Economics, Trade, and Industry, this increased to 99 per cent (from around 94 per cent) the share of industrial products granted duty-free, quota-free access from LDCs. Furthermore, the initiative covered all UN-designated LDCs, including those not in the regular GSP programme.[16]

3 Regional non-reciprocal preference programmes of the Triad

3.1 Programmes of the US

The oldest region-specific unilateral preference programme of the US is the Caribbean Basin Economic Recovery Act (CBERA), passed in 1983 and popularly known as the Caribbean Basin Initiative (CBI). Since then, the US added the Andean Trade Preferences Act in 1991 (ATPA), and in 2000, the Caribbean Basin Trade Partnership Act (CBTPA) and the African Growth and Opportunity Act (AGOA).

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13 Customs and Tariff Bureau, Ministry of Finance (2001), and Ministry of Foreign Affairs (2002).

14 Sensitive items include 1,181 products in 81 product groups.

15 Ministry of Economics, Trade, and Industry (2000) and Ministry of Foreign Affairs (undated).

16 The additional countries were Comoros, Democratic Republic of Congo, Djibouti, Kiribati, Tuvalu, and Zambia.

3.1.1 Preferences for the Caribbean[17]

CBERA was approved to help the region develop economically and diversify its exports. The programme provided duty-free access for all products not specifically excluded. However, many goods for which the Caribbean countries had a comparative advantage were excluded, including a wide variety of footwear, textiles, and apparel. The US amended the programme in 1990 with CBERA II, which made it permanent and improved benefits with tariff reductions for some leather goods and duty-free treatment on imports made completely from US components. The programme again, however, excluded textiles and apparel.

The last change to preferential programmes for the Caribbean came with the CBTPA, Title II of the Trade and Development Act of 2000. This programme essentially extended benefits equivalent to the benefits Mexico gained from the reciprocal North American Free Trade Agreement. Most importantly, the CBTPA included a range of textile and apparel products, though with rules-of-origin requirements.

Nearly all the countries of the Caribbean, including those of Central America, participate in the Caribbean programmes, as shown in Table 2A. The original CBERA designated 27 countries as eligible (Aruba did not exist separately in 1983) and 24 eventually became beneficiaries. President Clinton designated the same 24 as beneficiaries under the CBTPA.[18] Haiti, the only LDC in the Western Hemisphere, has been a beneficiary from the beginning.

3.1.2 Preferences for the Andean Nations[19]

ATPA was enacted on 4 December 1991 with the stated purpose of promoting economic development and export diversification to provide alternatives to the production of drug crops. The act provided preferences similar to those under the CBERA, duty-free access for all products except footwear, textiles, apparel, tuna, petroleum, watches and watch parts, and sugars and similar products, and was set to last 10 years. It was recently extended through the end of 2006, and the extension broadened the goods eligible for preferences. Most importantly, it included apparel under certain conditions, and tuna, though not tuna packed in cans.

The original act extended eligibility to four of the five members of the Community of Andean Nations, Bolivia, Colombia, Ecuador, and Peru. Bolivia and Colombia became beneficiaries in 1992, and Ecuador and Peru in 1993. The bill excluded Venezuela from eligibility, and in the run-up to renewal, both the Andean Community and the government of Venezuela unsuccessfully sought Venezuela's inclusion.[20] None of the beneficiaries are LDCs.

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[17] Much of the institutional detail described in this section is from Office of the United States Trade Representative (1999 and 2000), and United States Congress (2000).

[18] The White House, Office of the Press Secretary (2000).

[19] Institutional background in this section is drawn largely from Office of the United States Trade Representative (2001a).

[20] Venezuela was originally excluded because the drug trade was less significant there than in the other Andean countries, because it had a far higher per capita GDP than the other countries, and because a

Table 2: Eligible countries for US preferences programmes

A. Caribbean trade preference eligible countries

Anguilla *	Guyana
Antigua and Barbuda	*Haiti*
Aruba	Honduras
The Bahamas	Jamaica
Barbados	Montserrat
Belize	Netherlands Antilles
British Virgin Islands	Nicaragua
Cayman Islands *	Panama
Costa Rica	Saint Kitts and Nevis
Dominica	Saint Lucia
Dominican Republic	Saint Vincent and the Grenadines
El Salvador	Suriname *
Grenada	Trinidad and Tobago
Guatemala	Turks and Caicos Islands *

Notes: * Non-beneficiary countries. These four countries have not requested beneficiary status; countries in italics are currently UN-designated LDCs.

Source: Office of the United States Trade Representative (1999).

B. African growth and opportunity eligible countries

Angola [2]	*Liberia* [2]
Benin	*Madagascar* * (6 March 2001)
Botswana * (27 August 2001)	*Malawi* * (15 August 2001)
Burkina Faso [2]	*Mali*
Burundi [2]	*Mauritania*
Cameroon * (1 March 2002)	Mauritius * (19 January 2001)
Cape Verde	*Mozambique* * (6 February 2002)
Central African Republic	Namibia * (3 December 2001)
Chad	*Niger*
Comoros [1]	Nigeria
Republic of Congo	*Rwanda*
Democratic Republic of Congo [2]	*Sao Tome and Principe*
Côte d'Ivoire	*Senegal* * (23 April 2002)
Djibouti	Seychelles
Equatorial Guinea [2]	*Sierra Leone*
Eritrea	*Somalia* [1]
Ethiopia * (2 August 2001)	South Africa * (7 March 2001)
Gabon	*Sudan* [1]
Gambia [2]	Swaziland * (26 July 2001)
Ghana * (20 March 2002)	*Tanzania* * (4 February 2002)
Guinea	*Togo* [2]
Guinea-Bissau	*Uganda* * (23 October 2001)
Kenya * (19 January 2001)	Zambia * (17 December 2001)
Lesotho * (23 April 2001)	Zimbabwe [2]

Notes: [1] Non-beneficiary countries. These three countries have not requested beneficiary status; [2] Non-beneficiary countries. These nine countries have been reviewed but not yet been granted beneficiary status; * Textile and apparel beneficiary, with date of textile and beneficiary status in parentheses. Note that the implementation of beneficiary status for Sierra Leone has been delayed pending USTR decision; Countries in italics are currently UN-designated LDCs. Botswana was an LDC from 1971 to 1994.

Source: Office of the United States Trade Representative with the Assistance of the Trade Partnership (2000), Office of the United States Trade Representative (2001b and 2002), and *Federal Register* (various issues).

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large share of its exports to the US is petroleum, which is excluded from the act (Federal Information Systems Corporation, Federal News Service, 1991).

3.1.3 Preferences for Africa[21]

The third region to receive unilateral US preferences is Africa, under the African Growth and Opportunity Act, Title I of the Trade and Development Act of 2000. AGOA sets a new standard for US programmes in several different ways. First, it locks in GSP preferences for beneficiary countries for eight years. Otherwise, GSP preferences are renewed annually. It also adds 1,835 new products to the GSP list especially for AGOA beneficiaries. In addition, it removes the competitive needs limits that apply throughout the GSP programme. Finally, it includes benefits for textiles and apparel, provided beneficiaries show they have procedures in place to prevent transshipments and meet rules-of-origin requirements, creating two tiers of beneficiaries.

The law named all sub-Saharan African countries as eligible, and 34 became beneficiaries on 2 October 2000. Table 2B shows eligible countries and their beneficiary status. In 2001, the first full year of the programme's operation, 11 countries were named textile and apparel beneficiaries, with at least five more named in 2002.

In the Caribbean and Andean programmes, all eligible countries that requested beneficiary status eventually gained it. This is not so in the Africa programme. As with all unilateral US programmes, eligible countries must request beneficiary status and must fulfill certain requirements, such as making progress toward establishing or having established a market-based economy, having policies to reduce poverty, combat corruption, and protect worker rights, and helping combat terrorism.[22] Accordingly, only 22 of the 34 UN-designated African LDCs currently receive AGOA benefits. Of these, nine have gained textile and apparel benefits.

3.2 Programmes of the EU

The EU has provided preferences to its former colonies in Africa, the Caribbean, and the Pacific (ACP) almost since the beginning of its formation. These efforts have included two Yaoundé Conventions, the Arusha Convention, four Lomé Conventions and now the Cotonou Agreement.[23] As these agreements evolved, they included some and then all ACP LDCs, but never any Asian LDCs. The final Lomé Accord included all ACP LDCs for the first time.

Yaoundé I and II in 1963 and 1969, respectively, between the European Economic Community (EEC) and former African colonies gave commercial advantages on industrial items along with financial assistance. Arusha in 1969 gave separate benefits to three East African states, all previously under British rule or administration.

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[21] Institutional background for this section is drawn from United States Congress (2000); Office of the United States Trade Representative with the Assistance of The Trade Partnership (2000); United States Customs Service (2001); and Office of the United States Trade Representative (2001b and 2002).

[22] Office of the United States Trade Representative with the Assistance of the Trade Partnership (2000: 20-23).

[23] Much of this material is from European Union (undated), along with European Centre for Development Policy Management (2001a and 2001b).

The accession of the United Kingdom to the EEC in 1973 led to the Lomé Convention (Lomé I) of 1975, which expanded membership to African and Caribbean former British colonies. In addition to preferences that made almost all exports duty-free, the Convention included a commodity export earnings stabilization scheme known as STABEX. Though agreed to by the GATT, there was some feeling among GATT members that the ACP trade preferences were not entirely GATT-legal. These concerns continued throughout the life of the Lomé Conventions.[24] Lomé II, signed in 1979 and effective in 1981, added a new system for ACP mineral and mining exports, known as SYSMIN. Lomé III, signed in 1984 and effective 1986, and Lomé IV, signed December 1989 and updated mid-term in 1995, broadened country coverage.

The newest agreement, the ACP-EC Partnership Agreement, also known as the Cotonou Agreement, represents a significant break with the unilateral preferences of the past.[25] Faced with issues about whether preferences to the ACP nations but not to other developing countries violate the WTO accords, the EU will phase out these preferences and instead institute Economic Partnership Agreements (EPAs) with different regional groupings of the ACP countries by 2008 at the latest. These agreements effectively will be reciprocal free trade agreements rather than unilateral preference programmes.[26]

The Cotonou Agreement includes 39 LDCs. They will not be affected by the requirement for EPAs and can retain their Lomé benefits. Furthermore, under the Everything But Arms initiative of the EU's GSP, the LDC Cotonou signatories will have duty free access for all products regardless of Cotonou terms.

4 US programmes and developing country export enhancement

Preference imports from developing countries comprise a small share of all US imports. As shown in Figure 1, between 1989 and 2001, regional US programmes and the GSP covered only 1.8 per cent to 3.8 per cent of US imports. They covered between 2.6 per cent and 9.4 per cent of all non-dutiable imports during the same period. The trend of the non-dutiable share has been downward since 1993, likely because of an expansion of goods coming in duty-free from all countries as a result of the Uruguay Round Agreements. Growth of trade under these preferences has been volatile, rising recently with the creation of new benefits under CBTPA and AGOA, as shown in Figure 2.

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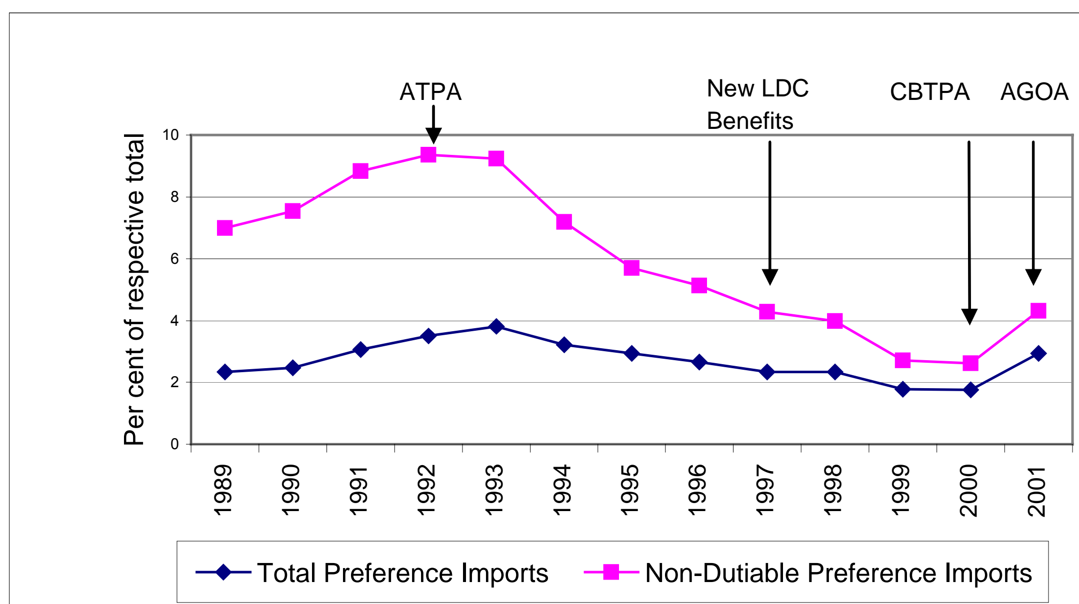
[24] General Agreement on Tariffs and Trade (1977, 1983, 1989, and 1994). Under GATT rules, preference schemes for developing countries could not discriminate against developing countries not party to the scheme (European Centre for Development Policy Management 2001a).

[25] This agreement has not yet gone permanently into effect. It needs ratification by all 15 EU members, 51 (two-thirds) of the ACP states, and the European Parliament. As of 13 September 2002, 61 ACP countries had ratified the agreement, but only 10 EU members had. Accordingly, the ACP-EC Council of Ministers put the agreement provisionally into force from 2 August 2000 through 1 June 2002, subject to extension.

[26] European Centre for Development Policy Management (2001b).

Figure 1
US preference imports relative to total US imports

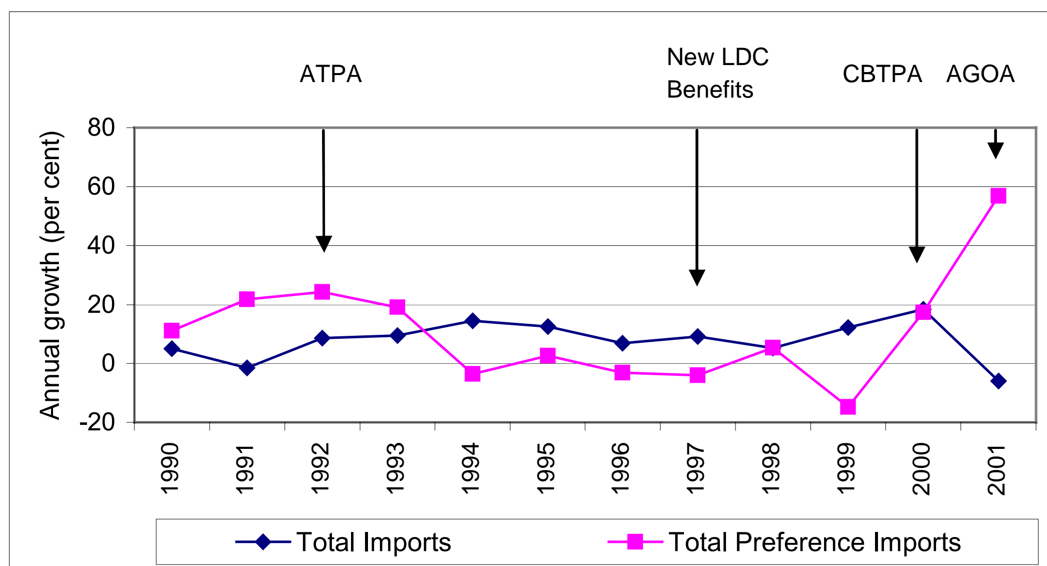


Notes: Total preference imports are shown relative to total imports, while non-dutiable preference imports are shown relative to non-dutiable total imports. Imports are imports for consumption.

Preference Imports include all imports entering under the Generalized System of Preferences, the Andean Trade Partnership Act (ATPA), the Caribbean Basin Economic Recovery Act (CBERA), the Caribbean Basin Trade Partnership Act (CBTPA), and the African Growth and Opportunity Act (AGOA). Arrows show the year each new programme started. New LDC benefits apply to the GSP programme.

Source: United States International Trade Commission (undated).

Figure 2
Growth rate of US total imports and US preference imports



Notes: Imports are imports for consumption. Data for each year shows the growth rate from the previous year. For example, the figure for 1990 shows 1990 imports relative to 1989 imports.

Preference Imports include all imports entering under the Generalized System of Preferences, the Andean Trade Partnership Act (ATPA), the Caribbean Basin Economic Recovery Act (CBERA), the Caribbean Basin Trade Partnership Act (CBTPA), and the African Growth and Opportunity Act (AGOA). Arrows show the year each new programme started. New LDC benefits apply to the GSP programme.

Source: United States International Trade Commission (undated).

Among the Caribbean beneficiaries, total trade under the programmes has boomed since 1989, the first year of available data. Part A of Table 3 shows US imports from the Caribbean beneficiary countries for 1989, 2000, and 2001. While total US imports from the 24 countries rose more than 200 per cent between 1989 and 2001, total preference trade – CBERA, CBTPA, and GSP – rose more than 500 per cent. For the four non-beneficiary eligible countries, in contrast, US imports fell by almost 60 per cent during the same period, from US$383 million to US$160 million. Much of the increase from beneficiaries stems from the new CBTPA. Imports under this programme rose from essentially zero in 2000 to US$5.6 billion in 2001.

Use of the CBERA and CBTPA programmes is broader on a country basis than use of AGOA or even ATPA, as will be seen. In 2001, 9 of the 24 beneficiary countries were each responsible for at least 1 per cent of US imports under the programme. Still, use of the programme is quite concentrated, with the Dominican Republic and Honduras accounting for almost 50 per cent of programme imports, as shown in Part B of Table 3.

The two largest commodities imported under the Caribbean programmes were both apparel items, as shown in Part C of Table 3. In large part, these were not eligible for preferences under the GSP or even CBERA. However, the new preferences did not increase overall exports of these items much; rather, they shifted the items from dutiable to non-dutiable or reduced-dutiable categories. Total value of these imports stayed about steady between 2000 and 2001 while the non-dutiable value rose markedly. Despite the apparel results, the preference programmes appear to have spurred increased imports rather than a shift in the categorization of goods. Imports of many of the top preference items either rose, or fell less than, total imports from beneficiaries between 2000 and 2001.

As with CBERA and CBTPA imports, ATPA imports have boomed. Table 4 shows trade in 1991, the year before the programme started, and 2001 for the four ATPA beneficiaries. Total imports rose 92.5 per cent, while preference imports (ATPA and GSP) rose 278 per cent. All of this rise can be attributed to ATPA, since GSP imports actually fell 62.5 per cent. And while some of the ATPA rise may be attributed to shifts of products from the GSP to ATPA, this can only form a small portion. GSP trade in 1991 totalled US$492 million, while ATPA trade in 2001 totalled US$1.6 billion.

ATPA benefits are quite concentrated in the top two countries, as shown in part B of Table 4. Colombia and Peru accounted for more than 80 per cent of all ATPA imports. However, they also accounted for more than 80 per cent of total GDP of the four countries. Compared to their share of GDP, Colombia’s use of the programme is low (GDP share of 51.1 per cent), Peru’s use is high (GDP share of 33.1 per cent), Ecuador’s use is about equal to its GDP (GDP share of 11.0 per cent), while Bolivia’s use is low (GDP share of 4.9 per cent).

ATPA benefits are concentrated among four main product groups – copper, live trees and plants (cut flowers), dyes and paints, and precious metals. Part C of Table 4 shows the top five products. A large number of these top products are resource-based, either agricultural products or metal- and mining-based products. Finally, overall imports in nearly all the top product groups grew more than total US imports from these countries.

Table 3
Trade performance under the Caribbean programmes

A. Imports from the 24 beneficiary eligible countries (millions of dollars)

	Value			Per cent change	
	1989	2000	2001	89-01	00-01
Total US imports	6,637	22,161	20,679	211.6	-6.7
of which:					
CBERA, CBTPA, and GSP	1,331	2,994	8,478	536.9	183.1
CBERA imports	915	2,635	2,706	195.7	2.7
CBTPA imports	0	157	5,593	n.a.	3,462.3
GSP imports	416	202	179	-57.0	-11.5
Non-dutiable imports	3,455	14,139	15,089	336.7	6.7
of which:					
CBERA, CBTPA, and GSP	1,331	2,710	7,941	496.6	193.0
CBERA imports	915	2,351	2,623	186.6	11.6
CBTPA imports	0	157	5,140	n.a.	3,173.5
GSP imports	416	202	179	-57.0	-11.5

B. Top Caribbean beneficiaries, 2001

Country	Value	Share
Dominican Republic	2,363	28.5
Honduras	1,671	20.1
Costa Rica	1,011	12.2
El Salvador	1,008	12.1
Trinidad	745	9.0
Guatemala	744	9.0

C. Top five Caribbean products, 2001

Commodity	Value	Share	Per cent change from 2000
Knitted apparel (HS 61)	2,936	35.4	0.6
Non-knitted apparel (HS 62)	2,257	27.2	-2.9
Mineral fuels and oils (petroleum) (HS 27)	436	5.3	-13.8
Edible fruit and nuts (HS 8)	332	4.0	-11.6
Electrical machinery and equipment (HS 85)	307	3.7	-1.8

Notes: Values are in millions of dollars. Imports are imports for consumption. In Panel C, per cent change represents change in value of total imports, not just CBERA and CBTPA imports. HS stands for Harmonized System, the international tariff code system.

Source: United States International Trade Commission (undated).

Table 4
Trade performance under the Andean Trade Preference Act

A. Imports from the four beneficiary countries (millions of dollars)

	1991	2001	Per cent change
Total US imports	4,969	9,569	92.5
of which:			
ATPA and GSP	492	1,859	278.0
ATPA imports	0	1,675	n.a.
GSP imports	492	184	-62.5
Non-dutiable imports	2,599	5,770	122.0
of which:			
Non-dutiable ATPA and GSP	492	1,836	273.5
Non-dutiable ATPA imports	0	1,652	n.a.
Non-dutiable GSP imports	492	184	-62.5

B. Top Andean beneficiaries, 2001

Country	Value	Share
Colombia	718.0	42.9
Peru	686.3	41.0
Ecuador	216.3	12.9
Bolivia	54.0	3.2

C. Top five Andean products, 2001

Commodity	Value	Share	Per cent change from 1991
Copper (HS 74)	440	26.3	728.3
Live trees and plants (cut flowers) (HS 6)	383	22.9	85.9
Dyes and paints (HS 32)	195	11.7	2,276.6
Pearls, gems, precious metals (HS 71)	153	9.1	-13.5
Vegetables (HS 7)	78	4.7	1,223.4

Values are in millions of dollars. Imports are imports for consumption. In Panel C, per cent change represents change in value of total imports, not just AGOA imports. HS stands for Harmonized System, the international tariff code system.

Source: United States International Trade Commission (undated).

AGOA, the newest regional preference programme, has given a tremendous boost to duty-free trade from Africa, as shown in part A of Table 5. While GSP imports totalled US$600 million from AGOA beneficiaries in 2001, down from US$704 million the year before, AGOA imports totalled almost US$8.2 billion, making almost 50 per cent of all imports from these countries duty-free. In contrast, the non-beneficiary countries saw their non-dutiable imports fall by almost nine per cent from 2000 to 2001, largely because of decreased US GSP imports.

However, AGOA benefits are even more concentrated among countries and products than are Caribbean or ATPA benefits, as shown in Parts B and C of Table 5. The two top countries, Nigeria and Gabon, accounted for more than 87 per cent of all AGOA imports, and only six of the 34 countries accounted for at least one per cent of AGOA imports. The top product was crude petroleum, which accounted for 96.6 per cent of all Nigeria AGOA exports and 100 per cent of all Gabon AGOA exports. Despite the dominance of oil, AGOA has opened the way for apparel exports to the US. In 2000, almost no apparel exports from AGOA beneficiaries were duty free. However, in 2001, almost 38 per cent were duty free, almost entirely because of AGOA. Total AGOA-beneficiary exports in these two categories rose 34.7 per cent between the two years.

Table 5
Trade performance under the African Growth and Opportunity Act

A. Imports from the 36 beneficiary eligible countries (millions of US dollars)

	2000	2001	Per cent change
Beneficiary eligible countries (36)			
Total US imports	18,321	17,573	-4.1
Non-dutiable imports	9,207	14,247	54.7
of which:			
AGOA and GSP	704	8,179	1061.1
AGOA imports	0	7,579	n.a.
GSP imports	704	600	-14.8

B. Top African beneficiaries, 2001

Country	Value	Share
Nigeria	5,688	75.0
Gabon	939	12.4
South Africa	417	5.5
Lesotho	130	1.7
Republic of Congo	129	1.7
Madagascar	92	1.2

C. Top African products, 2001

Commodity	Value	Share	Per cent change from 2000
Mineral fuels and oils (petroleum) (HS 27)	6,827	90.1	-3.3
Vehicles (HS 87)	241	3.2	138.8
Knitted apparel (HS 62)	212	2.8	17.6
Non-knitted apparel (HS 61)	143	1.9	62.2
Iron and steel (HS 72)	79	1.0	-37.4

Values are in millions of dollars. Imports are imports for consumption. In Panel C, per cent change represents change in value of total imports, not just AGOA imports. HS stands for Harmonized System, the international tariff code system.

Countries in italics are currently UN-designated LDCs.

Source: United States International Trade Commission (undated).

5 The implications of Triad LDC preferences

Triad preferences have done a great deal to expand exports from LDCs, yet lower barriers have the potential to expand the demand for LDC goods even more. This section provides estimates of the increase in LDC exports to Triad countries resulting from unilateral preference programmes offered through 2000. These include the GSP for all three Triad economies, CBERA for the US, and the ACP preferences for the EU.[27] Since the figures are based on 2000 trade and tariff data, they are an understatement of the benefits to developing countries since preference programmes have become more generous in the years since. However, they still provide a reasonable indication of the impact of these programmes on LDC exports to Triad countries.

Following an assessment of the trade benefits derived from existing preferences, this section then provides estimates of the increase in LDC exports to Triad economies that would result from making the preferences comprehensive, or zeroing out all tariffs on all imports from LDCs. This exercise shows the effects of eliminating the remaining barriers. The largest benefits are projected to come from increased exports to the US, though exports to the EU and Japan should also increase.

5.1 Methodology

The methodology used is closely related to that introduced in Haveman *et al.* (forthcoming). In a framework of monopolistic competition, goods are differentiated both by country of origin and by whether they are produced domestically or are imported. For example, from the perspective of a US consumer, the degree of differentiation between goods produced in Japan and an LDC is comparable to that between goods from Japan and the EU, but the degree of differentiation between any of these goods and those produced in the US the same. In essence, the model assumes that imports from any pair of foreign countries are better substitutes for one another than they are for domestically produced products.

The framework incorporates multiple tariff effects. The first, the *trade-reduction effect,* provides a measure of the elasticity of substitution between domestic and foreign goods. This effect arises from the general increase in import prices that results from the imposition of a tariff on goods from any or all countries. Consumers are assumed to engage in two-stage budgeting. In the first stage, consumers allocate their expenditures for each good to domestic and foreign purchases. As the price of imports rises, expenditures allocated to imports fall for all imports of a particular good. This means that the imposition of a tariff, whether on goods from one country or goods from all countries, will reduce imports from all countries.

The second tariff effect is the *tariff-diversion effect*. This effect accounts for the redistribution of expenditures away from imports from countries that face relatively high tariffs, the second stage of the budgeting process. Once overall expenditures are allocated between domestic and foreign purchases, they must be allocated across varieties of imports. In the current context, this effect allows LDC tariff preferences to increase LDC exports relative to exports from other countries. The tariff-diversion

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[27] The US ATPA includes no LDCs.

effect is expected to be larger than the trade-reduction effect since the elasticity of substitution between foreign sources is generally larger than that between domestically produced goods and imports.

The results presented below are based on the analysis of highly detailed bilateral trade data. Regressions are run separately on the imports of each Triad member. The unit of observation for the dependent variable is a bilateral trade flow on a commodity basis between the EU, the US, or Japan and a single foreign country.[28] The analysis includes imports from approximately 240 economies. Further, coefficient estimates are generated independently for each 3-digit SIC industry. That is, the universe for each regression is a single 3-digit 1987 US Standard Industrial Classification industry, made up of individual observations on bilateral trade flows at the 6-digit Harmonized System level. Different trade reduction and diversion effects are therefore estimated for each of 165 SIC groupings for each of the Triad members. These estimates are generated independently of one another and are produced by a tobit regression framework that permits the analysis to incorporate the informational content of the zero flow observations in the data. The vast majority of bilateral trade observations at the 6-digit HS level are zeros.

In addition to these variables, the regressions include year dummies, since the observations include trade flows from multiple years: 1993, 1995, 1996, 1998, 1999 and 2000. Data for 1994 and 1997 are unavailable. Also included is a set of indicator variables for the income level of the exporter, and GDP for the exporter crossed with income level.[29] The estimating equation also includes controls for distance between importer and exporter, whether or not the same language is predominant in both countries, and whether or not the countries share a land border, along with an indicator for the presence of non-tariff barriers to trade or specific tariffs.

The estimating equation can be written as:

$$\begin{aligned}\ln M_{I,j,t,h} = \alpha \quad & + \beta_1 \ln TAUBAR_{I,t,h} + \beta_2 \ln TDIVER + \beta_3 NTM_{I,j,t,h} + \beta_4 SPEC_{I,j,t,h} \\ & + (\beta_5 + \beta_6 \ln GDP_{j,t}) * \sum_{l=1}^{4} \beta_{6+l} INC_{l,j,t} + \beta_{11,t} YEAR_t \\ & + \beta_{12} \ln(DISTANCE_{I,j}) + \beta_{13} BORDER_{I,j} + \beta_{14} LANGUAGE_{I,j} + \varepsilon_{I,j,t,h},\end{aligned}$$

where the dependent variable, $\ln M_{I,j,t,h}$ is imports by country I from country j of commodity h in year t. Here, I indicates one of: the US, the EU, or Japan, j is one of 240 potential exporters, t is one of the years listed above and h is a 6-digit HS product line within a specific 3-digit SIC industry. TAUBAR is the trade-reduction effect, calculated as the trade-weighted average tariff that country I imposes on imports of commodity h

[28] Observations are excluded in the event that the importer does not import the item from any country or the exporter does not export the item to any country.

[29] Income levels are low income, lower-middle income, upper-middle income, and high income as determined by the World Bank. Crossing GDP with income levels allows the influence of GDP on a country's export potential to vary across income categories. Results indicate that this specification is preferred to one that holds the effect of GDP constant.

from all countries in year t. TDIVER is the trade-diversion effect and is the difference between the actual tariff imposed on imports by I from j of product h in year t and the average tariff that country I imposes on all countries but j.[30] β_1 and β_2 are expected to be negative with $\beta_1 > \beta_2$.

Table 6 summarizes coefficient estimates and hence the trade reduction and diversion effects that are estimated. US imports are both more sensitive to the imposition of tariffs – the trade reduction effect is bigger – and the presence of preferences – the trade diversion effect is bigger – than are imports to other Triad economies. Trade of the EU is the least sensitive. This means that US trade contracts the most in response to the imposition of a tariff, and more readily alters its pattern of imports in response to the imposition of preferences. In each of the three Triad economies, the trade diversion effect is larger than the trade reduction effect, which provides a simple check on the validity of the coefficient estimates. Recall that the reduction effect is a direct indication of the elasticity of substitution between domestically produced goods and foreign products while the diversion effect is highly correlated with the elasticity of substitution between foreign varieties. As was stated earlier, the latter effect is expected to be greater than the former. As is common with regressions at this level of detail, the predicted sign on the coefficient estimates of the control variables is not always obtained, but in all cases the predicted sign is more common that is an incorrect sign.

Table 6
Summary of tariff effects on Triad trade

	Mean coefficient estimates	
	Trade reduction	Trade diversion
US	-8.3	-19.4
EU	-3.3	-8.5
Japan	-7.8	-13.1

The figures presented in Table 6 can be interpreted as follows. For the US, on average, a one per cent increase in the average tariff imposed on imports reduces imports by 8.3 per cent. Further, a one per cent tariff preference leads to a 19.4 per cent increase in trade for the exporter in question. These numbers are reasonably large, suggesting significant benefits for LDCs from the unilateral preference programmes.

In the following subsections, the coefficient estimates are used to estimate first the amount of LDC exports to Triad countries attributable to tariff preferences, and then to forecast the increase in LDC exports that might result from the elimination of all tariffs only on the imports of LDC products.

[30] The detailed tariff data are drawn from extracts of the UNCTAD-TRAINS project. See http://www.eiit.org/protection for more information.

5.2 Estimating the trade implications of existing preferences

Triad preference programmes have provided large boosts to LDC exports. Table 7 provides both an indication of the importance of LDC trade in overall Triad imports and an estimate of the increase in observed trade flows attributable to the existence of tariff preferences. The first two columns of the table simply present actual data. The third and fourth columns present counterfactual results generated from the coefficient estimates presented above. The figures in Column 3 are predictions of the amount of trade that would not have occurred were all beneficiaries of Triad unilateral preference programmes subject to MFN tariffs.

Of the three members, the EU imports more from LDCs than do either of the others, both in value terms and as a per cent of total trade. The US imports about half as much, while Japan's imports from LDCs are a distant third at less than US$1 billion.

Table 7
Triad LDC imports and preferences programmes in force in 2000

Triad member	Total imports in 2000 (US$ billions)	Imports from LDCs in 2000 (US$ Billions)	Imports from LDCs resulting from preferences (US$ Billions)	Change in LDC imports (per cent)
US	1,058.2			
All LDCs		4.6	0.4	10.5
CBERA[31]		0.3	0.03	13.7
EU	614.3			
All LDCs		9.2	2.8	45.0
ACP		5.8	0.7	14.5
Japan	234.2	0.8	0.3	65.1

The Triad's LDC imports due to unilateral preferences follow a similar pattern. The EU has experienced the largest effect, with trade increases of US$2.8 billion, followed by the US, US$0.4 billion, and then Japan, at US$0.3 billion. However, as a per cent of LDC imports, Japan's programme does the most to expand trade, with preferences increasing trade by 65 per cent. The EU programmes are in the middle, raising trade by 45 per cent, while US programmes have provided only a 10.5 per cent boost to imports from LDCs.

This pattern of benefit reflects the design of the various programmes. The EU programmes are deep and broad in the sense that all 2-digit HS sectors receive coverage and preferences are generally extended to the vast majority of products within a sector. Exceptions include some agricultural and food trade. The Japanese and US programmes are likewise broad but significantly less deep, meaning that there are preferences in most sectors, but that in most cases preferences do not extend to all products in each sector.

[31] Haiti is the only LDC affected by the CBERA programme.

Also reflective of this pattern is the number of countries that benefit from the preference schemes. The programmes of the EU and Japan provide benefits in excess of a 10 per cent increase in exports to 26 and 25 countries, respectively. In fact, the EU programmes are estimated to be responsible for a doubling of exports from seven countries, while the Japanese programme is estimated to be responsible for a doubling of exports from nine countries. For the EU, the seven include in descending order Solomon Islands, Maldives, Lesotho, Bangladesh, Cambodia, Laos, and Madagascar. Of these, the Maldives, Bangladesh, Cambodia, and Laos benefit only from the EU's GSP programme, not its ACP preferences. For Japan, the nine countries include in descending order Mauritania, Gambia, Cambodia, Mozambique, Nepal, Bangladesh, Solomon Islands, Madagascar, and Senegal.

The US programmes have lead to export increases of more than 10 per cent for only 15 countries, of which five experienced more than a doubling of exports as a result of these programmes. These five included Togo, Burkina Faso, Benin, Angola, and Equatorial Guinea. For the last two countries, imports were more than 40 times what they would have been in the absence of preferences. There is no overlap between the top US beneficiaries and the top EU and Japanese beneficiaries, but there is considerable overlap between the EU and Japanese beneficiaries – Bangladesh, Cambodia, Madagascar, and Solomon Islands.

Regarding commodities, approximately 70 per cent of the increase in total EU imports from LDCs is in Textiles and Textile Products, the imports of which increase by about 136 per cent under the EU's two preference programmes. The bulk of the increase in Japanese imports – almost 68 per cent – is in the Animals and Animal Products sectors, the imports of which almost triple due to the Japanese GSP. Almost half of the import expansion for the US is in the Mineral Products sector, the imports of which more than triple under the US preference programmes. About 29 per cent of the US expansion comes in the Textiles and Textile Articles sector, but this represents only a 3.7 per cent increase in the imports of these products.

The distribution and effect of preferences indicates why US imports from LDCs under the preference programmes expand so little compared to EU or Japanese imports. Although the US provides broad tariff preferences to LDCs – tariffs are eliminated on 48 per cent of the tariff lines with positive MFN tariffs – the goods for which a preference is not granted are both the goods in which LDCs possess a strong comparative advantage and goods with some of the highest applied tariffs. These are primarily Textiles and Textile Products, including apparel.[32] In contrast, the EU and Japan have granted significant preferences in textiles and apparel, but have failed to provide free access in their own sensitive sectors, those related to agricultural and general food production. As a result, Vegetable Products imports increase very little in both the EU and Japan under their preference programmes, though Animals and Animal Products imports increase a great deal.

32 See Haveman and Shatz (2003) for more on the nature of the existing preferences programmes.

5.3 Estimating the trade implications of the removal of existing preferences

While exports from LDCs have benefited a great deal from preferences, there is still much room for trade liberalization, as recognized in the plans for the Doha Round of multilateral trade negotiations. As of 2000, the US maintained significant barriers to imports from LDCs, with an import weighted average tariff in excess of 5.3 per cent. The remaining barriers in the EU and Japan were much lower, at 0.02 and 1.8 per cent, respectively. As a result, the elimination of all tariffs on imports from LDCs by the Triad members would be expected to expand exports the most for US partners and the least for EU partners. Table 8 provides evidence.

While Table 7 reported the implications of restoring MFN tariffs to LDCs, Table 8 predicts the effects of eliminating the remaining tariffs on Triad imports of LDC goods. Again, this is accomplished by applying the results of the regression analysis in forecasting counterfactual trade flows for the year 2000.

Table 8
Changes in Triad imports from LDCs as a result of eliminating all tariffs on LDC exports in 2000

Triad member	Total imports in 2000 (US$ billions)	Imports from LDCs in 2000 (US$ billions)	Imports from LDCs resulting from enhanced preferences (US$ billions)	Change in LDC imports (per cent)
US	1,058.2			
All LDCs		4.6	6.8	147.9
CBERA		0.3	0.5	162.3
EU	614.3			
All LDCs		9.2	0.2	2.6
ACP		5.8	0.0	0.1
Japan	234.2	0.8	0.6	69.3

The remaining tariffs on US imports from LDCs clearly pose the most significant impediment to LDC exports. The projections indicate that LDC exports would have been almost US$7 billion, or 148 per cent, higher in 2000 than was observed had the US levied no tariffs on imports from LDCs. The remaining EU barriers on the other hand are relatively few and their elimination would lead to a 2.6 per cent expansion in imports from LDC countries. Japan represents the middle ground with a projected increase in imports from LDCs of approximately 69 per cent. However, this represents an increase in imports from LDCs of only US$0.6 billion.

More countries stand to benefit from the further elimination of tariffs by the US and Japan than by the EU. For the US, 19 countries are projected to experience a 10 per cent or greater expansion of exports, 12 of which would see exports more than double. The same is roughly true for Japan with 21 countries expanding exports by more than 10 per cent and with exports more than doubling for 10 of those countries. For the US, the magnitudes are quite significant. The country experiencing the largest gain in value terms is Bangladesh, for which exports could be expected to increase by US$4.0 billion,

or 168 per cent. For Japan the largest gainer is Mauritania for which exports expand by US$0.2 million, or 198 per cent.

The gains if the US and Japan were to institute zero-tariff regimes on LDC trade would be even more broad-based than indicated above, because there is little overlap among the top gainers. Only the Maldives is projected to more than double exports to both the US and Japan, by 177 per cent to the former and 157 per cent to the latter.

Exporters to the EU could expect only modest gains, with just two countries, Senegal and Sao Tome, experiencing double-digit growth. For both countries it is projected that exports would have been almost 70 per cent higher had preferences been comprehensive in 2000. Senegal is the largest gainer in value terms with exports projected to increase by US$0.2 million, reflecting the fact that LDC exports form only a tiny portion of all exports to the Triad economies.

By industry, exports to the US have been the most significantly hindered in the Textiles and Textile Articles sector. Had preferences been comprehensive in 2000, US imports of these products from LDCs would have been almost three times larger, increasing from less to US$3.6 billion to almost US$9.9 billion. This expansion of US imports in textiles and apparel accounts for approximately 90 per cent of the total export gains from zeroing out tariffs on goods imported from LDCs. Other sectors growing significantly include Footwear and Headgear, Prepared Foodstuffs, and Hides and Skins, all of which are projected to grow more than 150 per cent.

For Japan, 80 per cent of the gains come in the Animals and Animal Products sector, in part stemming from a projected 152 per cent increase in the imports of these products. This sector is also responsible for most of the gains under Japan's GSP as of 2000, suggesting that while LDCs have gained important benefits already, barriers are still high. While the Animals and Animal Products sector is the only one in which Japanese imports would more than double, substantial gains also occur in imports of Mineral Products (47 per cent), Wood Pulp and Products (31 per cent), and Textiles and Textile Articles (12 per cent).

As in Japan, Animals and Animal Products imports would provide the bulk of the gains – a little more than 61 per cent of the increase – in EU imports from LDCs. However, EU imports from LDCs in this sector would increase by only 19 per cent, reflecting the generous preferences already offered by the EU. Other industries that would experience significant increases in imports are Animal or Vegetable Fats and Oils (46 per cent) and Prepared Foodstuffs (25 per cent), reflecting EU barriers to agriculture-based trade.

Although the current preference schemes do provide significant benefits to many LDCs, these projections indicate that there are significant gains to be had from further expansion of these programmes. Existing preferences have increased Triad imports from LDCs to the tune of US$3.5 billion. However, this number is less than half the LDC exports that could be had from totally freeing trade with LDCs. Should these programmes be made comprehensive, exports from LDCs to Triad members would be expected to grow by approximately US$7.6 billion, US$6.8 billion of which would be destined for the US.

6 Conclusions

Significant discussion took place between the time when the idea of a GSP-type programme was introduced at UNCTAD I in 1964 and the passage of the enabling clause in 1971 allowing such programmes to be GATT-legal. Those seven years of work resulted in programmes that have had significant expansionary effects regarding LDC exports as shown by the estimates of the previous section. Certainly the programmes were not perfect. Benefits were concentrated among a minority of countries, and difficult rules of origin and other procedures have kept many exporters from taking advantage of the programmes.

One key difficulty with the GSP and other unilateral preference programmes has been product coverage, and this was recognized in the WTO's Singapore Ministerial in 1996. Since then, the EU has gone a long way towards removing all tariff barriers against LDC trade, while Japan has also increased benefits and the US has taken selective steps. However, as the projections of this paper show, there are still large trade expansionary gains to be had from fulfilling the Doha Ministerial goal of zero tariffs on all LDC imports. This is especially true of US imports from LDCs.

Certainly this cannot solve all development issues. Within trade policy alone there are still issues of rules of origin, capacity building, trade infrastructure, and LDC tariffs limiting useful imports from the rest of the world. However, the elimination of barriers should increase LDC exports a great deal. They will still remain a small portion of overall trade however, limiting any disruptive effects they may have on the Triad economies.

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