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STRENGTHENING THE GLOBAL TRADE AND INVESTMENT SYSTEM FOR SUSTAINABLE DEVELOPMENT

Trade Preferences for the Least Developed Countries: Opportunities Not Panaceas

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September 2015

E15 Expert Group on Trade, Finance, and Development

Think Piece

Co-convened with

Center for International Development at Harvard University

ACKNOWLEDGMENTS

Published by

International Centre for Trade and Sustainable Development (ICTSD)
7 Chemin de Balexert, 1219 Geneva, Switzerland
Tel: +41 22 917 8492 – E-mail: ictsd@ictsd.ch – Website: www.ictsd.org
Publisher and Chief Executive: Ricardo Meléndez-Ortiz

World Economic Forum
91-93 route de la Capite, 1223 Cologny/Geneva, Switzerland
Tel: +41 22 869 1212 – E-mail: contact@weforum.org – Website: www.weforum.org
Co-Publisher and Managing Director: Richard Samans

Acknowledgments

This paper has been produced under the E15Initiative (E15). Implemented jointly by the International Centre for Trade and Sustainable Development (ICTSD) and the World Economic Forum, the E15 convenes world-class experts and institutions to generate strategic analysis and recommendations for government, business, and civil society geared towards strengthening the global trade and investment system for sustainable development.

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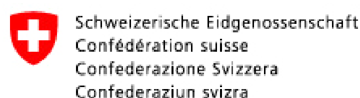

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Citation: Elliott, Kimberly Ann. *Trade Preferences for the Least Developed Countries: Opportunities Not Panaceas*. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum, 2015. www.e15initiative.org/

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ISSN 2313-3805

ABSTRACT

One of the main aims of trade is to enable consumers to choose from a wider variety of goods at lower prices and firms to grow and create more jobs by becoming more productive and accessing larger markets. However, these opportunities are often elusive for the least developed countries (LDCs). There are many reasons for these patterns, but rich-country policies that discriminate against exports from poor countries also play a key role. To promote LDC trade, World Trade Organization (WTO) members agreed in Hong Kong in 2005 to provide duty-free, quota-free (DFQF) market access to those countries. Substantial progress has been made since then, but key gaps remain. Most notably, the United States (US) provides nearly complete duty-free access for a number of LDCs in Africa, but it is the only developed country refusing to implement the initiative for all LDCs. The large emerging markets are also doing less than they might, given their role in the global economy. The paper suggests that the US should implement a DFQF program for all LDCs that covers as close to 100 percent of products as possible, and more than the minimum 97 percent it promised in Hong Kong. All preference programs for LDCs should make the rules of origin simple to use and flexible in meeting the needs of LDCs, including by incorporating cumulation zones that extend beyond narrow regional groupings to as much of the developing world as possible. Aid for trade initiatives should experiment with models that pay for development outcomes, rather than measuring results by the number of inputs delivered.

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LIST OF ABBREVIATIONS

AGOA	African Growth and Opportunity Act
CGD	Center for Global Development
EBA	Everything But Arms
EU	European Union
DFQF	duty-free, quota-free
LDC	least developed country
TRQ	tariff-rate quota
US	United States
WTO	World Trade Organization

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INTRODUCTION

Trade is about expanding opportunities—for consumers to be able to choose from a wider variety of goods at lower prices and for firms to grow and create more jobs by becoming more productive and accessing larger markets. For the poorest countries, however, these opportunities are often elusive. In 2000, the share of the least developed countries (LDCs) in world exports was under 1 percent, one-third of what it had been in 1970. In 2014, the LDC share of global exports had recovered modestly, to 1.2 percent. Exports from these countries are highly concentrated in a few sectors, however, which makes them vulnerable to external shocks. There are many reasons for these patterns, including corruption, conflict, and bad economic policies in some developing countries. But rich-country policies that discriminate against exports from poor countries also play a key role.

The year 2015 will see the global community shifting from the Millennium Development Goals agenda of the last 15 years to the Sustainable Development Goals agenda for the next 15 years. As part of that evolution, attention is also growing on the need for economic growth and job creation as the foundation for sustainable development and poverty alleviation. As part of the growth agenda, deeper and more sustainable integration with global markets is an important tool, especially for the poorest countries.

To promote LDC trade, World Trade Organization (WTO) members agreed in Hong Kong in 2005 to provide duty-free, quota-free (DFQF) market access to those countries. Substantial progress has been made since then, but key gaps remain. Most notably, the United States (US) provides nearly complete duty-free access for a number of LDCs in Africa, but it is the only developed country refusing to implement the initiative for all LDCs. The large emerging markets are also doing less than they might, given their role in the global economy. And compliance with complex rules of origin remains costly under many preference programs. Finally, traditional market access alone is often not enough. Standards and other nontariff measures are increasingly important obstacles for many LDCs that are unable to take advantage of duty-free access on goods.[1] Thus, aid for trade, capacity building assistance, and policy reforms in LDCs are equally important tools to complement the DFQF initiative (Lammersen 2015).

After briefly reviewing where things stand and where the major gaps are, the paper makes three recommendations for filling them. First, the US should implement a DFQF program for all LDCs that covers as close to 100 percent of products as possible, and more than the minimum 97 percent it promised in Hong Kong. Second, all preference programs for LDCs should make the rules of origin simple to use and flexible in meeting the needs of LDCs, including by incorporating cumulation zones that extend beyond narrow regional groupings to as much of the developing world as possible. Third, aid for trade initiatives should experiment with models that pay for development outcomes, rather than measuring results by the number of inputs delivered.

THE CURRENT STATUS OF DFQF MARKET ACCESS FOR LDCS

While average tariffs in high income countries are in the low single digits, the tariff peaks that remain are generally in sectors where poor countries have a comparative advantage: agricultural and food products, textiles and apparel, footwear, and other light manufactures (Table 1). Moreover, importing countries often exclude these products from trade preference programs. Over the course of the 2000s, advanced countries began to address this problem by committing at the United Nations, as part of the Millennium Development Goals, and at the WTO ministerial in Hong Kong, to provide DFQF market access for LDCs. The Hong Kong communiqué also called on developing countries "in a position to do so" to improve market access for LDCs.

Since then, as summarised in the annex table, most advanced countries have made important progress toward the goal of providing DFQF market access for LDCs.[2] In 2000-01, the European Union (EU) introduced the Everything But Arms (EBA) program for LDCs and the US implemented the African Growth and Opportunity Act (AGOA). Over the next couple of years, Australia, New Zealand, Iceland, and Norway announced their DFQF programs, though Iceland did not go to 100 percent product coverage as the others in that group did. In subsequent years, Switzerland and Turkey adopted programs modelled, more or less, on the EU's EBA program. Turkey's excludes agriculture, however, because that sector is excluded from its customs union with the EU. After the Hong Kong ministerial, Japan and South Korea expanded their lists of DFQF-eligible products for LDCs to 98 percent and 75

1 Capacity is also often a significant problem for LDCs trying to take advantage of the 2011 and 2013 WTO ministerial decisions granting a waiver for members to provide preferential access for services exports from LDCs. Implementation of the waiver is also very much a work in progress. These issues are addressed in Drake-Brockman (forthcoming).

2 For more details on the history and current status of these programs, see Elliott (2009), Laird (2012), and UNCTAD (2008, 2012).

percent, respectively. In 2010, South Korea announced that it would further expand access over the next few years to 95 percent, a goal that has yet to be fully achieved. In the mid- and later 2000s, the US also expanded preferential access for Haitian exports, including certain clothing products.

TABLE 1:

Tariff Peaks in Select High Income Countries

Share of Tariff Peaks by Sector	European Union	Japan	United States	Canada
Agriculture	97.7	85.1	36.6	27.4
Leather, textiles, clothing	0.5	14.7	57.4	60.1
Other industrial products	2.8	0.2	6.0	11.5

** All partners, import-weighted.*

Source: UNCTAD (2000: 14–17).

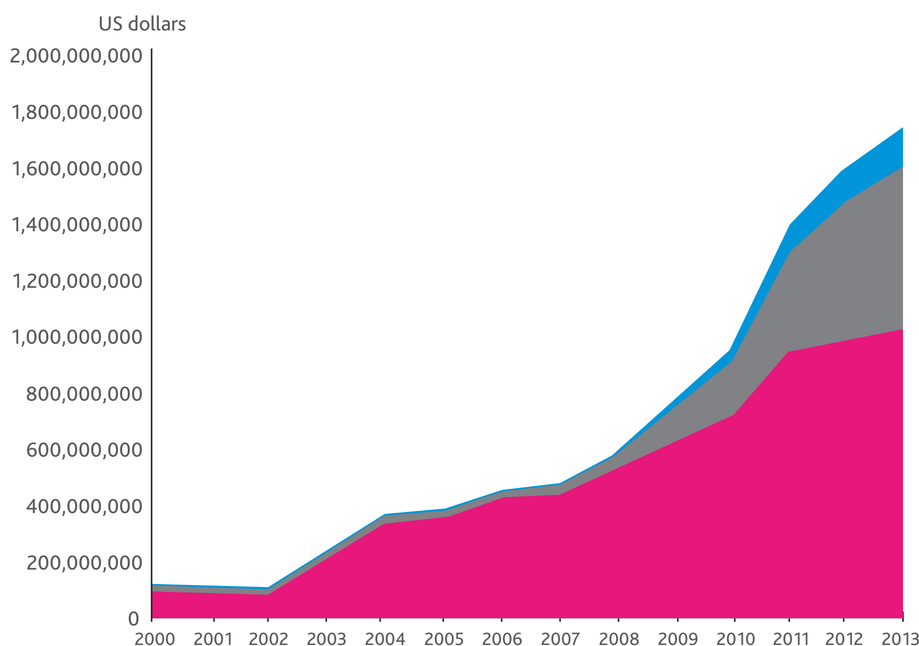

FIGURE 1:

Bangladeshi Exports of Apparel to Selected Destinations (Year of DFQF market access in parentheses)

LEGEND:

- Canada (2003)
- Japan (2007)
- Korea (2010)

Source : UN Comtrade online database.

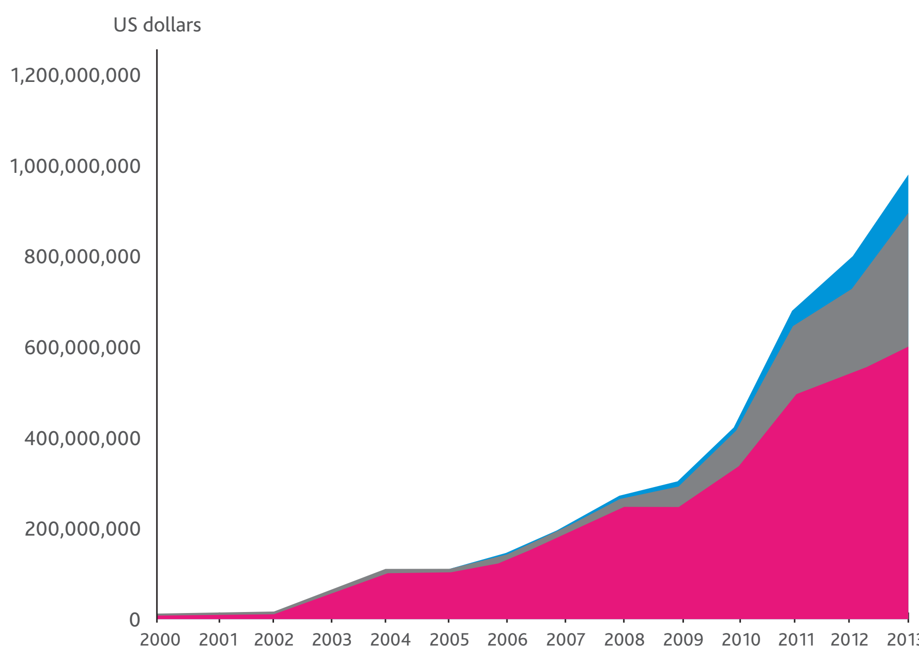

FIGURE 2:

Cambodian Exports of Clothing to Selected Destinations (Year of DFQF market access in parentheses)

LEGEND:

- Canada (2003)
- Japan (2007)
- Korea (2010)

Source : UN Comtrade online database.

Where the programs have comprehensive product coverage, or nearly so, and reasonable rules of origin, LDC exports benefiting from high preference margins responded. Figure 1 shows imports of clothing from Bangladesh and Cambodia increasing immediately after Canada implemented its DFQF program in 2003, when Japan did so in 2007, and when South Korea expanded access for LDCs in 2010. In the EU market, the response was more muted because of restrictive rules of origin for apparel (see below). Nor is the effect limited to apparel. The EU phased in DFQF access for rice imports from LDCs in 2009 and the impact on Cambodian exports was, again, immediate.

Unlike other advanced economies, the US has yet to provide meaningful preferential access for the Asian LDCs. As a result, Bangladesh and Cambodia, which export mostly clothing, face an average tariff of more than 15 percent in the US market—higher than any other country exporting to the US and more than five times higher than the average applied tariff of 3 percent. American customs officials collect more than US$800 million in tariffs on imports from Bangladesh, two-thirds more than it collects on a much higher level of imports from the far richer United Kingdom. The US$460 million in tariffs levied on imports from Cambodia is about the same level as that collected on imports from France.[3]

Moreover, even under its most generous programs, US market access is not quota-free. There are still tariff-rate quotas for sensitive agricultural products, most notably sugar and confectionery, and there are caps on the volume of clothing that Haiti or AGOA beneficiaries can export to the US market without having to meet a costly rule of origin that would require the use of US fabrics. American sensitivities are the source of the Hong Kong ministerial declaration setting an intermediate goal of 97 percent goal for DFQF market access in countries having trouble implementing full market access. US negotiators would only accept the ministerial declaration if it was allowed to exempt up to 3 percent of tariff lines, which was calculated as the minimum level needed to protect its sensitive sectors.

Unfortunately, that precedent is now being used by emerging powers to limit the coverage of their programs and protect their own sensitive sectors. China and India announced programs expanding access for LDCs after the WTO ministerial meeting in Hong Kong, but with limits. By the end of 2015, China announced that it will become the first developing country to reach the 97 percent product coverage target, albeit only for LDCs with which it has diplomatic relations. The list of items that will not be covered was not announced but it would make little sense to exclude items that LDCs have no possibility of exporting. India's duty-free access program initially extended to only 85 percent of tariff lines, with tariff reductions on another 9 percent. In 2014, India announced that it would raise the share of tariff lines covered by the program to 98 percent, but Ancharaz and Ghisu (2014; 7) find that some products left out are important, particularly for some African exporters. Brazilian Foreign Minister Celso Amorim announced in December 2009 that Brazil would expand preferential market access for LDCs beginning in 2010 with coverage for 80 percent of tariff lines and with full coverage phased in over four years. That program has, however, yet to be launched.

A number of studies show that the impact on trade of even a small number of exceptions, as small as the 3 percent agreed in Hong Kong, can be so large as to significantly undermine the benefits of preferences (Ancharaz and Ghisu 2014, Bouet et al. 2012, 2008, Laborde 2008, Laird 2012). Moreover, proliferating bilateral and regional trade agreements are eroding the value of preferences for LDCs because they are seldom party to these regional trade agreements. Notably, increased market access benefits for Vietnam under the Trans-Pacific Partnership could come at the expense of Bangladesh, Cambodia, and other Asian LDCs. Eliminating the remaining gaps in preference coverage and ensuring that programs are stable, predictable, and easy for LDCs to use are important steps to help mitigate ongoing discrimination against LDC exports, particularly in the US and large emerging markets.

3 Trade and tariff data are from the US International Trade Commission's Trade Dataweb, online.

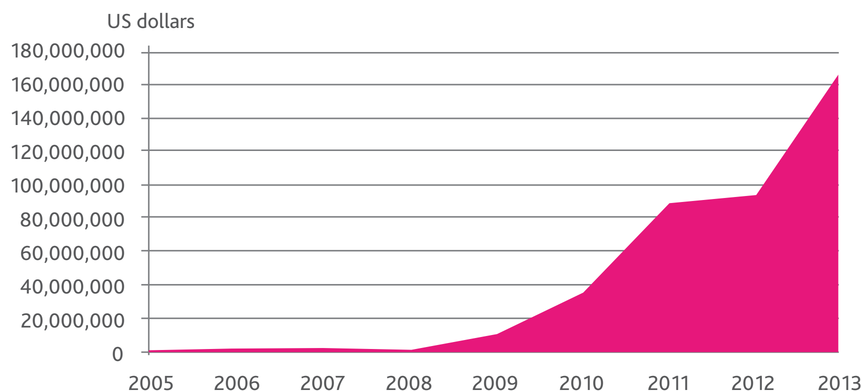

FIGURE 3:

EU Imports of Rice from Cambodia (US dollars)

Source : UN Comtrade online database.

A PRAGMATIC PROPOSAL TO IMPROVE US MARKET ACCESS FOR LDCS

US trade preferences for LDCs cover only about 80 percent of tariff lines and the program excludes key labour-intensive products, including footwear, textiles, and apparel. The AGOA offers much better access, providing duty-free (but not quota-free) market access for 98 percent of tariff lines for less developed beneficiaries, not all of whom are LDCs. Special provisions for Haiti under the Caribbean Basin Trade Partnership Act reach 90 percent product coverage. The AGOA also includes duty-free access for apparel with flexible rules of origin, but the benefits are capped and some key agricultural products are excluded, notably sugar, peanuts, and tobacco. Haiti's access is more constrained and the rules of origin are more complex.

For the Asian LDCs that are outside these regional arrangements, including Afghanistan, Bangladesh, Cambodia, Nepal, and Yemen, less than 1 percent of their exports to the US entered under preferences in 2012.[4] Overall, the concerns about market access for all LDCs seem exaggerated. US non-oil imports from all LDCs in 2014 were just 0.6 percent of total nonoil imports. But opposition to the proposal from the textile and sugar industries in the US is bolstered by opposition from African apparel exporters that are concerned about erosion of their preferences under the AGOA.

In the spirit of not letting the best be the enemy of the good, therefore, it is worthwhile to consider limited product exclusions from DFQF market access for relatively competitive exporters. Among LDCs, only Bangladeshi and Cambodian apparel exports reached even 1 percent of total US apparel imports in recent years (average imports 2012–14). Yet, these countries are still quite poor and they are currently competing head to head with China and Vietnam in the apparel sector. Detailed analysis of US trade data suggests that excluding just a few dozen tariff lines (at the 10-digit level) would shield most AGOA and Haitian clothing exports while DFQF treatment on the other apparel tariff lines would lower barriers for half or more of Bangladeshi and Cambodian exports.[5] Extending US preferences to the Asian LDCs would also bring new opportunities for Afghanistan, Nepal, and other very poor countries in the region.

Agriculture is another gap in US (and other) preference programs, including the AGOA. Those programs exclude sensitive agricultural products that are restricted under tariff-rate quotas (TRQs), including meat, dairy, peanuts, sugar, tobacco, and cotton, as well as sugar- and dairy-containing items such as chocolate. Sub-Saharan African countries produce and export many of these products to other markets, including the EU, yet they have little, if any, access in the US market. Expanding benefits for agricultural exporters would thus expand the number of African countries that benefit from AGOA preferences beyond the handful of apparel exporters that do so currently.

Current TRQ allocations, however, are based on historical trade patterns from several decades ago when US-Africa trade was minimal. For example, Malawi and Mozambique have small quotas to export sugar to the US market, but Zambia has none at all. Western African cocoa exporters have no specific quota access at all for chocolate or other confectionery that contains quota-restricted sugar or dairy products.

The pro-trade and pro-development approach would be to exempt LDC beneficiaries (and most would be African) from the TRQ restrictions. If that is too politically difficult, there are options for expanding LDC access while staying within the current system of TRQs. The Secretary of Agriculture or the US Trade Representative (depending on the product) has authority to allocate quotas among countries, though that authority is constrained by US trade commitments. If US negotiators agreed under the Uruguay Round Agreement to specific quota allocations for particular countries, they cannot adjust those allocations unilaterally.

Many TRQs, however, have an "other" category that is available on a first-come, first-served basis. Theoretically, African exporters could gain access under those provisions, but the amount of access available in any year is highly uncertain, which can make it difficult for new entrants to break into a market. For TRQ products where there is unused and unallocated quota, the Obama administration could reserve a portion specifically for AGOA countries (or LDCs) with minimal, if any, objection from current quota-holders. For example, the "other" category under the chocolate TRQ is only about half filled in most years, leaving about 8,000 metric tons that could be reserved for Africa to encourage job creation in downstream processing of cocoa.[6] At a minimum, the US should ensure that LDCs have commercially relevant access to the US market, and it should remove quotas for downstream processed product exports from LDCs to encourage job creation.

4 In 2014, following Bangladesh's suspension from the Generalized System of Preferences program, the figure for the remaining Asian LDCs was 2 percent of total imports to the US that received benefits (figures calculated from the US International Trade Commission's Trade Dataweb).

5 See Elliott (2013) for details.

6 See Elliott (2014) for details.

MAKING RULES OF ORIGIN LESS BURDENSOME

Preferential trade arrangements include rules of origin to protect against the possibility of trade deflection, whereby goods produced in a non-beneficiary country are simply transhipped through beneficiary countries in order to qualify for preferential market access. These rules are often more complicated and restrictive than they need to be for that purpose, however. All too often they just raise trade costs and penalize exports, especially in LDCs with relatively undeveloped manufacturing sectors (Cadot and de Melo 2007). The result is that, what trade preference programs give with one hand, rules of origin can take back with the other.

To avoid trade deflection, rules of origin usually require that any imported inputs used in the production of the good receiving preferences must be “substantially transformed” in the beneficiary country. The problem is that preference-giving countries define that phrase in a variety of ways with varying degrees of transparency and complexity (Committee on Rules of Origin 2014). Some require a minimum share of final value that must be added locally, others a change in tariff heading (which will be more restrictive the more aggregated the product category is), and some specify technical processes to define what substantial transformation means.[7]

Some defend relatively strict rules as necessary to promote the creation or growth of upstream industries and to encourage backward linkages. As Stevens and Kennan (2004: 7) note, however, the impact of rules of origin is asymmetric: setting them too low may reduce the benefit, by not developing backward linkages, but setting them too high can eliminate the benefits of preferences entirely.

In practice, rules of origin are often set at levels that are unrealistic for lower-income exporters. When value-added thresholds are used, they often require that half or more of the value of the product (or of the materials used) must be of local origin. With globalization, however, supply chains are more fragmented and these rules are increasingly difficult to meet, especially in smaller, poorer countries with low capital investment and few economies of scale. A study by the Overseas Development Institute found that, of 34 broad product categories analyzed in seven low-income countries, local value-added was less than 40 percent in 26.[8]

Moreover, the choice of different rules for different products is not random. As part of an analysis of the potential gains of a free trade agreement between the Association of Southeast Asian Nations and the EU, for example, Carrere et al. (2008) found that the rules of origin were more restrictive for products with higher tariffs.

It is no surprise, then, that restrictive rules are common in the case of apparel. For example, the general rule for apparel in most US trade agreements and preference programs (if they include apparel at all) requires that the inputs must undergo “triple transformation”. In other words, clothing items must be produced from fabric that is produced locally, in the beneficiary country, or in the US using either local or US yarn, and then be cut and assembled in the beneficiary country.

7 Estevadeordal and Suominen (2008) provide a comprehensive description and analysis of the different types of rules of origin in regional trade agreements around the world.

8 ODI (2006: 25).

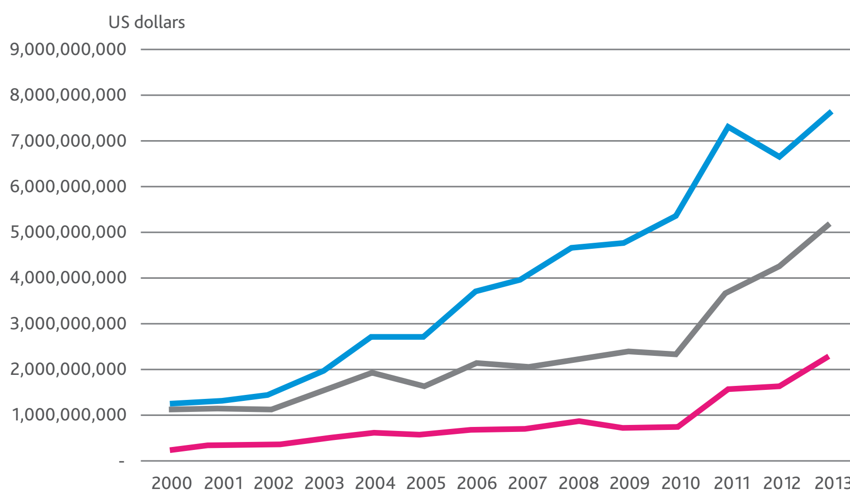

FIGURE 4:

EU Apparel Imports under the EBA

LEGEND:

- Cambodia
- Bangladesh knitwear
- Bangladesh woven apparel

Source: UN Comtrade online database.

Until 2010, the EU's EBA program had a double transformation rule for apparel, meaning that the yarn could be imported, but the fabric could not, unless it is from the EU, or designated regional trade partners.[9] As part of a reform of its preference programs, the EU eased rules of origin for LDCs, including changing to a single transformation rule for apparel. The US also has a single transformation rule—also known as the third-country fabric rule—for apparel exports from eligible AGOA beneficiaries.

The impact of the EU rules of origin reform under the EBA program is clear in the data on imports from Bangladesh and Cambodia (Figure 3). Bangladesh developed backward linkages in the knitwear industry, so it was able to take advantage of duty-free status for those apparel products under the double transformation rule. But growth was much less for woven garments. After the rule was changed in 2010 to require only a single transformation, however, Bangladeshi exports of woven garments and Cambodian exports of all apparel jumped sharply.[10]

A number of studies document the role of restrictive rules of origin in undermining the benefits of preference programs. In an analysis of EU preference programs, Brenton and Manchin (2002) estimated that only a third of potentially eligible imports were actually receiving preferential treatment, which they attributed to overly restrictive and complex rules of origin, particularly for apparel. De Melo and Portugal-Perez (2013) estimated that the shift to a single transformation rule of origin for apparel under the AGOA led to a four-fold increase in exports for the top seven beneficiaries under that program.

In sum, there is both academic analysis and real-world evidence showing that rules of origin can thwart the utilization of trade preferences. The Hong Kong ministerial declaration affirming WTO members' commitment to the DFQF market access initiative also called on members to ensure that rules of origin for LDCs "are transparent and simple, and contribute to facilitating market access." The 2013 Bali ministerial package for LDCs included general guidelines for how WTO members could meet the objectives of the Hong Kong declaration on rules of origin. In October 2014, the LDCs Group submitted a paper to the WTO further fleshing out the problems that LDCs face in meeting rules of origin under many preference programs, and ideas for how to address them (Committee on Rules of Origin 2014).

The wide variety of rules of origin and the political pressures that influenced their development suggests that harmonization of rules of origin by the rich countries is unlikely, as the LDCs Group recognizes in its recent paper. Mutual recognition of one another's rules across the rich countries might be one alternative to harmonization. In that case, preference givers would agree that an import that qualifies for preferential treatment in one market would be accepted as eligible in any other. But this would require cooperation and trust across customs agencies, which could be difficult to achieve.

An alternative approach that might be easier to adopt while still having positive effects for poor countries is "extended cumulation" (Harris 2008). This approach can create flexibility in meeting a variety of rules of origin without changing the rules themselves. This approach allows preference beneficiaries to source inputs from a defined group of countries, the "cumulation zone", and still have the final product be considered eligible for preferential treatment. The key to effectiveness of extended cumulation lies in defining a cumulation zone that is broad enough to permit efficient sourcing.

Currently, most preference-granting countries allow only limited cumulation, bilaterally or within designated regions. The Canadian DFQF scheme for LDCs uses an extended cumulation approach that seems to have been relatively effective in encouraging imports under the program (Anson et al. 2009). Under this rule, LDCs can cumulate imported inputs from Canada or any other developing country beneficiary of Canada's Generalized System of Preferences program, including China, and still have the item recognized as originating in the LDC. In the case of apparel, extended cumulation is equivalent to the single transformation rule, also known as the third-country fabric rule under the AGOA. Under this rule, eligible beneficiaries can import fabric and other inputs from wherever it is most cost-effective to do so.

Extended cumulation should be designed so as not to discourage regional integration in sub-Saharan Africa and to encourage South-South trade liberalization more broadly. The option that would provide the broadest flexibility for LDCs under duty-free, quota-free programs, and do the most to encourage South-South trade, would allow for cumulation of inputs from other LDCs and developing countries, as well as countries with whom the preference-giving country has free trade agreements (Harris 2008).

9 In both cases, there are variations, with regional fabric allowed under some circumstances and exceptions that allow apparel using third-country fabric to remain eligible up to designated ceilings in some programs, as discussed below.

10 Rahman (2014) discusses the impact of the EBA and the change in the rules of origin for Bangladesh.

PREFERENCES ARE NOT A PANACEA

Market access is important, but more than the removal of border barriers and administrative obstacles is needed to ensure that poor countries are able to take advantage of the opportunities offered by trade preference programs. The poorest countries, many of them small, landlocked, and often dependent on agriculture, face an array of other barriers that preference programs cannot directly address. Thus, to make these programs as effective as possible, preference-giving countries should create mechanisms for dialogue and cooperation with LDC beneficiaries to address these other obstacles, including regulatory policies in preference-giving countries that may inhibit trade more than is necessary to serve public purposes; and supply-side challenges in beneficiary countries, ranging from physical infrastructure to policies that raise costs and discourage investment and exports.

Targeted capacity-building assistance for LDCs should also be better coordinated with preference programs. Even with DFQF access and attention to other nontariff barriers, exporters in countries without paved roads, or where red tape and inefficient customs hold up trade for days or weeks, will find it difficult to take advantage of preference programs. Building adequate physical infrastructure in countries without it will take years and billions of dollars, but in many cases trade costs can be significantly lowered with far more modest investments in trade facilitation activities.

As much as possible, this should be done in ways that emphasize mutual accountability and ensure that aid for trade will be as effective as possible, including through the use of results-based aid delivery mechanisms. Unlike some aid that can support the delivery of services—such as education or health—without strong buy-in from the recipient government, aid for trade will only work if there is partner country buy-in. As examples of mechanisms that might be useful for aid for trade and trade facilitation activities are two proposals from the Center for Global Development (CGD). One CGD working group recommended creation of a fund that would reward countries taking verified steps to facilitate business creation and growth and provide additional resources to expedite reform (Moss 2010). The Trade Facilitation Facility at the World Bank might be adapted for this purpose.

Another idea for stimulating private investment in developing countries involves donors helping to underwrite "service guarantees" for businesses (Gelb et al. 2014). These guarantees would be similar to existing investment risk insurance products provided by the US Overseas Private Insurance Corporation or the World Bank's International Finance Corporation, but these guarantees would be available to both local and foreign investors. They might be designed, for example, to cover areas such as customs clearance, licensing, and power supply in export processing zones. By providing some assurance that reforms will be sustainable, these proposals would help draw private investors to Africa and reassure donors that their aid dollars are being used effectively.

CONCLUSION

The WTO ministerial meeting in Nairobi at the end of 2015 offers perhaps the last, best chance to get the US to move on improved market access for all LDCs. As of mid-summer 2015, a successful conclusion of the Trans-Pacific Partnership negotiations was looking increasingly likely, which would put Asian LDCs at a competitive disadvantage in the US, and potentially other markets. That will put pressure on US policymakers to mitigate the negative impact on very poor countries. In addition, with negotiations on other elements of the WTO's work plan again stalling, implementation of additional measures to facilitate global integration by LDCs seems the most likely deliverable in Nairobi. As part of that, China and India should announce further improvements in product coverage under their DFQF initiatives and Brazil should, finally, begin to implement the program it announced years ago.

But as a unique outlier among the advanced countries, the US is the leading laggard in implementing the DFQF initiative. While full DFQF market access for all LDCs should remain the goal, a compromise that expands preferences for Asian LDCs on all but a small number of apparel lines that are important to AGOA exporters would be a useful step forward. If the LDCs Group at the WTO could unite behind such a compromise, it would be difficult for US negotiators to continue to ignore the issue.

Even when product coverage is universal, or nearly so, however, LDCs often confront problems in utilizing preferences because of restrictive rules of origin. Allowing LDCs to incorporate inputs from as broad a "cumulation zone" as possible (for example, all beneficiaries of a country's preference programs plus partners to all bilateral trade agreements) would help them overcome this obstacle. All preference givers, including the emerging markets, should adopt reforms along these lines.

11 See Lammersen (2015) for analysis of—and detailed recommendations for—improving aid for trade.

Trade preferences may be of less value than in the past, but they remain an important tool to address continued discrimination against LDC exports. This is even more the case in a world where regional negotiations—mostly without the involvement of LDCs—are displacing multilateral agreements. Equally important, however, LDC governments and their development partners have to ensure that policies and capacity are in place to ensure that the opportunities provided by market access leads to market entry in practice.

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ANNEX

TABLE 1:

Summary of Key DFQF Programs for LDCs

AGOA = African Growth and Opportunity Act; GSP = Generalized System of Preferences.

** Calculated from data available on the World Trade Organization Preferential Trade Arrangements database, http://ptadb.wto.org/default.aspx.*

*** The Korean scheme was supposed to reach 95 percent of tariff lines in 2012 but the information available on the WTO website suggests that has not yet happened.*

Source: UNCTAD (2009, 2012), Laird (2012).

	Product Coverage* (Exclusions)	Average Applied Tariff on Imports from LDCs, 2010	Flexibility of Rules of Origin	Program Length
EU Everything But Arms	99% (all but arms)	0.9%	High	Indefinite
Canada	99% (all but dairy, eggs, poultry)	0.3%	High	10 years
US AGOA	99% (sugar, dairy, confectionery, peanuts, tobacco, meat)	n.a.	High	10 years
Japan	98% (rice, sugar, fish, leather products)	0.3	Moderate	10 years
South Korea	90%** (mostly agriculture, some manufacturing)	8.8 (prior to expansion of list)	Low	Uncertain
US GSP for LDCs	83% (sensitive agricultural products, textiles, apparel, footwear, etc.)	3.2% (all programs)	Moderate	Usually 1-2 years

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