



# TRADE AND DEVELOPMENT SYMPOSIUM

## Perspectives on the Multilateral Trading System

A Collection of Short Essays

# Breaking the Deadlock on Market Access for Least Developed Countries

By Kimberly Ann Elliott



International Centre for Trade  
and Sustainable Development



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

Federal Department of Economic Affairs FDEA  
State Secretariat for Economic Affairs SECO

When the Doha Development Agenda negotiations were launched in 2001, a key objective was to more fully integrate the poorest and most vulnerable countries in the international trade system. A principal mechanism for achieving that is duty-free, quota-free market access for the UN-designated least-developed countries (LDCs). In recent years, with the broader Doha Round negotiations moribund, duty-free, quota-free (DFQF) market access is seen as an essential element of any early harvest package.

Yet market access under *unilateral* preference programs is generally not bound in multilateral trade agreements and, over the past decade, most rich countries have implemented programs providing full market access for LDCs. Indeed, the commitment by high-income countries to provide DFQF market access originated in the 2000 Millennium Declaration, before the launch of the Doha Round.

World Trade Organization (WTO) members reaffirmed the commitment in 2005 in the Hong Kong ministerial communiqué, but only the United States insists on linking implementation of the initiative to conclusion of the Doha Round. Moreover, the communiqué specifies the proximate objective of the initiative as covering 97 percent of tariff lines, with only a vague commitment to full access at some undefined time in the future. The communiqué also called on developing countries “in a position to do so” to provide improved market access for LDCs and several large emerging markets have taken steps in that direction.

In this brief, I make a pragmatic proposal to encourage the United States to move on the LDC market access initiative by authorizing carefully circumscribed restrictions and only for objectively identified competitive beneficiaries, rather than the three percent across the board exclusions demanded by US negotiators. A compromise along these lines would address US concerns about the effects of DFQF market access, while ensuring that there are meaningful benefits for LDCs. And whatever happens in the United States, the benefits of the DFQF initiative would increase markedly if the large emerging markets move toward open access for LDCs by 2015. Finally, these unilateral moves could also bolster prospects for an early harvest package if the elements are more balanced than earlier proposals. But the gains from DFQF market access should not be held hostage to the Doha Round negotiations.

## Market Access for LDCs: American Constraints and Emerging Market Opportunities

Like other high-income countries, the United States provides enhanced access to LDCs under its Generalized System of Preferences program, but the LDC list of eligible products only covers about 80 percent of tariff lines and it excludes key labor-intensive products, including footwear, textiles, and apparel. The African Growth and Opportunity Act (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. Both programs include 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. For 15 Asian LDCs that are outside these regional arrangements, including Afghanistan, Bangladesh, Cambodia, Nepal, and Yemen, only 0.1 percent of their exports to the United States were eligible for preferential access in 2010.<sup>1</sup>

Moreover, if the United States implements a DFQF market access program in line with the Hong Kong ministerial communiqué, the Asian LDCs that receive little preferential access in practice would see few gains. Research shows that the exclusion of just three percent of tariff lines robs the initiative of any benefit as it would allow US policymakers to maintain protection for sensitive textile and agricultural products (sugar and confectionary, peanuts, and tobacco, among others).<sup>2</sup>

The insistence on limiting coverage to 97 percent of items underscores US policymakers' reluctance to challenge producers in sensitive sectors, particularly textiles and sugar.<sup>3</sup> And this hesitation is neither partisan nor linked to the initial hiatus in US trade policy when President Barack Obama entered office. In addition, the handful of AGOA beneficiaries exporting apparel are concerned that full market access for other LDCs would erode the value of the preferences they receive. Other AGOA beneficiaries that might benefit from a broader program that includes sensitive agricultural products have not been as vocal on the issue.

Whatever the United States does, increased participation in this initiative by the large emerging markets would

1 Kimberly Ann Elliott, 2009, Opening Markets for Poor Countries: Are We There Yet? CGD Working Paper 184. <http://www.cgdev.org/content/publications/detail/1422923/>

2 Bouet, Antoine, David Laborde, Elisa Dienesch, and Kimberly Ann Elliott, 2010, The Costs and Benefits of Duty-Free, Quota-Free Market Access for Poor Countries: Who and What Matters, CGD Working Paper 206. <http://www.cgdev.org/content/publications/detail/1423986/>

3 Textile producers oppose further opening of the US apparel market to protect markets for their products in the Western Hemisphere, where they successfully lobbied for rules of origin in trade agreements that require the use of American textile inputs in apparel exported back to the United States under preferential arrangements. Those producers are concerned that increased imports from Bangladesh and Cambodia will displace imports from Western Hemisphere countries and, thereby, reduce US textile exports. For further discussion of similar issues in the case of Pakistan, see Kimberly Ann Elliott, assisted by Caroline Decker, 2011, Getting Real on Trade with Pakistan: Duty-Free Market Access as Development Policy, CGD Working Paper 241. <http://www.cgdev.org/content/publications/detail/1424821/>

significantly increase the benefits for many LDCs. Turkey implemented a limited version of the European Union's Everything But Arms program as part of its customs union with that region, but it excludes most agricultural products. China and India announced programs after the WTO ministerial meeting in Hong Kong, but China is committed to (eventually) going only to 95 percent product coverage for African LDCs, and India's duty-free access extends to only 85 percent of tariff lines, with tariff reductions on another 9 percent. In December 2009, Brazilian Foreign Minister Celso Amorim announced that Brazil would expand preferential market access for LDCs beginning in 2010 with coverage for 80 percent of tariff lines and phasing in full coverage over four years. As of summer 2011, however, legislation to do so was still under development.<sup>4</sup>

## Breaking the Deadlock on DFQF

The US negotiating position is that it will only implement DFQF market access for LDCs as part of a Doha Round agreement. Since the prospects for an agreement are uncertain at best, the United States should drop this excuse and join the other high-income countries in implementing the initiative as soon as possible. There is no reason to think this would reduce the prospects for an agreement and it might boost efforts to conclude a smaller, early harvest package. Ideally the two things would proceed together and reinforce one another.

The proposal here for breaking the deadlock on DFQF has three parts. The first is a pragmatic proposal aiming to address concerns about the impact of DFQF market access for LDCs on US producers, as well as competing exporters in Africa. The second calls for further improvements in emerging market programs to ensure there are meaningful benefits. If progress is possible on either or both of those fronts, it could provide an opening to salvage something from the Doha Round.

### 2.1 Overcoming US Constraints

American (and African) resistance to providing improved market access for all LDCs is rooted in concerns about potential competition in apparel markets from Bangladesh and Cambodia, but a dozen other poor countries are caught in the stalemate. Even including Bangladesh and Cambodia, US non-oil imports from LDCs are less than one percent of total non-oil imports (table 1). That is slightly more than the share of either Canada or Japan, and less than half the share in the European Union. The LDC share of total Canadian imports did increase sharply after Canada opened its market and adopted a flexible rule of origin for apparel, but it remains well under one percent. A computable general equilibrium trade model of the potential effects of the United States providing full market access to LDCs suggests that the impact on American textile production would be a fall of one-half of one percent.<sup>5</sup>

Overall, the concerns about market access for LDCs seem exaggerated, but, in the spirit of not letting the best be the enemy of the good, some exclusions may be necessary

to blunt political opposition. The first criteria for allowing exclusions should be that they only apply to relatively more competitive exporters. For example, exporters with a market share greater than two percent of US imports at the two-digit tariff level might be considered competitive. In 2010, according to data from the US International Trade Commission, that threshold would have captured the ten or so largest exporters of knit and woven apparel, including Bangladesh and Cambodia, but no other LDCs. Those two are still quite poor countries, however, and they are not competitive in all apparel categories, so they should not be left out entirely, as the exclusion of 300 tariff lines (3 percent of the total in the tariff schedule) would effectively do.

The second criterion for limiting exclusions should be that benefits for exporters above the competitive exporter threshold are restricted only as much as needed to preserve space for other LDCs to compete. Thus, for example, there were four AGOA exporters in 2010 (Kenya, Lesotho, Mauritius, and Swaziland) that accounted for 95 percent of exports to the US (and only Lesotho is an LDC). Analysis of US import data at the detailed, 10 digit level shows that 22 tariff lines account for 70 percent of the exports from those countries, including all of the categories worth more than \$5 million in value. Those same categories account for 40 percent of exports from Bangladesh and Cambodia, but restricting benefits just on those items would still allow more than half of Bangladeshi and Cambodian exports to benefit from duty-free, quota-free treatment. Finally, those categories also account for roughly 40 percent of apparel exports to the United States under the Central American-Dominican Republic free trade agreement, which would cushion any impact on US textile producers exporting to the region.

In addition to apparel, US policymakers face opposition to providing duty-free and quota-free access for sensitive agricultural products, particularly sugar. In the case of tobacco and peanuts, the quantitative restrictions are no longer linked to domestic supply-management programs and thus it cannot be claimed that easing or eliminating those restrictions for LDCs would threaten the support programs for those commodities. With sugar, Malawi and Mozambique have small quotas in the US market, but Zambia has none at all. Moreover, restrictions on products containing sugar or dairy products undermine the incentives for West African cocoa producers to develop processing and downstream manufacturing capacity. The United States should, at a minimum, 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. Even if not fully duty and quota-free, expanded access for these commodities would expand benefits beyond the handful of AGOA beneficiaries exporting apparel.

### 2.2 Promoting South-South Opportunities

According to the United Nations Comtrade database, LDC exports to the United States and European Union grew by a little less than a third from 2005 to 2010 while growing four-fold or better to Brazil, China, and Turkey and by 40 percent to

4 See Elliott, above n 2; for updates on programs, see United Nations Conference on Trade and Development, GSP Newsletter, Number 11, September 2011, UNCTAD/WEB/DITC/TNCD/2011/1.

5 See Elliott, above n 3, at 19.

India. Trade models confirm that the large emerging markets are where the opportunities are, suggesting that the benefits of full DFQF market access would increase three-fold if Brazil, China, India, and Turkey join the industrialized countries in opening their markets to the LDCs. Global imports from LDC were just one percent of the total in 2010 and were generally at that level or less in the large emerging markets, except India where they were 1.3 percent of the total (see table 1).

It is laudable that these countries are implementing programs to expand access for LDCs, but even a small number of exclusions sharply limits the benefits in these markets, just as they do under high-income country programs. African LDC exporters, in particular, would benefit from increased access to the large emerging markets. For example, a general equilibrium trade model suggests that the gains to Ethiopia increase by two-thirds, for Mozambique three-fold and Senegal eight-fold if the large emerging markets join high-income countries in providing DFQF access. As suggested by the small import shares, however, the model also suggests that the impact on import-competing producers would be negligible.<sup>6</sup>

Finally, this analysis shows that the benefits of DFQF market access for the most competitive LDCs, Bangladesh and Cambodia, come overwhelmingly from access to the US market, reinforcing the conclusion that adjustment costs for the emerging markets would be small. There is thus little reason to think that the emerging markets would bear a disproportionate burden in terms of adjustment costs if they provide the leadership that the United States sadly has not.

### 2.3 Interactions between DFQF and a Doha Early Harvest

It is difficult to conceive an early harvest package that does not include the DFQF initiative, but that does not mean that DFQF should be delayed by an agreement that, unfortunately, may never occur. On the other hand, American progress in providing DFQF could provide momentum to negotiations on an early harvest. For that to happen, however, the package will have to include items of interest to all countries, not just the poorest. Trade facilitation is one agenda item generally regarded as a win-win, and at least a short list of environmental goods and services that would see significant tariff cuts is another. Singling out US cotton subsidies for a standstill, however desirable, is a nonstarter while a standstill on *all* agricultural subsidies, including EU export subsidies, would be both more balanced and more useful. Finally, in the spirit of all WTO members contributing something, particularly in areas of core principles, the LDCs should agree to a gradual binding of tariff levels.

## Conclusions

Integrating poor countries more fully into the global economic system is a key objective of the WTO and of the Doha Development Agenda trade negotiations. Duty-free,

quota-free market access for least-developed countries is a key marker for this goal and significant progress towards it has been made over the past decade. The United States is a laggard among high-income countries, however, and the programs introduced in recent years by key emerging markets are welcome in principal, but likely to be limited in their effects because of the limited product coverage.

A pragmatic approach to encouraging movement on DFQF market access by the United States would allow for some restrictions to cushion the impact on current AGOA beneficiaries, while expanding benefits for other African countries and also allowing newly covered Asian LDCs to benefit. In promoting the objective of increased integration for poor countries, the United States should not wait for the Doha Round to (maybe) conclude and the emerging markets should not wait on the United States.

Kimberley Ann Elliot, Centre for Global Development - Senior fellow at the Center for Global Development and the author or co-author of numerous books and articles on trade policy and globalization, with a focus on the political economy of trade and the uses of economic leverage in international negotiations. She chaired the CGD working group that produced the report, *Open Markets for the Poorest Countries: Trade Preferences that Work*. Her most recent book, *Delivering on Doha: Farm Trade and the Poor*, was copublished in July 2006 by CGD and the Peterson Institute for International Economics.

## Acronyms

AGOA	African Growth and Opportunity Act
DFQF	duty-free, quota-free
LDC	least-developed country
WTO	World Trade Organization

Table 1 Trade with LDCs, 2010

Partner	Non-oil Imports from LDCs	
	Value (million dollars)	Share of total (percent)
Canada	841	0.44
EU	15,164	1.32
Japan	1,009	0.33
Korea	543	0.35
United States	7,143	0.58
Brazil	30	0.09
China	1,911	0.83
India	1,766	1.33
Russia	374	0.28
S. Africa	380	0.95
Turkey	264	0.78

Source: UN Comtrade database, online.

7 Ibid. at 14-15.