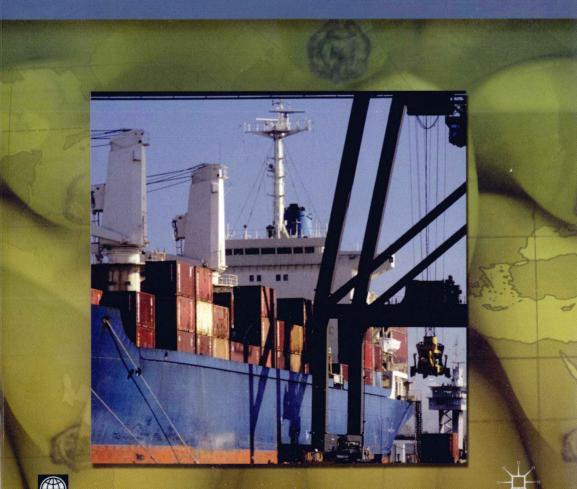
TRADE PREFERENCE EROSION MEASUREMENT AND POLICY RESPONSE

Editors
Bernard Hoekman • Will Martin • Carlos A. Primo Braga



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Edited by Bernard Hoekman, Will Martin, and Carlos A. Primo Braga

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ABBREVIATIONS

ABS Australian Bureau of Statistics ACP African, Caribbean, and Pacific

AGOA African Growth and Opportunity Act (United States)

APEC Asia-Pacific Economic Cooperation
ASEAN Association of Southeast Asian Nations
ATC Agreement on Textiles and Clothing (WTO)
ATPA Andean Trade Preference Act (United States)

AVE ad valorem equivalent

CAMAD Common Analytical Market Access Database

CARIBCAN Caribbean-Canada Trade Agreement

CBERA Caribbean Basin Economic Recovery Act (United States)

CBI Caribbean Basin Initiative

CBTPA Caribbean Basin Trade Partnership Act (United States)

CEPII Centre d'Études Prospectives et d'Informations Internationales

CGE computable general equilibrium CIF cost, insurance, and freight

DC developing country

EAFTA East Asian free trade agreement

EBA Everything but Arms (program) (European Union)

EC European Community

EFTA European Free Trade Association

EU European Union

FIC Forum Island Country FTA free trade agreement

G-20 Group of 20

xvi Abbreviations

GATT General Agreement on Tariffs and Trade

GPT General Preferential Tariff (scheme) (Canada)

GSP Generalized System of Preferences

GSTP Generalized System of Trade Preferences

GTAP Global Trade Analysis Project

HS Harmonized System

HTS Harmonized Tariff Schedule (United States)

IF Integrated Framework for Trade-Related Assistance

IMF International Monetary Fund

LDC least developed country

LDCT Least Developed Country Tariff (scheme) (Canada)

LIX low-income countries excluding India

MAcMap Market Access Map (database)
Mercosur Southern Cone Common Market

MFA Multifiber Arrangement MFN most-favored-nation

NAFTA North American Free Trade Agreement

OECD Organisation for Economic Co-operation and Development

OPT outward processing trade for textiles
SDT special and differential treatment
SRA Special Rule for Apparel (United States)
SRSE special rates for specific economies

SRSE special rates for specific economies
TIM Trade Integration Mechanism

UNCTAD United Nations Conference on Trade and Development

USITC U.S. International Trade Commission

WTO World Trade Organization

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OUANTIFYING THE VALUE OF PREFERENCES AND POTENTIAL EROSION LOSSES

Bernard Hoekman, Will Martin, and Carlos A. Primo Braga

The multilateral trade system rests on the principle of nondiscrimination. The most-favored-nation (MFN) clause embodied in article I of the General Agreement on Tariffs and Trade (GATT) was the defining principle for a system that emerged in the post–World War II era, largely in reaction to the folly of protectionism and managed trade that contributed to the global economic depression of the 1930s. From its origins, however, the GATT has allowed for exemptions from the MFN rule in the case of reciprocal preferential trade agreements. It also permits granting unilateral (nonreciprocal) preferences to developing countries.

Unilateral preferences granted by member countries of the Organisation for Economic Co-operation and Development (OECD) create an inevitable tension between "more preferred" developing countries—typically beneficiaries from pre-existing colonial regimes—and other developing countries with respect to the effects of MFN liberalization by preference-granting countries. Concerns about preference erosion have become one of the key points of debate in the negotiations surrounding the Doha Development Agenda. Similar concerns have arisen in the past. In the 1970s, for example, the effect of Tokyo Round—related liberalization on the benefits derived by developing countries from the Generalized System of Preferences (GSP) was extensively debated (see, for example, Ahmad 1977). Although erosion is a long-standing concern for many developing countries, the scope and coverage of unilateral preferential regimes have in the past few years increased

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significantly, especially for the least developed countries (LDCs). In the past, concerns about erosion were not a particularly strong constraint on MFN-based reforms in the GATT—now the World Trade Organization (WTO)—because GSP programs typically gave a preference and not duty- or quota-free access. Thus, even if MFN rates were lowered, it was possible to maintain a given preference margin by lowering the preferential tariff or by expanding the coverage of the scheme. But new programs such as the European Union (EU) Everything but Arms (EBA) or the U.S. African Growth and Opportunity Act (AGOA) feature duty- and quota-free access for virtually all products and therefore any reductions in MFN tariffs lower the preference margin. It is thus not surprising that preference erosion has attracted a great deal of attention in the current round of WTO multilateral negotiations.

To provide some background for the debate on the potential extent and implications of preference erosion, the chapters in this volume review the value of preferences for beneficiary countries, assess the implications of preference erosion under different global liberalization scenarios, and discuss potential policy responses. One set of chapters focuses on the nonreciprocal preference schemes of individual industrial countries—particularly, Australia, Canada, Japan, the United States, and the member states of the EU. A second set of chapters considers sectoral features of these preference schemes, such as those applying to agricultural and nonagricultural products, and the important arrangements for textiles and clothing. A final set of chapters considers the overall effects of preferences and the options for dealing with preference erosion resulting from nondiscriminatory trade liberalization.

This introductory chapter first briefly discusses the genesis of nonreciprocal preferential trade regimes and describes the mechanics of their operation. It then summarizes the main findings of the contributions to this book and compares and relates those findings to the results of other recent research on preference erosion. It concludes with a discussion of possible policy responses by preferencegranting and preference-receiving countries to erosion losses.

Unilateral, Nonreciprocal Trade Preference Regimes

The rationale for grants of preferential market access to developing countries by industrial countries grew out of the arguments favoring special and differential treatment (SDT) for developing countries. The underlying justification for SDT reflected development thinking in the late 1950s and early 1960s—most notably in work by Raúl Prebisch (1950). This approach was premised on the argument that developing countries had to foster industrial capacity, both to reduce import dependence and to diversify away from traditional commodities that were subject