

# TRADE PREFERENCE EROSION MEASUREMENT AND POLICY RESPONSE

Editors

Bernard Hoekman • Will Martin • Carlos A. Primo Braga



TRADE  
PREFERENCE  
EROSION  
MEASUREMENT AND  
POLICY RESPONSE

*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



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
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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# QUANTIFYING 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



significantly, especially for the least developed countries (LDCs).<sup>1</sup> 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 preference-granting 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