

Low, Patrick; Piermartini, Roberta; Richtering, Jurgén

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## Multilateral solutions to the erosion of non-reciprocal preferences in NAMA

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## **World Trade Organization**

Economic Research and Statistics Division

<b>Multilateral Solutions to the Erosion of Non-Reciprocal Preferences in NAMA</b>
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Name: Patrick Low, Roberta Piermartini  
and Jurgen Richtering,  
WTO

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# Multilateral Solutions to the Erosion of Non-Reciprocal Preferences in NAMA

by

*Patrick Low, Roberta Piermartini and Jurgen Richter\**

## ABSTRACT

This paper analyzes the risks of preference erosion arising from MFN trade liberalization in manufactured products. It focuses on developing countries that receive non-reciprocal preferences in the markets of United States, EU, Japan, Canada and Australia. The paper estimates preference margins as the difference between non-reciprocal preferential rates received by individual countries and the best available (MFN or better-than-MFN) treatment received on average by all other suppliers. Most previous work on this subject has compared the preferential rates for individual countries with MFN rates alone, which the paper found to have the effect of over-stating the margin at risk from erosion following MFN reductions. The paper also considers the effect of less than full utilization of preference margins by beneficiaries, but a lack of data prevented the inclusion of this additional moderating factor relating to erosion risk.

The paper finds that developing countries as a whole do not lose from preference erosion following MFN liberalization, although significant gains and losses underlie the estimate of the average. Almost all least-developed countries either lose from preference erosion or are unaffected by it because their exports are already largely MFN duty-free. A large number of LDCs are in the latter group. The main sectors where preference erosion occurs are textiles, fish and fish products, leather and leather products, electrical machinery and wood and wood products.

As regards trade solutions to preference erosion, options are somewhat limited. Improved utilization rates may help certain countries but certainly do not offer a generalized solution. Limited scope exists for expanding the coverage of preference schemes within the destination markets considered in the paper. Other destination markets might offer some prospect, but these are limited by the fact that the markets studied dominate the trade flows of the beneficiary countries.

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## I. Introduction

For almost forty years, non-reciprocal preference schemes have sought to promote industrialization, increase exports and foster growth in developing countries.<sup>1</sup> Numerous studies have evaluated non-preferential schemes, showing mixed results.<sup>2</sup> The bulk of evidence seems to suggest that while certain countries have benefited from non-reciprocal preferences to a significant degree, others have not. One factor explaining attenuated benefits from preferences is limited supply response capacity in the beneficiary countries. Other factors are intrinsic to the preference schemes themselves. These include product exclusions where export potential exists, country exclusions on a variety of economic and non-economic grounds, restrictive rules of origin that require higher than existing levels of manufacturing activity in preference-receiving countries, and administrative costs incurred in gaining access to the schemes.

These limitations clearly do not debilitate current preference schemes to such a degree that beneficiaries view the potential erosion of preference margins in the Doha negotiations with equanimity. On the contrary, in both the negotiations on agriculture and non-agricultural market access (NAMA), we have witnessed a concerted effort to ensure that preference erosion is addressed. Several proposals have been made in NAMA,<sup>3</sup> mostly by ACP Member States and least-developed countries. These suggestions build upon a number of texts associated with the negotiations, including the Doha Declaration and various iterations of negotiating mandates or understandings in NAMA. For example, Paragraph 16 of Annex B of the General Council Decision of 1 August 2004, refers to the "particular needs that may arise for the Members concerned due to the challenges that may be faced by non-reciprocal preference beneficiary Members." Broadly speaking, four different approaches have been proposed. One of them is to extend existing preference schemes.<sup>4</sup> Another is to improve the scope for utilizing existing preferences. A third approach is to mitigate the product coverage or pace of MFN liberalization,<sup>5</sup> and a fourth calls for compensatory action.<sup>6</sup> In agriculture, much the same

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<sup>1</sup> See Resolution 21(ii) of UNCTAD II (1968) for the rationale of preferences.

<sup>2</sup> For instance, Murray (1977), Borrmann, Borrmann and Steger (1981), OECD (1983), Sapir and Lundberg (1984), Karsenty and Laird (1986), Brown (1987), Brown (1989), UNCTAD (1999), Ozden and Reinhardt (2003), OECD (2003), WTO (2004), Grossman and Sykes (2005).

<sup>3</sup> See, for example, TN/MA/W/21, TN/MA/W/22, TN/MA/W/27, TN/MA/W/30, TN/MA/W/31, TN/MA/W/34, TN/MA/W/38, TN/MA/W/39, TN/MA/W/47 and TN/MA/W/53, all of which are available on the WTO website.

<sup>4</sup> An example of this approach is the submission by Bangladesh on behalf of the least-developed countries (LDCs), TN/MA/W/22 of 8 January, 2003. This submission calls for improvements in existing preference schemes so as to ensure duty-free and quota-free access for all LDC exports and also proposes that other developing countries develop non-preferential preference schemes.

<sup>5</sup> Mauritius, for example, proposes maintaining MFN tariffs above certain levels on a limited range of products (TN/MA/W/21/Add. 1, 15 July, 2003). Papua New Guinea suggests that MFN tariff reductions on goods of "vital importance" be implemented over twice the length of time decided for all other products and that implementation of reductions on the former group of products only commence after three years (TN/MA/W/39, 2 July, 2003). A submission by Benin on behalf of the ACP States develops a vulnerability index to determine

reasoning applies as in the case of NAMA. However, Paragraph 44 of Annex A of the 1 August 2004 Decision makes a cross reference to Paragraph 16 of the Harbinson text (TN/AG/W/1/Rev.1 of 18 March, 2003). The Harbinson text proposes an arrangement that would slow down the pace of MFN liberalization for "tariff reductions affecting long-standing preferences in respect of products which are of vital export importance for developing country beneficiaries..".

Some Members harbour strong reservations about any suggestion of tampering with the content or pace of MFN liberalization. However, demands for such action to avoid preference erosion are not new, even if the intensity of the debate in the current negotiations is unprecedented. In the Tokyo Round, for example, Brazil put a proposal on the table calling for MFN tariff-cutting exemptions to preserve certain preferential margins, as well as arrangements for improving and extending the Generalized System of Preferences (GSP).<sup>7</sup> The option of moderating MFN liberalization on the altar of avoiding preference erosion is not popular with countries for whom non-reciprocal preferences are limited or non-existent. But considering the negotiating positions that have been taken by the ACP states, the LDCs, and others, it certainly cannot be said that this option is off the table.

This paper will focus on trade solutions other than arresting MFN liberalization to mitigate preference erosion, notably through improving the content and workings of existing schemes, extending the product coverage of preference schemes, and increasing the geographical spread of such arrangements. An important point to note at the outset, however, is that any "compensatory" trade solutions to preference erosion are inevitably temporary unless existing levels of market access are frozen and trade liberalization is permanently halted.<sup>8</sup> Since the latter prospect is inconceivable in practical terms, whether as a consequence of continuing MFN liberalization or the extension of reciprocal preferences through regional trade agreements, the basic objective in guarding against preference erosion is to smooth and draw out a process of adjustment.

Following some preliminary observations about the trade and welfare effects of preferences and preference erosion (Section II), we first describe the approach adopted in the paper to measure preference erosion (Section III) and then provide the baseline data (Section IV). Based on tariff line

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which products should be treated differently in terms of MFN liberalization. The index captures a country's degree of reliance on preferences, the extent of dependency on a few products and a few markets, and the size of an exporter in relation to world trade. Vulnerability according to the index would then lead to the inclusion of a correction coefficient in the overall tariff reduction formula agreed in the negotiations (TN/MA/W/53, 11 March, 2005).

<sup>6</sup> A submission by Ghana, Kenya, Nigeria, Tanzania, Uganda, Zambia and Zimbabwe, for example, calls for "a procedure for establishing measures and mechanisms to deal with erosion of preferences, with the aim of avoiding or offsetting this problem or compensating the affected Members" (TN/MA/W/27, 18 February, 2003).

<sup>7</sup> Document MTN/W/2, 26 October, 1973. We are grateful to Roy Santana for pointing this out.

<sup>8</sup> Other mitigating action to compensate for preference erosion, such as financial compensation, is not intrinsically limited in this manner.

level data, we establish "theoretical maxima" estimates of preference erosion. The theoretical maximum is taken to be the trade weighted difference between MFN duties and preferential duties. This estimate is then subject to an adjustment factor. The adjustment recognizes that from the point of view of a non-reciprocal preference beneficiary, competing trade from other preference receivers – of both non-reciprocal and reciprocal preferences – does not face MFN tariff rates. When this competition from other geographical sources is taken into account, including from exporters that have regional trade agreements with preference-giving countries, it is apparent that risks from preference erosion are lower than if the relevant comparison is made simply in respect of MFN trade. We would have liked to apply a second adjustment factor relating to preference utilization for the QUAD plus Australia market. Unfortunately we were unable to obtain sufficient data to make this adjustment except in the case of the United States. Where non-reciprocal preferences have not been fully utilized for one reason or another, an exporter is effectively at less risk from preference erosion as a consequence of MFN liberalization. In order to focus on the value of non-reciprocal preferences, estimates are reported only for those developing countries that receive non-reciprocal preferences from at least one of the QUAD countries or Australia. In other words, developing countries involved in reciprocal preferential trading arrangements with these countries in 2003 are excluded.<sup>9</sup>

After providing these base-line estimates of adjusted risk from preference erosion, we make a simple simulation of a non-linear MFN tariff cut in order to provide a sense of what such a scenario of MFN liberalization would mean by way of preference erosion among recipients of non-reciprocal preferences (Section V). We only simulate a tariff cut in NAMA, on the grounds that we do not possess enough knowledge about possible tariff-cutting formulae in agriculture. Our simulation is for a Swiss formula cut with a coefficient of 10 for the Quad (United States, EU, Japan and Canada) plus Australia. This exercise is strictly illustrative and the choice of a particular MFN reduction scenario does not claim to bear any relation to what may eventually be decided, nor does it imply any judgement on our part as to the desirable outcome of the NAMA negotiations. Moreover, we do not apply any simulation techniques in order to estimate the possible trade or welfare outcomes arising from MFN liberalization and the resulting erosion of preferences. On the basis of our simplified calculations, we provide an indication of which countries and which product categories in those countries are seemingly the most vulnerable to preference erosion.

Section VI of the paper considers trade policy actions that could ameliorate preference erosion. It contains three subsections, each dealing with a particular facet of possible solutions. The first of these

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<sup>9</sup> For the developing countries that benefit from both reciprocal and non-reciprocal preference we cannot distinguish between the impact of MFN liberalization on the erosion of reciprocal preferences and that on the erosion of non-reciprocal preferences. These excluded countries are: Romania, Bulgaria, Turkey, Morocco, Mexico, Former Republic of Macedonia, Croatia, Jordan, Chile, South Africa, Israel, Tunisia, Costa Rica, Singapore, Fiji and Papua New Guinea.

is concerned with how far improvements in preference utilization rates could help in lessening the impact of preference erosion from MFN liberalization. This discussion is severely hampered by the paucity of comprehensive data on utilization rates. The second subsection considers the scope that may exist for softening the consequences of preference erosion through the extension of the coverage of non-reciprocal preferential trade arrangements. This analysis is conducted in relation to the Quad plus Australia, the importers that have been analyzed as preference-givers in the rest of the paper. The third subsection considers briefly the extent to which the effects of preference erosion may be mitigated through the development of preference arrangements by importers other than the Quad plus Australia. Most of the analysis in Section VI refers back to the base data in Section IV and the simulation in Section V. Section VII concludes.

Two observations about the limitations of the analysis are in order. First, we have not attempted to simulate the possible effects of changes in relative prices (from MFN liberalization) on supply and demand. This could obviously be done with a general equilibrium model or with a partial equilibrium elasticity analysis, but we limit ourselves at this stage to a simple comparison of what happens to the estimated value of preferences at the country level when MFN tariff rates are cut, with everything else staying the same. Second, because the estimates for this paper are all built on existing trade flows, we have no way of knowing whether a reduction in preference margins might be compensated by trade in product lines against which zero trade has been recorded in our data set.

## **II. Some theoretical considerations**

This Section describes the consequences for preference receivers and third parties of a change in a preference margin.<sup>10</sup> It explains what determines the value of a preference from the point of view of preference receivers and their ability to benefit from preferences. In particular, the discussion draws distinctions between the concept of preference erosion and the welfare consequences of a change in a preference margin.

### **a) The effects of a preferential tariff**

When exporters in one country are granted preferential trade treatment they may export more to the preference-giving country than they could have under MFN tariffs. Trade preferences may improve market access and stimulate diversification toward a broader range of exports. In the longer term,

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<sup>10</sup> We do not examine the implications of preferences from the perspective of preference-giving countries.

enhanced market access may foster export-driven economic development.<sup>11</sup> Ideally, the trade opportunities afforded by preferential access would trigger trade performance that would be sustainable under fully competitive trade conditions among all suppliers.<sup>12</sup> On the other hand, preferences may prove somewhat disadvantageous or more costly than anticipated for beneficiary countries. Preferences may encourage an inefficient allocation of resources by fostering specialization in sectors where the preference receiving country does not have a comparative advantage. Preferences may entail administrative burdens associated with origin requirements. The rules of origin may also require that inputs are sourced from higher cost suppliers (Krueger, 1993; Krishna and Krueger, 1995). Moreover, preferences are sometimes linked to the adoption of labour and intellectual property standards that can be costly (Bhagwati, 2002). In the longer term, preferences may create a disincentive for trade liberalization (Ozden and Reinhardt, 2002).

Let us turn briefly to the basic analytics of tariff preferences. The simplest framework for this purpose is a partial equilibrium model of three countries and one traded good. One country (country A) grants a preference on a given imported product, one developing country benefits from the preference (country B) and another country or the rest of the world (W) faces the MFN tariff rate. In the first instance we assume that irrespective of any changes in the demand for imports in A, the rest of the world supplies the good at a fixed price,<sup>13</sup> while country B supplies more of the good at higher prices.

Suppose a situation where W is the most efficient producer of the product in question, while country A is less efficient. Suppose also that with no preference, country A imports from both B and W at a fixed price. The introduction of the preference shifts relative prices in favour of the good produced in country B. The demand for imports in country A will shift from W to country B. The preference constitutes a transfer from country A (through tariff revenue losses) and W (through loss of exports) to country B.

The diversion of imports in country A from the globally most efficient producers (W) to imports from country B (less efficient) induces a negative allocative efficiency effect. In country B, the price received by exporters will increase by the preference margin (the difference between the MFN and the preferential rate) and, as a consequence, the supply of exports will increase. The extent to which exports increase will depend on the responsiveness of country B's export supply to the price change (export supply elasticity). The higher this elasticity, the larger the trade effects will be and therefore the larger the gains.

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<sup>11</sup> See, for example, the experience of Mauritius in Subramanian and Roy (2002).

<sup>12</sup> For a review of relevant literature see Langhammer and Sapir (1987) and Tangermann (2002).



Let us now turn to the impact of a preference on non-beneficiary countries (W). Because of the preferential treatment of imports from country B, W's exports to country A will become relatively more expensive. Demand for W's production will decrease and their exports will be replaced by country A's imports from country B. Producers in W will lose.

It is important to highlight that these effects depend on a number of assumptions, such as that the preference-receiving country is not the most efficient producer of the good for which a preference is provided and that the initial MFN rate is not prohibitive. If a preference to a developing country falls on a good that the latter country can export efficiently once the import barrier is reduced, and a new market is thereby opened up to trade (where tariff barriers, for example, were previously prohibitive), no trade diversion from the rest of the world would occur.

To sum up, on the basis of the simplest analytical framework, preferences result in a transfer from the producers of the preferred good and the government in the country granting the preference to the producers in the preference receiving country. Preferences might also divert trade from non-beneficiary countries, thus lowering non-beneficiary countries' welfare. However, if preferences open up a new market or the beneficiary country is globally efficient, non-beneficiary countries will not necessarily suffer a welfare loss.

#### **b) Does preference erosion imply welfare losses for the beneficiary countries ?**

So far, we have looked at what happens when a country introduces a preference, both from the point of view of the beneficiary country and of other countries supplying the preference-giving country. Now we consider a situation in which a preference margin is eroded, either through a modification of the preferential conditions of access or as a result of MFN liberalization. Using the same simple framework as above, the erosion of country B's preference margin will reduce B's competitive advantage, leading to reduced exports to Country A and lower welfare for exporters in country B. At the same time those countries (W) that did not receive the preference but are more efficient than Country B are better off, since they gain market in Country A. The trade-diverting effect of Country B's preference in Country A will be reduced.

On the basis of this simple analysis it might seem appropriate to associate preference erosion directly with a welfare loss, as there is a clear relationship between the two – the greater the erosion of preferences, the larger the welfare losses for exporters in beneficiary countries. However, this is only

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<sup>13</sup> Infinitely elastic export supply from the rest of the world

one of the possible outcomes of preference erosion. Various alternative outcomes arise when the issue of preference erosion is analysed in the context of more complex economic frameworks. An alternative plausible situation is one in which following MFN liberalization, domestic prices in country A go down by less than the reduction of the MFN tariff, implying a smaller loss for Country B or even a gain.<sup>14</sup> A possible reason for this is that the increase in the demand for the good in country A is so large that the world price of the good increases.<sup>15</sup> Another possible reason might be that imperfect competition amongst importing firms in A may impede a full price transmission of a fall in the tariff.

It is possible to think of situations where preference erosion arising from MFN liberalization does not lead to negative welfare consequences for preference receiving countries, even abstracting from terms-of-trade effects. The simplest case is one where exports of a given product from a preference receiving country to a preference giving country occur both at the preferential and the MFN rate.

Suppose, for example, that different exporters of the same product face different costs in actually utilizing a preference. Since producers use different technologies, it may be convenient for some to use the preference and satisfy the requirements, while the origin rules may make it less convenient for others.<sup>16</sup> In this situation the reduction of the MFN rate will benefit those exporters subject to the MFN rate. These benefits may outweigh the losses of those who receive the preference. It can be argued that the lower the share of preferential trade in relation to MFN trade in a product, the more likely it is that overall, exporters gain from MFN liberalization notwithstanding the erosion of their preferences. The trade-off between gains from MFN and losses from preference erosion will also depend on whether something can be done to make it easier to take advantage of preferences (e.g. modified rules of origin).

To sum up, although preference erosion in general is associated with a welfare loss, it is worth stressing that there may not be a monotonic relationship between changes in preference margins and welfare effects in beneficiary countries. The assessment of the welfare implications of MFN liberalization on preference receiving countries following the erosion of preference margins is not

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<sup>14</sup> It is possible that although Country B's preference margin declines following MFN liberalization, the price received by exporters in country B still rises, and exports and welfare increase. The likelihood of this happening depends on the original margin of preference and on the responsiveness of export supply and import demand. In particular, the price received by the preferred exporter will be higher the higher the responsiveness of demand for imports in country A to a variation of domestic prices (import demand elasticity) and the lower the responsiveness of the export supply from the rest of the world to export price variations.

<sup>15</sup> This can be the case when A is a "large" country. Also, in terms of the analytical framework, the assumption of a perfectly elastic supply curve from the rest of the world needs to be relaxed. Rather than a flat supply curve the supply curve from the rest of the world would be, in this case, positively sloped.

<sup>16</sup> The theoretical model for this is one with heterogeneous firms, like in Melitz (2003).

always straightforward, including when looking at one single market.<sup>17</sup> For example, preference erosion may not imply welfare losses for the preference receiving country if the country benefit of large positive terms-of-trade effects or if exporters were, to a large extent, not using the preferences.

### **III. Preference margin: which measure?**

In this section we discuss the limitations of the traditional measures for the value of preferences. Then we describe the measures of preference erosion used in this paper and provide the rationale for them. Finally, we alert the reader to certain interpretation issues in relation to the data on preference erosion.

#### **(a) Traditional measures of the value of the preference**

Theory shows that in the simplest framework there is a direct link between the extent of a preference and the potential gains for a beneficiary country. Therefore, as a first approximation, the value of the preference for the preference receiving country is often measured by the *preference margin*. At the tariff line, this is simply the difference in percentage points between the MFN and the preferential tariff rate.

The preference margin has a number of limitations as a measure of the value of a preference. One is that it ignores the question whether the advantage given to the preference receiving country effectively helps the latter to export to the preference giving country. For example, if the MFN rate is set at a prohibitive level, a comparably high margin of preference may not be sufficient to allow any trade in that sector. Similarly, preferences given in sectors where the receiving country is very inefficient may not be sufficient to trigger exports. In addition, tariff rate quotas may significantly limit the actual preference margin, as preferences are limited to a certain quantity of exports while the calculation of the preference margin or preference erosion refers to the beneficiary country's overall exports.

In order to account for bilateral trade, we calculate the trade-weighted value of the preference margin as the value of the preference. This is defined as the preference margin per unit of imports multiplied by the bilateral import value.

This measure of the value of the preference still neglects two important issues. First, it is based on the assumption that MFN rates are applied to the trade of all other countries supplying the same market. In reality, numerous and overlapping regional trade agreements exist around the world, so the MFN

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<sup>17</sup> The assessment of the welfare impact of the preference erosion becomes even more complex when other markets are taken into account. For example, preference erosion in one market may prove to be positive for the

rate does not provide an appropriate basis for calculating the preference margin. Moreover, the value of a preference to one country will in practice depend on how many other countries are competing in the same market with a preferential margin. For example, Ozden and Sharma (2004) show that apparel producers from the Caribbean Basin Initiative countries received less benefit in the US market after NAFTA was formed because of competition from Mexico.

Second, the weighted preference margin is also based on the assumption that preferences are utilized for all exports, while in practice the utilization rates vary significantly both across countries and sectors. Utilization rates, defined as the ratio between imports actually receiving a preference and imports covered by the preferential agreement, can be significantly less than 100 per cent.

### **(b) Adjusted measures of the value of the preference**

In this paper, we adjust the value of the preference margin for the *de facto* erosion of preferences due to the existence of other exporters benefiting from the same preferential scheme and other non-reciprocal and reciprocal preferences. A "corrected" preference margin is calculated as the percentage point difference between the weighted average tariff rate applied to the rest of the world and the preferential rate applied to the beneficiary country, where weights are represented by trade shares in the preference granting market (hereafter, we will refer to this measure as the *competition-adjusted preference margin*). The idea for this adjustment follows from the result of Anderson and van Wincoop (2004), which emphasizes that bilateral imports depend on bilateral barriers to trade relative to the rest of the world. A second measure adjusts the preference margin for the rate of preference utilization (the *utilization-adjusted preference margin*). That is, the preference margin is weighted by the volume of trade that actually benefits from the preference. We could only make this calculation for the United States because of data deficiencies.

The computation of our adjusted measures of the value of the preference requires information about MFN and preferential rates and the volume of trade by type of market access. For example, assume that the tariff profile and trade pattern of a country, Country A, is that portrayed in Table 1. Country A provides preferential access to Country B, but also has in place a number of other preferential agreements with countries in the rest of the world. Country B's preference margin calculated as the simple difference between the MFN and the preferential rate would be  $10-5=5$ . The competition-adjusted preference margin would instead be the (cross-country) trade-weighted average rate applied to the rest of the world and the preferential rate, that is  $7.5-5=2.5$ . Moreover, if it is known that

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beneficiary country as a whole if preferences encouraged an inefficient allocation of resources by fostering specialization in sectors where the preference receiving country does not have a comparative advantage.

Country B utilizes its preference only for half of its trade with Country A, then the utilization weighted duty for Country B would be 7.5 and the actual preference margin would be equal to zero.

**Table 1: Access provided by a hypothetical country A**

<b>Trading Partner by Type of Market Access</b>	<b>Duty Rate (per cent)</b>	<b>Trade Values</b>	<b>Weighted Duty (per cent)</b>
<b>Country B</b>			<b>5</b>
Preferential	5	10	
<b>Rest of the World</b>			<b>7.5</b>
MFN	10	60	
Preferential	5	30	
FTA	0	10	

Despite the adjustment, these estimates remain a very rough approximation of the actual value of a preference for the beneficiary country. One reason for this is that it cannot be safely assumed that the benefits of preferences accrue fully to the exporting country. The scarcity "rent" from preferences is usually shared in some measure by both exporters and importers. The distribution of the rent will depend on relative bargaining power in the market and on the strategic responses of third parties. The volume of trade and the preference margin do not provide information on the distribution of rents generated by tariff preferences. Actual gains from preferences enjoyed by exporters may be lessened if monopsonistic distributors are operating in the importing market, or if third parties not receiving preferences strategically cut their prices.<sup>18</sup> Ozden and Olarreaga (2005) find that African exporters of clothing to the United States under AGOA capture only one third of the available rent. Recent studies have also highlighted how rules of origin can play a significant role in the distribution of the rent from preferences. Cadot et al. (2005) argue, for example, that the preferential tariff is the price to be paid for Mexican assemblers to acquiesce to a rule of origin that forces them to buy US intermediate goods.

### **(c) Unresolved issues on the measure of preference erosion**

<sup>18</sup> This requires imperfect market conditions.

Preference erosion is calculated as the difference of the value of the preference before and after MFN liberalization. In the analysis that follows we calculate preference erosion on the basis of both the unadjusted and the adjusted measure of preference erosion.

Despite being based on a more realistic measure of the value of the preference, certain limitations of these measures of preference erosion need to be taken into account when interpreting the results. One relates to the likelihood that a reduction in preference margin will also be reflected in a reduction in export volume. Since the common measure for preference erosion is calculated using a fixed value of exports, this may underestimate the real extent of erosion. Moreover, the analysis should not only be limited to existing suppliers – new entrants may appear in the market following MFN liberalization and affect the conditions of competition. Ideally, the quantification of potential preference erosion should be conducted in the context of a general equilibrium model that includes information at the tariff line level on the responsiveness of demand and supply to price variations (including all cross-product linkages).

A second limitation relates to utilization rates. Even if utilization were taken into account, preference erosion is calculated assuming that utilization rates are unaffected by MFN liberalization. However, the erosion of the preference margin may affect an exporter's decision whether to utilize a preference. Candau et al. (2004) find, for example, that the utilization of preferences in the European Union is lower when the preference margin is low, which they interpret as evidence of significant compliance costs. This seems to suggest that a reduction of the preference margin following MFN liberalization might have a negative impact on the utilization rate, thus further increasing the extent of the preference erosion relative to that measured assuming no relationship between preferential margins and utilization.

A third limitation relates to the fact that in adjusting estimates of non-reciprocal preference margins by allowing for other preferential trade arrangements, it may be erroneously assumed that the latter preferences are fully utilized when this is not the case. Under regional free trade agreements (FTAs), for example, traders may not take advantage of the right to sell into a partner market duty free because of restrictions on rules of origin or high administrative costs involved in securing FTA treatment relative to the cost of paying the MFN tariff. This is exactly the same utilization issue that applies in the case of non-reciprocal preferential trade, and should be treated comparably in estimating the true value of preferences and risk from preference erosion.

#### **IV. The value of non-reciprocal preferences: setting the scene**

This section introduces the basic data used to calculate the value of non-reciprocal preferences, adjusted for non-MFN trade and in the case of the United States for less than full preference utilization. These data include information on the relative importance of preferential and non-preferential trade, both from the point of view of the preference giver and beneficiary country. This makes it possible to set the scene for considering the scope for additional non-reciprocal preferences later in the paper. It also allows us to gauge how far potential preference erosion poses a threat to beneficiary countries, depending on the degree of MFN liberalization that occurs. A specific MFN liberalization scenario is developed in Section V.

The data presented in this section refer to selected country examples. Detailed information about all countries that benefit from non-reciprocal preferences only are reported in different sets of tabulations included as annexes to the paper. Information on data sources, the list of preferential schemes covered in data base and guidelines to Annex Tables are reported in the Appendix.

##### Preferential Schemes by providers

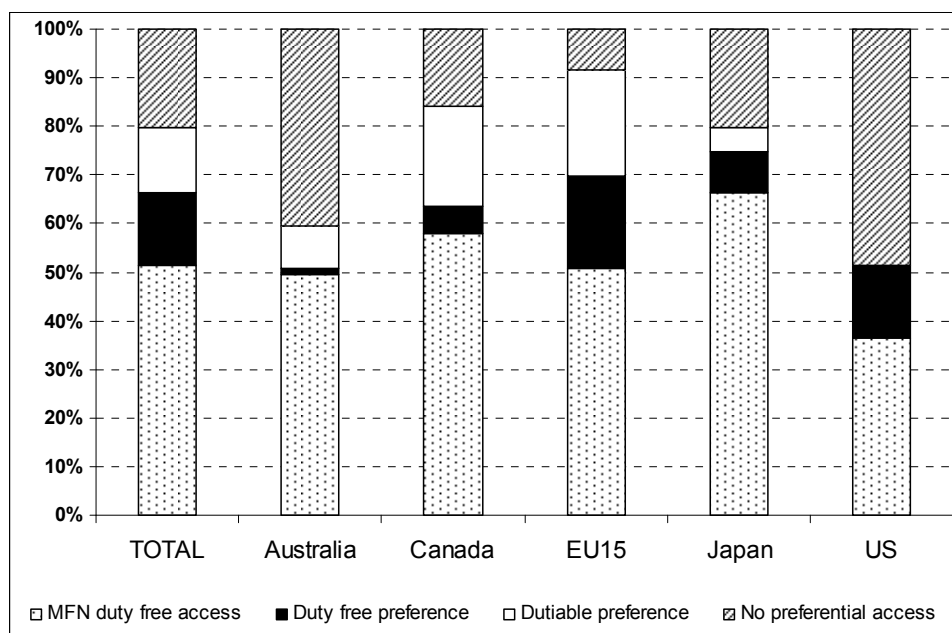
We first focus on the various non-reciprocal preferential schemes offered by the Quad (Canada, EU, Japan and United States) plus Australia. Chart 1 and Chart 2 show import shares for each of the five preference giving countries by type of market access under the GSP and the various LDC schemes, respectively.<sup>19</sup> Chart 1 shows that a large share (nearly 70 per cent) of QUAD plus Australia imports from beneficiaries of GSP enter their markets duty free (either MFN or preferential). The percentage of dutiable imports (paying either MFN or preferential duty) under the GSP scheme varies across preference giving countries, ranging between approximately 50 per cent (for the US and Australia) and about 23 per cent (for Japan). The comparison between the LDC schemes and the GSP schemes shows that a much larger percentage of imports under the LDC schemes enter the preference-giving countries duty free. In the case of Australia, Canada and the EU, all imports entering under LDC preferences are duty free. In addition, Table A1 shows that nearly all imports entering under AGOA or ACP preferences, for example, for the US and EU, respectively, are duty free.

If one looks at the data in terms of possible trade solutions to preference erosion, this means that there is no margin of manoeuvre to compensate for the erosion of preferences by either introducing new preferences or reducing the preferential rate.

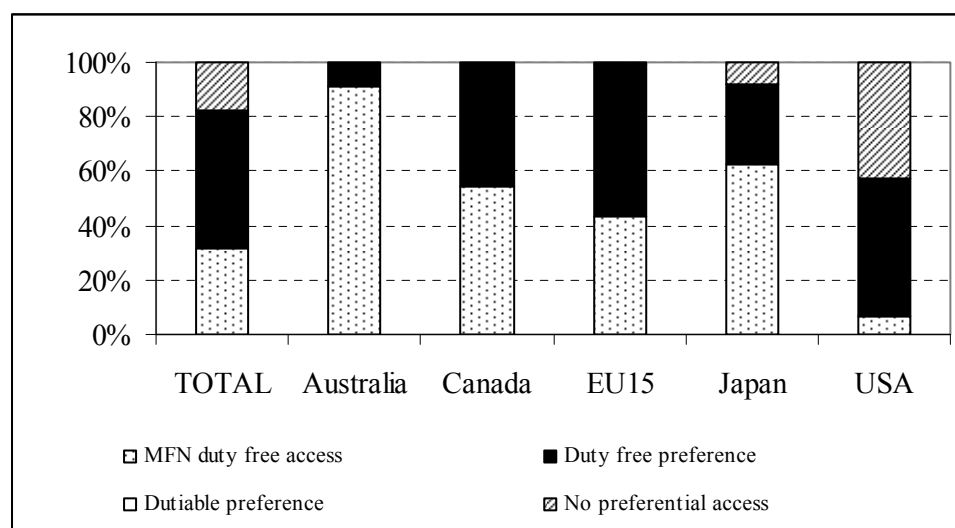
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<sup>19</sup> Table A1 in the annexes provides detailed information on GSP, least-developed country (LDC) schemes, and other selected individual non-reciprocal schemes for each of the five preference-giving markets, both in terms of imports and tariff lines.

**Chart 1: Imports under the GSP scheme by type of market access**



**Chart 2: Imports under LDCs preferences by type of market access**



A similar picture arises from tariff line information. Table 2 reports data on the percentage of tariff lines that either attract a positive MFN rate with no preferences or enjoy preferences but at a positive rate under both the GSP and the LDC schemes for each of the five preference-giving countries. In addition, for the EU and the US, the percentage of remaining tariff lines and the corresponding percentage of imports where there may be further scope to introduce preferences are reported for the



ACP and the AGOA schemes respectively. Overall, the data show that the scope to extend preferences in order to compensate for preference erosion is very limited, especially under some schemes.

**Table 2: Scope to extend preferences**  
(percentage)

	GSP		LDC		Other Schemes	
	tariff lines	imports	tariff lines	imports	tariff lines	imports
Australia	53.3	50.2	0.0	0.0		
Canada	32.1	37.7	0.0	0.0		
EU-15	32.7	28.1	1.2	0.1	0.9	3.5
USA	31.6	50.4	18.8	44.1	11.0	0.5
Japan	34.2	23.0	5.5	8.6		

Note: Other Schemes refer to the ACP scheme for the EU and the AGOA scheme for the US.

### Importance of preferences by beneficiaries

We now look at preferences from the point of view of beneficiary countries. The importance of preferences for preference beneficiary countries and their vulnerability to preference erosion will depend on their dependence on preferences and the value of the preference.

In order to provide an overall picture of the importance of preferences for beneficiary countries, Table 3 reports overall percentages for developing countries and LDC exports by type of market access to the QUAD and Australia and the average value of preferences (measured both according to the traditional unadjusted measure of preference margins and the competition-adjusted measure<sup>20</sup>). While developing countries enjoy a higher share of duty-free trade (52.1 per cent) than least developed countries (20.2 per cent), a much larger share of least-developed country trade benefits from preferences (61.2 per cent compared to 15.9 per cent for developing countries). The average preference margin for LDCs in the QUAD plus Australia drops from 6.4 to 1.6 when competition from other countries benefiting from preferences is taken into account. Moreover the equivalent preference margin for the developing countries that only benefit from non-reciprocal preferences as a

<sup>20</sup> See Section III for the definition of the competition-adjusted preference margin and a discussion on alternative measures for the value of preferences.

whole is negative. This means that at least some developing countries face market conditions worse than their trade competitors.<sup>21</sup> As noted earlier, for data reasons, we cannot provide the figures for the utilization-adjusted preference margins except in the case of the United States..

**Table 3: The value of preferences: non-agricultural products, 2003**  
(percentage)

	<b>Exports to the QUAD plus Australia</b>				
	<b>MFN-duty free</b>	<b>MFN dutiable</b>	<b>Preferential</b>	<b>Preference Margin</b>	
				Un- adjusted	Competition- Adjusted
<b>Developing countries</b>	52.1	31.8	15.9	0.7	-0.5
<b>LDCs</b>	20.2	18.3	61.2	6.4	1.6

The percentage of exports that enjoy preferences in the QUAD plus Australia markets (see Table A2, columns [2]-[4]) and preference margins (see Table A3) are very different across individual countries.<sup>22</sup> For some countries, such as Lesotho, Mozambique, Haiti, Chad, Malawi, Madagascar, Guatemala, El Salvador, Mauritius and Senegal, preferential schemes (including both a non-reciprocal and reciprocal preferential schemes) cover over 90 per cent of their total exports. For other developing countries, preferential trade is not a significant share of their trade with the QUAD and Australia. Among these countries are Botswana and the Central African Republic (with a share of preferential trade below 5 per cent).<sup>23</sup> Similarly, the estimated figures for the average (unadjusted) preference margin that developing countries enjoy when exporting to QUAD plus Australia range between zero in the case of some developing countries such as Nigeria, Angola, Congo and Botswana, to name only a few, and as much as 19 percentage points for Lesotho and Malawi.

<sup>21</sup> Recall that the adjustment for competition is made considering all competitors in the same markets, thus including countries that benefit from reciprocal preferences.

<sup>22</sup> Table A2 in the annexes report data on the percentage of exports to the QUAD plus Australia that benefit from preferential access or MFN treatment by each individual exporting developing country (beneficiary of exclusively non-reciprocal preferences) or LDCs. In addition, Table A2 reports for the same set of countries data on how diversified their exports are (this is measured by the percentage of tariff lines on which they export). The figures for the value of the preferences, including the adjustment for competition, for each individual country are reported in Table A3. Note that the overall figures for developing countries refer to all developing country members of WTO.

<sup>23</sup> Individual data can be found in column [4] of Table A2 in the annexes.

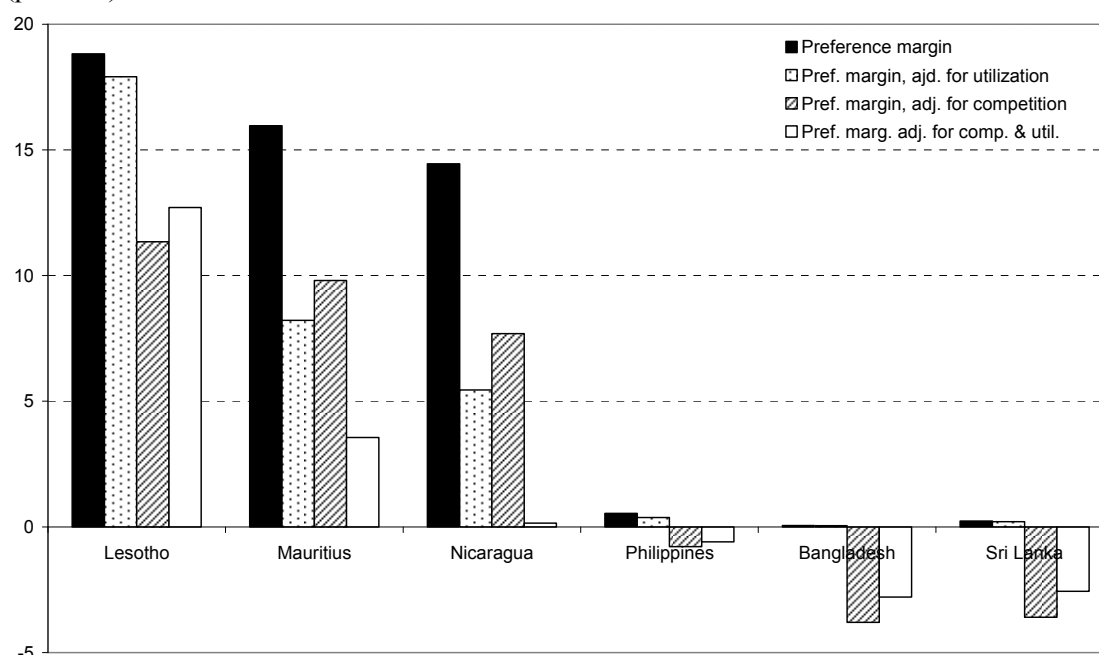
It is interesting to note that nine of the ten countries named above whose preferential trade represents over 90 per cent of total exports (this only exclude Chad), also appear among the countries enjoying the highest preference margins from the QUAD plus Australia, whether adjusted for competition or not (see Table A3, columns [7] and [1] respectively). In addition, these ten countries appear to have a very narrow export base (see Table A2, columns [5]-[7]). They export a range of products covering no more than 3 per cent of tariff lines. And some of them (e.g. Lesotho, Malawi, Mozambique) hardly export at all at the MFN rate. If one considers a trade solution to preference erosion, the extent of coverage of preferences for the products exported by these countries, the large margin of preference, and the low degree of diversification of their exports (especially for those products not covered by preferences) seem to suggest that for these countries there is not much scope for a trade solution.

Estimates of the value of preferences are very sensitive to the specific measure used for the calculations. For example, Chart 4 shows the value of preferences for non-agricultural products exports to the US as estimated using four alternative measures: the simple weighted preference margin, the preference margin adjusted for the rate of utilization of the preferences, the margin adjusted for the preferences that the US grants to other countries, and an overall measure adjusting for both competition from other preference beneficiaries and the utilization rate.<sup>24</sup> It is interesting to note how for some countries, like the Philippines, Bangladesh and Sri Lanka, preference margins turn out to be negative when adjusted for competition from other preference beneficiaries. Thus overall, these countries' exports benefit from less beneficial treatment than competing other countries in the US market.

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<sup>24</sup> Data for preference margin, adjusted and unadjusted are reported in Table A3 in the annexes.

**Chart 4: Value of the Preference for non-agricultural products exports to US: Selected Countries, 2003**  
(per cent)

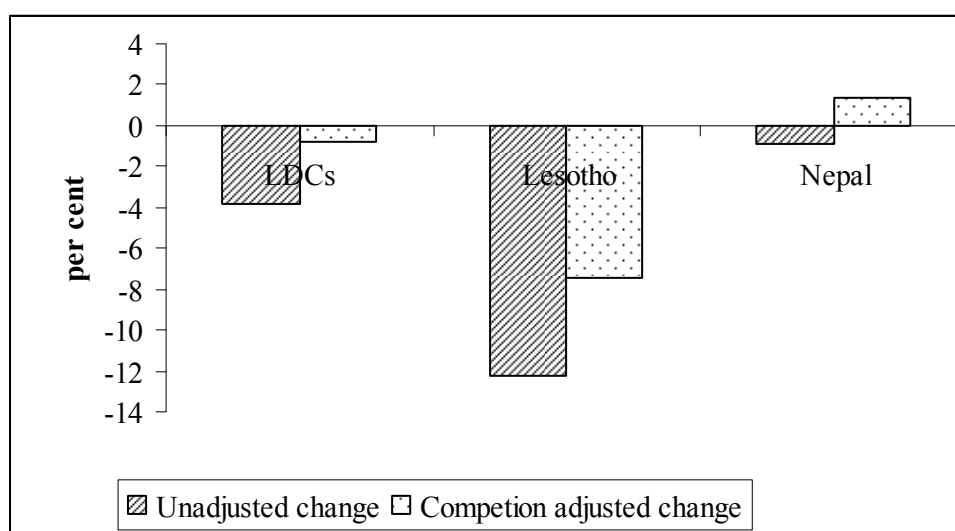


## V. Simulating a MFN tariff cut in NAMA: what happens to preference margins?

In this section we simulate a MFN tariff cut on non-agricultural products and estimate the impact of this cut on the value of preferences. Preference erosion is calculated as the change in the value of the preference before and after the MFN cut. The simulations undertaken here only include estimates of preference margins adjusted for competing non-MFN trade and not for utilization rates. We have taken the Swiss formula with a coefficient of ten, and calculated the tariff cuts on 2003 MFN applied rates. It is to be noted that the base for cutting tariffs in the negotiations would be bound rates rather than applied rates. However, the three major reporters (excluding Australia), represent 90 per cent of imports, and there is little difference between their bound and applied rates. Therefore, it can be confidently assumed that the margin of error we introduced with this approximation is low.

As an example, Chart 5 shows the impact of MFN liberalization on the value of preferences for LDCs and for Lesotho and Nepal in particular. The comparison between the impact estimated on the basis of the traditional measure of preference erosion and our competition-adjusted measure shows that when competition arising from other preference receiving countries is taken into account, the estimated losses from preference erosion generally falls. In some countries (Nepal in the chart), the adjustment may even result in a gain from MFN liberalization as opposed to a loss in relation to a reduced preference margin.

**Chart 5: Change in the value of the preference, Selected LDCs**



Examples of this type also exist among developing countries. Table A4 in the annexes provides the results of the exercise for LDCs and those developing countries that only benefit from non-reciprocal preferences in QUAD plus Australia markets.. Malaysia, for example, is estimated to lose \$70 million in terms of preference erosion before the adjustment and then to gain \$47 million after the adjustment is made. The latter figure represents what Malaysia gains as a result of the losses of others from preference erosion. Countries that rely less on preferences or have competitors with better preferential access typically suffer from preference erosion without adjustments and then score gains after the adjustments are made.

Overall, developing countries (excluding LDCs) as a group would gain some \$2 billion after the MFN tariff cut. However, the gains are concentrated in only approximately one third of the countries, while the losses are more widespread.

As far as LDCs are concerned, two countries show significant gains from MFN liberalization in terms of an increased preference value: Nepal (\$4 million) and Maldives (\$2 million). Overall the LDCs experience a loss from preference erosion, amounting to some \$170 million after adjustments for competing non-MFN trade (\$841 million before the adjustment). The adjusted preference erosion figures for the LDCs reveal some striking differences. The major losers from preference erosion include Bangladesh, Cambodia, Haiti, Lesotho and Madagascar. On the other hand, a significant number of LDCs do not appear to incur any losses from preference erosion following the MFN tariff cut simulated here. This is largely because these countries rely on preferences to a limited extent –

the bulk of their exports into the five reporter countries are MFN duty-free (see first three columns of Table A2). Countries in this group include Benin, Burkina Faso, Burundi, Central African Republic, Chad, Democratic Republic of the Congo, Djibouti, Guinea, Mali, Niger, Rwanda, Sierra Leone, Solomon Islands, Togo and Zambia.

In order to obtain an indication of the relative vulnerability of countries to preference erosion, we have calculated the change in the value of the preference as a percentage of bilateral trade (Table A4 column [4]). Our estimates suggest that the ten developing countries most affected by MFN liberalization are likely to be the Dominican Republic, Honduras, Kenya, Mauritius, El Salvador, Guatemala, Namibia, Nicaragua and Swaziland. The five most affected LDCs are Bangladesh, Cambodia, Haiti, Lesotho and Madagascar.

We then looked at preference erosion at the product level for these fifteen most vulnerable countries. We identified some broad product categories (MTN categories) and calculated our "adjusted" preference erosion for these categories. The results of these calculations are reported in Table A5 in the annexes for each of the five preference giving countries. The table shows that in the five reporting markets, clothing is by far the largest part of the preference erosion story for the most affected countries. In fact, among nearly all reported countries the highest variation in the preference margin before and after the MFN cut is recorded for the clothing sector. Some countries also experience significant figures for preference erosion in other sectors, such as textiles, fish and fish products (especially Namibia, but also Mauritius and Madagascar), leather and leather products (especially Cambodia, but also Bangladesh), electrical machinery, and wood and wood products.

## **VI. Trade solutions to preference erosion**

### **a) Increased preference utilization**

A number of studies have calculated preference utilization rates to assess the actual coverage of eligible products, the de facto exclusion of some potential beneficiary countries, and the access conditions in the markets of preference giving countries. Some studies suggest that non-reciprocal preference utilization rates are frequently low. Focussing on the EU's Everything but the Arms (EBA) initiative, Brenton (2003) finds very low utilization rates for LDCs exports to the EU in 2001. Inama (2003) estimated that less than 40 per cent of QUAD imports from all beneficiary countries eligible for GSP preferences entered under the preferential scheme. For Japan, utilization rates in 2001 were estimated at about 30 per cent. Under the AGOA scheme utilization rates vary between 36 per cent for textile and 67 per cent for mineral products.

It has been argued, however, that measuring utilization rates for single preferential schemes to assess the importance of preferential access to certain markets may be misleading. This is because an exporter may have preferential access to a certain market via various preferential schemes. This is the case for preferential access to the EU market where, for example, sub-Saharan African countries benefit from preferential access to via the EBA initiative and the Cotonou agreement. When a broader measure of utilization is used, based on the utilization rate of "at least one" preferential agreement, figures on the overall use of preferences are much higher. Candau and Jean (2005) find that when all EU preference schemes are examined together, utilization rates are considerably better. Bureau and Gallezot (2004) find a rate of utilization across eligible imports for all preferential schemes of some 90 per cent for both the United States and the EU in agriculture and food products. Overall utilization rates above 80 per cent are also found for textiles, clothing and other manufactured products in the EU by Candau et al. (2004). The difference in the results for the EU arise primarily because the EBA is very poorly utilized in sub-Saharan Africa, while the Cotonou regime is strongly used.

The above results are reported at a high level of aggregation. Utilization rate data show wide variations across countries and preference schemes. Brenton and Ikezuki (2005) find, for example, that Madagascar and Côte d'Ivoire utilize 86 and 58 per cent of the value of preferences which they are eligible for in the US market. Exporters from Mali request preferential treatment for 66.8 per cent, 87.5 per cent and 49.8 per cent of the exports under eligible product categories in the EU, US and Japanese markets respectively.

Utilization rates also vary across sectors. A recent study of the WTO (Anson and Bacchetta, 2005) on the textile and clothing sector finds high variability in the utilization rates calculated at the tariff line level across all preferential regimes for the Quad countries. This is an important point to bear in mind more generally, namely that aggregation often hides high variance. High variability also suggests that producers of similar products facing similar preferential margins react differently – some use MFN tariffs others use the preferences.

The basic questions we want to consider here are why utilization rates are less than 100 per cent and why they vary across sectors, countries and preferential regimes. Most studies point to rules of origin as the core explanation for all these questions. Rules of origin can impose additional production costs to exporters in developing countries that reduce the attraction of preferences or perhaps simply render them unusable. Additional production costs may be incurred by exporters as a result of an obligation to source inputs from high cost suppliers or to design production structures to comply with origin

requirements. Documentation requirements such as certificates of origin and complex accounting systems may also add to costs.<sup>25</sup>

Because of the higher costs, restrictive rules of origin will affect the exporter decision about whether to utilize the preference or not. Clearly, if the cost of compliance<sup>26</sup> with rules of origin exceeds the margin of preference, the producer would choose not to use the preference. He will source inputs on the basis of profit considerations and export at the MFN rate. For example, Brenton and Manchin (2003) note that many exporters from Eastern European countries have preferred to continue exporting under OPT arrangements rather than exporting under the FTA, despite the lower tariffs, because of origin constraints. Similarly, it has been argued that the strong preference for the Cotonou regime over the EBA is due to more restrictive rules of origin for the latter.

Anson and Bacchetta show a clear inverse relationship between the restrictiveness of origin rules and utilization rates by LDCs in the textile and clothing sector. Some of the results of their study are reported in the table below. The data for Australia, Japan, Switzerland and Canada refer to the GSP regime for LDCs. For the United States and the EU, data are for AGOA and CBTPA and for Cotonou and EBA, respectively. Although based on qualitative information on rules of origin, the data suggest that utilization rates tend to be higher the lower the local content requirement, the less complex rules are (refer to the case of Japan for example) and the more liberal is the cumulation regime both in terms of country coverage and type of cumulation.

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<sup>25</sup> Recent studies that focus on NAFTA (Estevadeordal, 2000; Anson et al. 2005; Cadot et al. 2005) show that rules of origin effectively limit Mexico's duty free access to the United States and Canada. In particular, Anson et al. (2005) estimate total compliance costs for Mexican exporters at 6 per cent of the value of preferential exports, of which about one-third is due to administrative costs.

<sup>26</sup> Carrère and de Melo (2004) show that compliance costs change among different rules of origin. They are lowest for a change in the tariff classification, somewhat higher for regional value content restrictions and highest for technical requirements. Focusing on Mexican exports to the United States, they find that in some circumstances preference margins of at least 10 per cent would be required to offset the cost-raising effect of a typical regional value content rule.



**Table 4: Utilization Rates and Rules of Origin Restrictiveness for LDCs in Clothing (HTS 61-62)**

	Australia	Japan	Switzerland	Canada	US		EU	
					AGOA	CBTPA	Cotonou	EBA
<b>Utilization rates</b>	37.9	40.3	43.8	71.6	79.8	71.3	76	37.8
<b>Rules of Origin</b>								
Local content	25*	no mention	60*	25*	7**	7**	47.5*	47.5*
Product specific rules	no	yes	yes	no	no	no	yes	yes
Cumulation	bilateral	no mention	regional	bilateral	global	regional	full for ACP	bilateral/regional

Note: Data refer to the year 2004. Regional defines diagonal cumulation of inputs from a set of countries.

\*highest percentage of value added

\*\*percentage of weight

Source: Anson and Bacchetta, 2005

A particularly successful example of the impact of reforms in existing preferential regimes on utilization rates is that of Canada. Starting from 1 January 2003, Canada added 903 tariff lines at the HS 8 digit level to the list of duty free tariff items for LDCs. In addition, Canada introduced new rules of origin requirements for textile and clothing. For this sector, these reforms implied duty-free access to the Canadian market for all imports from LDCs and more liberal rules of origin.<sup>27</sup> The effects of this reform have been remarkable. The study by Anson and Bacchetta shows a significant increase in the utilization rates for Bangladesh in textiles and clothing. Not only have utilization rates increased for all four-digit categories previously utilized, but Bangladesh has significantly diversified its exports. Bangladesh's utilization rates of Canadian preferences were very low in 2002, with the highest utilization rate equal to 45.1 per cent, and with a utilization rate equal to zero for most of the tariff headings for clothing for which exports are recorded (sub-sectors at four digit). Only one year after the reform the situation looks completely different; only six out of forty sectors show a utilization rate below 40 per cent. Bangladesh's exports have been diversified across 40 tariff headings and only two tariff headings show a zero utilization rate. More generally, the study shows that the reforms of Canada's preferential regime led to a higher value of textile and clothing exports for all LDCs and favoured the entry of more countries into the Canadian market. The number of LDCs exporting to Canada increased from 33 in 2002 to 41 in 2004.

A low utilization rate is generally interpreted as a sign that preferences are designed in a way that limits their utility to developing countries. More liberal rules of origin may in many cases help to compensate for preference erosion following MFN liberalization. It is, however, worth pointing out that MFN liberalization *per se* in sectors characterised by a low preference utilization rate may be

<sup>27</sup> The relevant WTO notification is WT/COMTD/N/15/Add.1, 13 February 2003.

thought of as compensatory trade policy for preference beneficiaries (and others). The rationale is as follows. A low rate of utilization of preferences with respect to a specific tariff line implies that producers of the same good facing the same rules of origin and preference margin take different decisions about whether to use the preference or the MFN rate to export. This may be because producers use different technologies or have different information, and hence face different costs for switching to different inputs or fulfilling the administrative requirements of rules of origin. Where exports from developing countries to developed countries take place at both the preferential and MFN rate, the reduction of the MFN rate will benefit the MFN rate exporters. This benefit may outweigh the loss to those who receive a preference. In other words, when the option of liberalizing rules of origin is not available, countries or sectors characterised by a low utilization rate may be better off pursuing a policy aimed at deepening MFN liberalization rather than preserving preference margins.

The data on utilization rates is scarce and it is difficult to draw a conclusion. Overall, available data appear to suggest that while there are undoubtedly areas and countries where low preference utilization occurs at least in part because of rules of origin limitations, for the most part under-utilization of preferences is not a major factor. Therefore improvements in utilization offer only limited scope for mitigating preference erosion in the face of MFN liberalization.

#### **b) Scope for extending non-reciprocal preferences in the five reporter countries (Quad plus Australia)**

As noted previously, an obvious trade solution to non-reciprocal preference erosion arising from MFN liberalization would be to extend preferential arrangements to other product areas where positive MFN rates apply. This paper has not reported the situation with respect to preferences at a detailed product or tariff line level, and cannot offer a precise indication of which products in which markets might lend themselves to new preferential arrangements.

Table A4 in the annexes shows the aggregate value of trade by exporter in respect of which additional preferences could potentially be extended by preference receivers. Before looking more closely at these numbers it is important to recall a caveat made in Section I. Just as all the data in this paper are essentially static in nature, meaning that they take no account of possible supply and demand responses to changes in relative prices, the data are also built exclusively on actual trade performance – that is, the numbers reflect only existing and not potential trade patterns. Thus, when looking at the scope for extending preferences, we are only doing so in respect of products that countries have actually traded. There are doubtless other products that some exporters would be able to export under different tariff arrangements.

Bearing this important analytical limitation in mind, it may be noted that the scope for additional preferential treatment on aggregate developing country exports to the five reporter countries amounts to nearly \$11 billion in terms of 2003 trade flows. This abundantly covers the sum of the losses faced by some developing countries. The comparable number relating to the scope for extending preferential treatment to least-developed countries is \$217 million. This would also appear to cover the preference erosion estimate for LDCs of \$170 million.

While the aggregate picture might suggest that extending preferential treatment to new product lines offers a solution to preference erosion in the five reporter countries, this impression is severely undermined when the data are disaggregated by country. We find, for example, by comparing columns [3] and [5] of Table A4 in the annexes by individual countries, that overall there is scope for compensation in 13 (of which 9 developing countries and 4 LDCs) countries out of 97 (of which 65 developing countries and 32 LDCs) countries for which simulations were run (see Table 5 below).

**Table 5: Scope for compensation: total number of countries**

	with scope for compensation	Total
Developing Countries	9	65
LDCs	4	32
Most affected countries	2	15

In particular, of the 15 countries most affected by preference erosion (the Dominican Republic, Honduras, Kenya, Mauritius, Saint Lucia, El Salvador, Guatemala, Namibia, Nicaragua, Swaziland, Bangladesh, Cambodia, Haiti, Lesotho and Madagascar), only two have scope for additional preferences in excess of the value of preference erosion incurred as a result of MFN liberalization. These two are Bangladesh and Cambodia. The other 13 countries do not have enough scope for additional preferences to cover the value of estimated losses from preference erosion. Bearing in mind the caveats above about what we are actually measuring, the evidence suggests that this particular trade solution to preference erosion does not hold out much promise in the immediate future.

### **c) Scope for compensating preference erosion through preferences in other markets**

This paper has focused only on non-reciprocal preferential exports from developing countries to Australia, Canada, the EU, Japan and the United States (the five reporter countries). Although these markets represent a large share of the trade of many developing countries, a question arises as to whether part of a trade solution to preference erosion resulting from MFN liberalization might reside in extending preferential treatment in markets other than the five reporter countries. This question is not systematically addressed in the present paper. It should be noted, however, that all developed countries not covered here already have non-reciprocal preference schemes. These schemes would need to be studied in detail to determine the degree to which their value to developing countries would be lessened through MFN liberalization, and how far such losses were amenable to trade solutions.

What about South-South trade, which is enjoying a growing share of global trade? The possibility of rejuvenating the Generalized System of Trade Preferences (GSTP) among developing countries has been mooted recently. Many reciprocal preferential trade agreements already exist or are in the making among developing countries. Moreover, some 20 developing countries provide some non-reciprocal preferences to LDCs, either under the GSTP or some other agreement.<sup>28</sup>

Finally, a rough indicator of possible scope for individual developing countries to seek trade solutions to preference erosion in markets other than those of the five reporter countries is provided in the final column (column [6]) of Table A4. Column [6] shows the ratio (in percentage terms) of exports to the five reporters to exports to the rest of the world. A low percentage value in column 6 suggests there might be scope for recuperating losses from preference erosion in the five reporter countries through preferential trading arrangements in other markets. This is obviously a very rough indicator of potential, but once again, abstracting from possible supply responses to new trade opportunities, it shows that this trade solution is not very promising for the countries most severely affected by preference erosion in the five reporter markets. In the case of the 16 most affected countries, for example, the five reporter countries accounted for well over 75 per cent of their total exports in 2003. Three outliers were Kenya (49 per cent), Namibia (53 per cent), and Swaziland (23 per cent). But in each case, it is likely that a significant part of this trade share is already preferential – East African Community trade in the case of Kenya, and South African Customs Union trade in the case of Namibia and Swaziland. Once again, we are left with the conclusion that trade solutions are not very promising for most of the countries most seriously at risk from preference erosion as a consequence of MFN liberalization.

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<sup>28</sup> See Annex Table 10 of WTO document WT/COMTD/LDC/W/35.

## VII. Conclusions

This paper has taken a fairly detailed look at the likely dimensions of non-reciprocal preference erosion for developing countries arising from MFN trade liberalization. It has estimated the degree of preference erosion affecting all developing countries as a result of a MFN tariff cut on non-agricultural products. A similar exercise could have been undertaken for agricultural products but was not attempted in this study. The paper has also considered the extent to which "trade" solutions might be found for preference erosion through improving preference utilization rates and extending preferential arrangements to new products, either in the preference giving countries examined here or in other markets.

The main conclusions of the paper are summarized below. It should be noted that the conclusions are based on a static MFN liberalization scenario that does not attempt to take account of possible supply and demand responses to relative price changes. Moreover, the analysis is undertaken in terms of observed trade flows and therefore does not allow the possibility of new trade occurring in new product lines as a result of relative price changes.

- Developing countries would enjoy a net gain of \$2 billion in terms of the value of adjusted preference margins if the Quad plus Australia were to reduce MFN tariffs on non-agricultural products using a Swiss formula with a coefficient of 10. Significant gains and losses underlie the net figure. The 10 largest developing country losers (excluding LDCs) from non-reciprocal preference erosion are the Dominican Republic, Honduras, Kenya, Mauritius, Saint Lucia, El Salvador, Guatemala, Namibia, Nicaragua and Swaziland.
- Least-developed countries would suffer a net loss of \$170 million under the same liberalization scenario, but in this case only two LDCs (Nepal and Maldives) register a gain. The major losers from preference erosion are Bangladesh, Cambodia, Haiti, Lesotho and Madagascar. However, many LDCs would suffer little or no preference erosion because their export structure is such that they enjoy MFN duty free treatment on a large share of their exports to the five reporter markets. This group includes Benin, Burkina Faso, Burundi, Central African Republic, Chad, Democratic Republic of Congo, Djibouti, Guinea, Mali, Niger, Rwanda, Sierra Leone, Solomon Islands, Togo and Zambia.
- A very significant part of the preference erosion story in the most affected countries is about clothing, especially in the case of the LDCs (except Madagascar). Other sectors of some interest to certain of the affected countries in the five reporter markets include textiles, fish

and fish products, leather and leather products, electrical machinery, and wood and wood products.

- As far as trade solutions to preference erosion are concerned, it is unclear that improved utilization levels will make a decisive impact in most of the affected countries. There may, however, be one or two important exceptions. Some preliminary evidence suggests a positive effect can result from reforms of preferential schemes. More definitive conclusions are not possible because of an acute lack of comprehensive and reliable information. What information there is provides a mixed picture. While utilization problems seem to emerge in some reciprocal and non-reciprocal preference schemes, most developing and least-developed countries appear to enjoy reasonably high utilization rates (e.g. ACP countries into the EU and most countries into the United States). This issue requires additional research based on better information.
- Limited scope exists for expanding preference schemes to other product lines in the five reporter countries in order to ameliorate the impact of preference erosion on the most affected countries. This is because significant positive tariffs do not fall on non-preferential trade flows to the reporter countries. Four countries that are exceptions to this conclusion are notably Bangladesh and Cambodia, and less so Myanmar and Nepal.
- Limited scope also exists, at least in the near future, for softening the impact of preference erosion in the most affected countries through exports to markets other than those of the reporter countries. This is because the latter account for a very large share of the exports of the most affected countries.

## References

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## Appendix

### A. Data Sources

The data are sourced from CAMAD (Common Analytical Market Access Data Base), which is maintained by the ITC, UNCTAD, and the WTO Secretariat. The reference year for both trade and tariff data is 2003; tariff lines outside chapters 01 to 97 of the 2002 Harmonised System (HS02) have been excluded. Note that:

- total imports may not be in line with other international sources as some confidential trade flows are not submitted to the WTO Integrated Data Base;
- only those bilateral trade flows higher than one thousand dollars have been included in the analysis;
- whenever available, *ad valorem* equivalents calculated by the ITC for the Millennium Development Goals have been used;

The analysis has been carried out at national tariff line level. Australia, Canada and the United States use 8 digit tariff numbers, Japan uses 9 digits and the EU provides imports data at the 8 digit level but preferential tariffs are defined at the 10 or 12 digit level. To align EU tariff data with imports, the data are aggregated at 10 digits and then at 8 digits.

The tariff information for the United States does not identify the clothing products that benefit from the African Growth and Opportunity Act and the Caribbean Basin Trade Partnership Act. It has been assumed that all products under chapters 61 and 62 of HS02 are eligible under those two preference schemes.

The countries benefiting from the Generalized Systems of Preferences and/or LDC programs may vary from one donor country to another.

## B. Coverage of preferential schemes<sup>29</sup>

Market	Preferential scheme
<b>Australia</b>	General System of Preferences (GSP)
	Least Developed Countries (LDC)
	South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA )
	Hong Kong, Korea and Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu
	Australia – Malaysia free trade agreement
	Norfolk Island Act, Christmas Island Agreement, Cocos Islands Act, Australian Territories, Heard and McDonald
	PAPUA NEW GUINEA. Agreement on Trade and Commercial Relations Agreement (PATCRA)
	Canada – Australia trade agreement (CANATA)
	Australia New Zealand Closer Economic Relations trade agreement (ANZERTA-CER))
	Singapore-Australia free trade agreement (SAFTA)
<b>Canada</b>	General System of Preferences (GSP)
	Least Developed Countries (LDC)
	Commonwealth Caribbean Countries Tariff
	Australia Tariff
	Canada-Costa Rica Free Trade Agreement
	Canada-Israel free trade agreement (CIFTA)
	Chile Tariff under the Canada-Chile Free Trade Agreement (CCFTA)
	Mexico Tariff under NAFTA
	Mexico-United States Tariff under NAFTA
	New Zealand Tariff
<b>Japan</b>	United States Tariff under NAFTA
	General System of Preferences (GSP)
<b>United States</b>	Least Developed Countries (LDC)
	General System of Preferences (GSP)
	Least-developed beneficiary developing countries (LDC)
	African Growth and Opportunity Act (AGOA)
	Andean Trade Preference Act (ATPA) and Andean Trade Promotion and Drug Eradication Act (ATPDEA)
	Caribbean Basin Economic Recovery Act (CBI)
	Caribbean Basin Trade Partnership Act (CBTPA)
	Automotive Products Trade Act (APTA)
	Canada under the North American Free Trade Agreement (NAFTA)
	Mexico under the North American Free Trade Agreement (NAFTA)
	United States-Israel Free Trade Area
	United States-Jordan Free Trade Area Implementation Act
Market	Preferential scheme
<b>European Communities</b>	General System of Preferences (GSP)
	Least Developed Countries (LDC)
	Preferential tariff for ACP countries
	Preferential tariff for countries fighting drug

<sup>29</sup> Exclusions to preferential schemes have been taken into account.

	Preferential tariff for Overseas Countries and Territories Albania, Algeria, Andorra, Bosnia and Herzegovina, Bulgaria, Chile Croatia, Cyprus, Czech republic, Egypt, Estonia, Faeroe Islands, The Palestinian Authority of the West Bank and the Gaza Strip, Hong Kong, China, Hungary, Iceland, Israel, Jordan, Latvia, Lebanon, Liechtenstein Lithuania, Macedonia, Malta, Mexico, Morocco, Myanmar Norway, Poland, Romania, Slovak Republic, Slovenia, South Africa, Switzerland, Syria, Chinese Taipei, Tunisia, Serbia and Montenegro
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### C. Guidelines on Annex Tables

**Table A1: Non reciprocal schemes in selected markets for non agricultural markets, 2003**

Information is provided on GSP, least-developed country (LDC) schemes, and other selected individual non-reciprocal schemes for each of the five preference-giving markets. The bold figures represent the value of total non agricultural imports of each reporting country from all beneficiaries in 2003. They also indicate the number of national tariff lines for products with trade from those beneficiaries. It may be observed, for example, that 49.1 per cent of Australia's non-agricultural imports from GSP beneficiaries entered MFN duty free while 9.4 per cent of imports were eligible to preferential access of which 0.7 was duty free. The MFN dutiable imports would stand at 41.5 per cent (100 - 49.1 - 9.4).

**Table A2: Imports of non-agricultural products from preference beneficiaries by type of market access, 2003**

Tables A2 presents disaggregated data for individual preference receiving developing countries; it indicates the shares of non agricultural imports from preference beneficiary developing countries into the five reporter countries, by different kinds of tariff treatment. The first columns of the table show [1] the value of imports into the reporter market concerned; [2] the share of total bilateral exports for each developing country listed that is duty free; [3] the share of MFN dutiable imports that pay duty; and [4] the share of total imports that benefit from preferences (reciprocal and non-reciprocal), whether at zero duty or a positive duty. For example, 52 per cent of Brazil's exports of non agricultural products enter the five reporter markets MFN duty free. A further 24 per cent attract a positive MFN duty, and 23 per cent enjoy a preference. Table A2 also provides statistics expressed in terms of tariff lines rather than import values using the same type of breakdowns. This information shows how narrow the export base is for many countries, especially the least-developed countries.

An important difference between Tables A1 and A2 is that in Table A2 the preference data refer to all non-MFN trade – that is, both non-reciprocal and reciprocal preferential trade, while Table A1 related to only specific non-reciprocal preference schemes.

**Table A3: Weighted duty margins, non-agricultural products, 2003**

Table A3 presents weighted preference margins for non agricultural products, detailed by each preference receiving countries and by markets. There is a preference margin if the duty applied to a beneficiary of a preferential scheme is lower than the MFN statutory applied duty. The margin is calculated as the difference between those two duties and then weighted for bilateral trade. Note that, for the sake of simplification, MFN statutory duties have been applied to countries that are not part of WTO; this means that general duties for Japan and the United States have not been used.

Columns [1]-[6] report preference margins for each individual country in the five markets. To take the example of Jamaica's situation in the five reporter markets, the table indicates that the average preference margin, weighted by imports flows of all non agricultural products, is 5 per cent .

In columns [7] to [12] the values for preference margin have been adjusted in order to take account of all MFN and better-than-MFN exports to the reporter countries that compete in these markets with each of the countries listed in the table. For a particular country and tariff line, the adjusted preference margin has been defined as the difference between the trade weighted average of the best duties<sup>30</sup> that all other countries would benefit from (calculated on the basis of bilateral imports) and the best duty of the specific country. For example, Jamaica's preferential margin for all exports products expressed in terms of all exports of to the five reporters has fallen from 5 percentage points before the adjustment to 2 percentage points. Some countries result into negative preference margin; this is due to other competitors benefiting, on average, from more favourable preferential schemes.

Column [13] provides an indication of the effects on the value of preference margins of factoring in preference utilization rates for the United States.<sup>31</sup> It shows the overall preference margin after adjustments have been made also for best duty treatment of all competitors in the US market. It should be noted at the outset that part of the under-utilization of preferences recorded in the table reflects an initial over-estimate of the value of preferences, since in the case of clothing it was assumed that all lines (chapters 61 and 62) received duty free treatment under the African Growth and Opportunity Act (AGOA) and the Caribbean Basin Trade Partnership Act (CBTPA).

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<sup>30</sup> The "best duty" for a tariff line is defined as the lowest duty that a country can benefit from. If no ad valorem equivalent is available, the best duty would exclude the non ad valorem duty. If there is no preference for a particular tariff line, then the MFN statutory applied duty is used

<sup>31</sup> In case of unmatched tariff lines between CAMAD data and the utilisation data, it is assumed that the preference utilisation is zero.

**Table A4: Impact of NAMA MFN tariff reduction on preference value and scope for future preferences, 2003**

Table A4 reports the change in the value of the preference<sup>32</sup> of a MFN liberalization scenario. For simulation purposes, a Swiss formula with a coefficient of 10 has been applied:  $t_1 = \frac{t_0 \times 10}{t_0 + 10}$  on 2003

MFN applied rates. Note that the Swiss formula implies that the higher is that initial tariff ( $t_0$ ), the higher will be the cut. All new tariffs ( $t_1$ ) will be lower than 10.

Columns [1] and [2] of Table A4 show what MFN liberalization has done to the value of average preference margins before any adjustment is made for competing non-MFN trade. Columns [3] and [4] show the effects of the MFN cut with adjustments for competing MFN trade in the five reporter markets. Negative numbers, such as Namibia's \$19.7 million shown in the first column as the amount by which Namibia would lose overall from preference erosion, is reduced to \$10.7 million after adjustment. What this means is that Namibia suffers preference erosion to the value of some \$10.7 million in the five reporter countries according to our simulations.

**Table A5: Impact of Swiss formula cut on preferences by selected countries, 2003**

Table A5 provides details by some broad product categories (MTN categories) in non agricultural products for selected countries, on the basis of the calculations of "adjusted" preference erosion. The imports share in terms of all imported products (agricultural and non agricultural) is first shown followed by the adjusted preferential margin before and after the cut using the same Swiss formula as for Table A4.

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<sup>32</sup> The value of preferences of a beneficiary is defined as the bilateral import value multiplied by the preference margin. Overall preference margins are calculated by dividing the value of preferences by the beneficiary's overall bilateral imports.

**Table A1**  
**Non reciprocal schemes in selected markets, non agricultural products, 2003**  
(Million dollars and percentages)

		Category	Imports		Number of national tariff lines		
			Value	%	Number	%	With trade(%)
Australia	GSP	<b>All tariff lines</b>	<b>19,649.5</b>	<b>100.0</b>	<b>5,330</b>	<b>100.0</b>	<b>77.9</b>
		MFN duty free access	9,647.5	49.1	2,332	43.8	31.2
		Preferential access	1,855.2	9.4	790	14.8	11.6
		Duty free preference	136.7	0.7	158	3.0	1.8
	LDC	<b>All tariff lines</b>	<b>110.7</b>	<b>100.0</b>	<b>5,330</b>	<b>100.0</b>	<b>7.6</b>
		MFN duty free access	99.6	90.0	2,332	43.8	2.7
		Preferential access	11.1	10.0	2,998	56.2	4.9
		Duty free preference	11.1	10.0	2,998	56.2	4.9
Canada	GSP	<b>All tariff lines</b>	<b>41,656.9</b>	<b>100.0</b>	<b>7,125</b>	<b>100.0</b>	<b>81.8</b>
		MFN duty free access	23,778.7	57.1	3,710	52.1	41.5
		Preferential access	11,168.0	26.8	2,484	34.9	28.4
		Duty free preference	2,188.4	5.3	1,131	15.9	12.5
	LDC	<b>All tariff lines</b>	<b>703.4</b>	<b>100.0</b>	<b>7,125</b>	<b>100.0</b>	<b>10.0</b>
		MFN duty free access	366.1	52.0	3,710	52.1	3.9
		Preferential access	337.3	48.0	3,415	47.9	6.1
		Duty free preference	337.3	48.0	3,415	47.9	6.1
	Commonwealth Caribbean Countries	<b>All tariff lines</b>	<b>519.1</b>	<b>100.0</b>	<b>7,125</b>	<b>100.0</b>	<b>5.3</b>
		MFN duty free access	456.2	87.9	3,710	52.1	3.2
		Preferential access	56.8	10.9	2,678	37.6	1.6
		Duty free preference	56.7	10.9	2,412	33.9	1.6
EU-15	GSP	<b>All tariff lines</b>	<b>393,955.5</b>	<b>100.0</b>	<b>8,289</b>	<b>100.0</b>	<b>94.3</b>
		MFN duty free access	202,725.2	51.5	1,774	21.4	19.3
		Preferential access	165,321.0	42.0	6,179	74.5	71.6
		Duty free preference	80,639.3	20.5	3,804	45.9	43.8
	LDC	<b>All tariff lines</b>	<b>12,143.8</b>	<b>100.0</b>	<b>8,289</b>	<b>100.0</b>	<b>32.9</b>
		MFN duty free access	5,115.7	42.1	1,774	21.4	7.3
		Preferential access	7,017.9	57.8	6,414	77.4	25.6
		Duty free preference	7,017.9	57.8	6,414	77.4	25.6
	ACP	<b>All tariff lines</b>	<b>22,101.5</b>	<b>100.0</b>	<b>8,289</b>	<b>100.0</b>	<b>42.7</b>
		MFN duty free access	15,803.9	71.5	1,774	21.4	9.4
		Preferential access	5,516.8	25.0	6,439	77.7	33.0
		Duty free preference	5,516.8	25.0	6,439	77.7	33.0
	Countries fighting drugs	<b>All tariff lines</b>	<b>10,815.9</b>	<b>100.0</b>	<b>8,289</b>	<b>100.0</b>	<b>41.7</b>
		MFN duty free access	6,154.5	56.9	1,774	21.4	7.9
		Preferential access	4,487.5	41.5	6,307	76.1	33.1
		Duty free preference	4,182.7	38.7	6,291	75.9	33.1
USA	GSP	<b>All tariff lines</b>	<b>160,732.0</b>	<b>100.0</b>	<b>8,688</b>	<b>100.0</b>	<b>81.9</b>
		MFN duty free access	57,070.5	35.5	2,836	32.6	26.7
		Preferential access	22,771.2	14.2	3,106	35.8	29.4
		Duty free preference	22,731.1	14.1	3,106	35.8	29.4
	LDC	<b>All tariff lines</b>	<b>9,691.8</b>	<b>100.0</b>	<b>8,688</b>	<b>100.0</b>	<b>13.0</b>
		MFN duty free access	413.4	4.3	2,836	32.6	3.6
		Preferential access	5,006.6	51.7	4,215	48.5	3.6
		Duty free preference	5,006.6	51.7	4,215	48.5	3.6
	African Growth and Opportunity Act	<b>All tariff lines</b>	<b>18,018.1</b>	<b>100.0</b>	<b>8,688</b>	<b>100.0</b>	<b>27.8</b>
		MFN duty free access	3,470.1	19.3	2,836	32.6	9.7
		Preferential access	14,457.1	80.2	4,900	56.4	15.0
		Duty free preference	14,457.1	80.2	4,900	56.4	15.0
	Andean Trade Preference Act & Andean Trade Promotion and Drug Eradication Act	<b>All tariff lines</b>	<b>9,077.8</b>	<b>100.0</b>	<b>8,688</b>	<b>100.0</b>	<b>26.3</b>
		MFN duty free access	2,505.2	27.6	2,836	32.6	8.5
		Preferential access	5,347.6	58.9	4,559	52.5	11.8
		Duty free preference	5,347.6	58.9	4,559	52.5	11.8
	Caribbean Basin Economic Recovery Act	<b>All tariff lines</b>	<b>20,615.4</b>	<b>100.0</b>	<b>8,688</b>	<b>100.0</b>	<b>28.7</b>
		MFN duty free access	6,114.5	29.7	2,836	32.6	10.8
		Preferential access	2,587.6	12.6	4,668	53.7	13.0
		Duty free preference	2,549.5	12.4	4,618	53.2	12.6
Japan	GSP	<b>All tariff lines</b>	<b>159,684.1</b>	<b>100.0</b>	<b>7,438</b>	<b>100.0</b>	<b>77.6</b>
		MFN duty free access	109,728.6	68.7	2,888	38.8	32.3
		Preferential access	20,513.4	12.9	3,087	41.5	29.3
		Duty free preference	13,274.4	8.3	2,008	27.0	20.5
	LDC	<b>All tariff lines</b>	<b>1,387.0</b>	<b>100.0</b>	<b>7,438</b>	<b>100.0</b>	<b>8.8</b>
		MFN duty free access	818.4	59.0	2,888	38.8	3.4
		Preferential access	449.4	32.4	4,143	55.7	4.7
		Duty free preference	449.4	32.4	4,141	55.7	4.7

Table A 2

## Imports of non-agricultural products from preference beneficiaries by type of market access, 2003

(in % of total bilateral imports, million dollars)

Country	QUAD + Australia						
	Bilateral imports	Imports (%)			Average percentage of tariff lines with trade		
		MFN duty free access	MFN dutiable access	Preferential access	MFN duty free access	MFN dutiable access	Preferential access
Developing	1	2	3	4	5	6	7
Albania	184	30	2	68	0.50	0.14	0.86
Antigua & Barbuda	416	81	0	19	0.14	0.00	0.10
Argentina	5,055	30	37	32	3.68	2.18	4.00
Armenia	202	66	6	27	0.29	0.17	0.23
Bahrain	770	20	38	42	0.56	0.36	0.70
Barbados	39	54	0	45	0.42	0.03	0.30
Belize	84	70	7	23	0.23	0.06	0.16
Bolivia	233	49	16	35	0.52	0.43	0.48
Botswana	1,712	98	0	2	0.22	0.03	0.13
Brazil	28,711	52	24	23	8.98	5.61	8.06
Brunei Darussalam	2,579	88	12	0	0.25	0.31	0.13
Cameroon	1,534	79	1	20	0.64	0.11	0.65
China	343,804	46	40	14	24.86	27.40	11.78
Colombia	6,361	40	9	51	2.33	1.54	2.61
Congo	731	47	0	53	0.39	0.00	0.24
Côte d'Ivoire	778	62	0	37	0.58	0.04	0.64
Cuba	362	77	6	16	0.54	0.07	0.44
Dominica	18	13	22	64	0.13	0.06	0.07
Dominican Republic	4,135	23	1	76	1.64	0.61	1.78
Ecuador	2,496	19	6	75	1.49	0.52	1.16
Egypt	4,189	31	26	43	1.81	1.32	3.05
El Salvador	1,917	3	3	93	0.63	0.54	0.82
Gabon	1,934	27	0	73	0.43	0.00	0.26
Georgia	335	35	51	14	0.54	0.11	0.24
Ghana	647	46	1	54	0.78	0.11	0.62
Grenada	7	50	0	50	0.07	0.09	0.03
Guatemala	2,244	5	2	93	0.81	0.54	1.17
Guyana	294	93	0	7	0.40	0.02	0.18
Honduras	3,136	9	2	89	0.70	0.51	0.77
Hong Kong, China	20,332	46	52	0	11.79	21.17	1.47
India	29,057	31	28	41	12.07	12.36	10.65
Indonesia	37,349	57	22	21	8.68	7.86	7.44
Jamaica	740	44	0	56	0.52	0.06	0.35
Kenya	335	18	2	80	0.79	0.15	0.97
Korea, Republic of	84,674	53	45	2	16.36	29.67	2.08
Kuwait	8,591	68	25	7	0.64	0.26	0.54
Kyrgyz Republic	49	65	20	16	0.12	0.13	0.09
Macao, China	2,200	2	86	12	0.77	2.69	0.53
Malaysia	54,093	80	13	7	10.02	8.39	5.89
Mauritius	1,125	6	1	92	0.77	0.40	1.53
Moldova	183	5	59	36	0.27	0.35	0.57
Mongolia	209	1	94	5	0.21	0.50	0.17
Namibia	615	39	1	60	0.40	0.05	0.39
Nicaragua	665	18	1	82	0.35	0.16	0.38
Nigeria	17,398	40	4	56	0.79	0.04	0.81
Oman	3,216	82	15	3	0.55	0.41	0.60
Pakistan	5,922	3	45	51	2.20	4.02	3.44
Panama	531	64	21	15	0.93	0.14	0.77
Paraguay	95	65	8	27	0.29	0.12	0.30
Peru	4,753	64	13	24	1.82	1.60	1.98
Philippines	23,065	75	12	13	7.22	4.52	5.12
Qatar	7,242	90	9	1	0.53	0.20	0.53

Table A 2 (cont'd)

**Imports of non-agricultural products from preference beneficiaries by type of market access, 2003**

(in % of total bilateral imports, million dollars)

Country	QUAD + Australia						
	Bilateral imports	Imports (%)			Average percentage of		
		MFN duty free access	MFN dutiable access	Preferential access	MFN duty free access	MFN dutiable access	Preferential access
Developing	1	2	3	4	5	6	7
Paraguay	95	65	8	27	0.29	0.12	0.30
Peru	4,753	64	13	24	1.82	1.60	1.98
Philippines	23,065	75	12	13	7.22	4.52	5.12
Qatar	7,242	90	9	1	0.53	0.20	0.53
Saint Kitts & Nevis	50	35	1	63	0.22	0.01	0.16
Saint Lucia	13	25	0	75	0.15	0.01	0.16
St Vincent & Grenadines	47	94	0	6	0.07	0.01	0.04
Sri Lanka	3,286	14	51	35	1.73	2.45	2.26
Suriname	341	71	4	25	0.32	0.01	0.20
Swaziland	173	9	3	88	0.37	0.03	0.29
Taipei, Chinese	70,460	65	35	0	17.42	32.42	0.31
Thailand	37,574	53	21	26	11.19	9.77	8.86
Trinidad and Tobago	4,796	58	1	41	0.71	0.04	0.55
United Arab Emirates	19,673	84	8	8	2.77	2.08	3.34
Uruguay	511	38	20	42	1.02	0.51	0.91
Venezuela, Boliv. Rep.	16,611	41	53	6	1.79	0.56	1.55
Zimbabwe	321	28	2	70	0.48	0.21	0.46
<b>Developing total</b>	<b>871,202</b>	<b>52.1</b>	<b>31.8</b>	<b>15.9</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>LDC</b>							
Angola	5,361	26	0	74	0.38	0.01	0.27
Bangladesh	6,460	3	30	67	0.69	0.81	2.15
Benin	11	34	1	65	0.13	0.01	0.11
Burkina Faso	16	32	0	67	0.21	0.01	0.18
Burundi	3	71	0	29	0.05	0.00	0.03
Cambodia	1,962	0	64	36	0.30	0.49	0.99
Central African Rep.	98	97	0	3	0.10	0.00	0.05
Chad	22	3	0	97	0.06	0.00	0.06
Dem. Rep. of the Congo	970	86	0	14	0.30	0.00	0.15
Djibouti	4	82	0	18	0.07	0.00	0.06
Gambia	3	16	1	83	0.10	0.01	0.11
Guinea	474	88	0	12	0.24	0.01	0.18
Guinea-Bissau	8	30	0	70	0.03	0.00	0.03
Haiti	330	2	0	98	0.28	0.01	0.43
Lesotho	406	1	0	99	0.03	0.00	0.19
Madagascar	594	4	0	95	0.51	0.06	1.10
Malawi	25	4	0	96	0.10	0.00	0.09
Maldives	138	1	79	21	0.09	0.12	0.18
Mali	13	44	1	55	0.30	0.03	0.27
Mauritania	406	50	0	49	0.26	0.01	0.32
Mozambique	640	2	0	98	0.20	0.00	0.15
Myanmar	844	14	31	55	0.52	0.78	0.75
Nepal	276	4	57	23	0.49	0.56	1.39
Niger	13	77	1	22	0.28	0.01	0.20
Rwanda	8	88	0	12	0.08	0.00	0.06
Senegal	297	9	1	90	0.55	0.03	0.68
Sierra Leone	121	87	0	13	0.41	0.00	0.58
Solomon Islands	22	39	30	31	0.14	0.02	0.02
Tanzania	656	75	0	25	0.50	0.01	0.33
Togo	39	61	0	39	0.21	0.02	0.19
Uganda	102	24	0	76	0.33	0.00	0.27
Zambia	113	60	0	40	0.26	0.01	0.19
<b>LDC</b>	<b>20,436</b>	<b>20.2</b>	<b>18.3</b>	<b>61.2</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>TOTAL</b>	<b>891,638</b>	<b>51.4</b>	<b>31.5</b>	<b>17.0</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>



**Table A 3**  
**Weighted duty margins, non-agricultural products, 2003**  
(weighted by bilateral imports)

Country	Weighted preference margins						Adjusted weighted preference margin						Adj. weighted pref. margin further adj. for comp. and util.
	QUAD +AUS	AUS	CAN	EU	JAP	US	QUAD +AUS	AUS	CAN	EU	JAP	US	
	1	2	3	4	5	6	7	8	9	10	11	12	
<b>Developing</b>													
Albania	5	0	0	5	0	2	1	0	-1	2	0	1	2
Antigua & Barbuda	0		0	0	4	2	0		0	0	3	2	0
Argentina	1	0	0	3	0	0	0	0	0	0	0	0	0
Armenia	1	0	0	1	0	4	0	0	-4	0	0	1	1
Bahrain	1	0	0	3	0	1	-2	0	-3	-1	0	-4	-3
Barbados	1	0	1	2	0	1	1	0	0	1	0	0	0
Belize	3	1	1	1	0	3	2	0	-1	0	0	2	1
Bolivia	2	1	0	1	0	2	0	0	0	0	0	0	0
Botswana	0	3	0	0	0	12	0	3	0	0	0	7	8
Brazil	1	1	1	1	0	1	0	0	-1	0	0	0	0
Brunei Darussalam	0	0	0	0	0	0	-1	0	-4	-1	0	-4	-3
Cameroon	1	5	0	1	0	0	0	2	0	0	0	0	0
China	0	0	1	1	1	0	-1	-1	-1	-1	0	-1	-1
Colombia	1	0	0	2	2	1	0	0	-1	0	0	-1	0
Congo	0	5	0	0	0	0	0	1	0	0	0	0	0
Côte d'Ivoire	5	4	0	5	0	0	1	1	0	1	0	0	0
Cuba	1	0	0	4	0	0	0	0	0	-1	0	0	1
Dominica	2	0	3	2	0	4	1	0	-1	1	0	2	2
Dominican Republic	10	0	1	3	2	11	5	0	-2	1	0	6	4
Ecuador	3	0	1	16	0	0	0	0	0	3	0	0	0
Egypt	3	0	0	4	0	0	0	0	-1	1	0	-3	-3
El Salvador	16	0	0	7	0	16	9	0	-5	2	0	9	5
Gabon	1	5	0	2	0	0	0	2	0	0	0	0	0
Georgia	1	0	0	0	2	1	0	0	0	0	1	0	0
Ghana	5	2	0	6	0	2	1	0	0	1	0	1	1
Grenada	4		2	7		0	1		0	1		0	0
Guatemala	15	0	0	8	0	15	10	-1	-4	0	0	10	2
Guyana	1	0	0	1	0	2	1	0	0	0	0	2	1
Honduras	15	0	0	9	0	15	8	0	-5	2	0	9	7
Hong Kong, China	0	0	0	0	0	0	-2	0	-2	-2	0	-3	-2
India	1	0	1	2	1	1	-1	0	-2	-1	0	0	0
Indonesia	1	0	1	2	0	1	0	0	-1	-1	0	-1	-1
Jamaica	5	0	0	6	0	6	2	0	0	2	0	3	2
Kenya	12	0	1	6	0	17	7	0	-4	1	0	10	11
Korea, Republic of	0	0	0	0	0	0	-1	0	-2	-2	0	-1	-1
Kuwait	0	0	0	1	0	0	0	0	0	0	0	0	0
Kyrgyz Republic	1	0	1	2	0	0	-1	0	0	-1	0	-5	-4
Macao, China	0	0	0	1	0	0	-5	-1	-3	-5	0	-6	-4
Malaysia	0	0	0	1	0	0	0	0	0	0	0	0	0
Mauritius	12	0	0	11	0	16	5	-1	-4	3	0	10	4
Moldova	1	0	0	1	0	0	-2	-8	-2	-1	0	-4	-3
Mongolia	0	0	0	2	0	0	-5	0	-5	-3	0	-5	-4
Namibia	6	0	0	6	0	6	4	0	0	4	0	4	3
Nicaragua	14	1	0	6	0	14	7	0	-1	0	0	8	0
Nigeria	0	0	0	0	0	0	0	0	0	0	0	0	0
Oman	0	0	0	3	0	0	0	0	-4	-1	0	-2	-1
Pakistan	5	0	1	9	1	0	0	0	-5	4	0	-3	-2
Panama	1	0	1	2	0	1	0	-1	-2	0	0	0	0
Paraguay	1	0	0	1	1	1	0	-5	0	0	0	-1	0
Peru	1	0	1	1	0	1	0	0	0	0	0	-1	-1
Philippines	0	0	0	1	0	1	0	0	0	0	0	-1	-1
Qatar	0	0	0	1	0	0	0	0	0	0	0	-2	-2

**Table A 3 (cont'd)**  
**Weighted duty margins , non-agricultural products, 2003**  
(weighted by bilateral imports)

Country	Weighted preference margins						Adjusted weighted preference margin						Adj. weighted pref. margin further adj.
	QUAD +AUS	AUS	CAN	EU	JAP	US	QUAD +AUS	AUS	CAN	EU	JAP	US	
Developing	1	2	3	4	5	6	7	8	9	10	11	12	13
Saint Kitts and Nevis	2		2	3	0	2	1		1	1	0	1	1
Saint Lucia	6		0	3	1	6	4		-1	1	0	4	0
St. Vincent & Grenadines	0	0	0	0	0	4	0	-2	0	0	0	2	2
Sri Lanka	1	0	1	2	1	0	-3	0	-3	-3	0	-4	-3
Suriname	2	0	0	3	0	0	0	0	0	1	0	0	0
Swaziland	17	0	1	3	0	18	10	0	-1	1	0	11	12
Taipei, Chinese	0	0	0	0	0	0	-1	0	-2	-1	0	-1	-1
Thailand	1	1	1	1	0	1	0	0	-1	-1	0	0	0
Trinidad and Tobago	1	0	2	4	0	1	0	0	0	1	0	0	0
United Arab Emirates	0	0	1	2	0	0	0	0	-2	0	0	-1	-1
Uruguay	1	0	1	2	0	1	0	-1	0	0	0	0	0
Venezuela, Boli. Rep.	0	3	0	1	0	0	0	1	0	0	0	0	0
Zimbabwe	3	0	0	3	4	3	1	0	0	0	2	0	0
<b>Developing total</b>	<b>0.7</b>	<b>0.3</b>	<b>0.7</b>	<b>1.1</b>	<b>0.3</b>	<b>0.6</b>	<b>-0.51</b>	<b>-0.40</b>	<b>-1.30</b>	<b>-0.95</b>	<b>0.15</b>	<b>-0.46</b>	
<b>LDC</b>													
Angola	0	1	0	0	0	0	0	0	0	0	0	0	0
Bangladesh	9	3	17	12	46	0	2	3	13	4	10	-4	-3
Benin	5		7	5	0	0	1		0	1	0	0	0
Burkina Faso	2	5	1	2	3	1	0	4	0	0	2	0	0
Burundi	1		11	1	3	0	0		9	0	3	0	0
Cambodia	13	12	18	12	202	0	1	11	14	5	50	-5	-4
Central African Republic	0		1	0	0	0	0		0	0	0	0	0
Chad	1	15	0	4		0	0	14	0	2		0	0
Dem. Rep. of Congo	0	15	5	0	0	0	0	14	0	0	0	0	0
Djibouti	1		0	1	0	0	1	6	0	1	0	0	0
Gambia	10		1	11	0	1	3		0	4	0	1	0
Guinea	1	8	0	1	3	0	0		0	0	2	0	0
Guinea Bissau	8			10	7	0	2			3	4	0	0
Haiti	18	25	14	8	6	19	10	24	9	2	6	10	7
Lesotho	19	15	18	3	10	19	11	14	13	1	10	11	13
Madagascar	14	0	16	13	1	16	6	0	12	4	1	10	11
Malawi	19		16	1	2	20	12		11	1	1	12	14
Maldives	4	8	17	19	1	0	-2	7	12	6	0	-5	-5
Mali	2	0	1	2	2	2	1	0	0	1	1	1	1
Mauritania	5	1	2	4	7	2	2	1	1	1	5	1	0
Mozambique	6	0	0	7	1	17	3	0	0	3	1	7	8
Myanmar	12	1	0	10	51	0	2	1	-2	4	9	-4	-3
Nepal	2	6	12	8	5	0	-2	5	8	4	3	-5	-3
Niger	1	3	3	1	0	1	0	2	1	0	0	1	0
Rwanda	1		1	1	0	1	0		0	0	0	1	0
Senegal	11	1	1	12	5	0	3	0	1	3	3	0	0
Sierra Leone	1	5	4	1	3	3	0	3	2	0	3	2	0
Solomon Islands	3	1	0	2	3	1	2	0	0	2	2	1	0
Tanzania	2	1	1	3	0	1	0	1	0	0	0	1	1
Togo	3	0	5	4	3	0	1	0	0	2	3	0	0
Uganda	7	0	1	7	3	6	1	0	0	1	3	3	3
Zambia	1	2	3	1	2	0	1	2	1	0	1	0	0
<b>LDC</b>	<b>6.4</b>	<b>2.3</b>	<b>14.8</b>	<b>7.4</b>	<b>41.9</b>	<b>2.1</b>	<b>1.6</b>	<b>2.1</b>	<b>11.3</b>	<b>2.6</b>	<b>10.2</b>	<b>-0.7</b>	
<b>Total</b>	<b>0.8</b>	<b>0.3</b>	<b>0.9</b>	<b>1.4</b>	<b>0.5</b>	<b>0.7</b>	<b>-0.5</b>	<b>-0.4</b>	<b>-1.1</b>	<b>-0.8</b>	<b>0.2</b>	<b>-0.5</b>	

Table A 4

## Impact of NAMA MFN tariff reduction on preference value and scope for future preferences, 2003

(Swiss formula cut with a=10 applied on 2003 MFN applied rates)

QUAD + Australia							
		Change in the preference value for unadjusted and adjusted preference margin				Scope for additional preferences  Mill USD	Exports to Quad + Australia in %  Total Exports
		No adjustment		With adjustment			
		Mill USD	% of imports	Mill USD	% of imports		
Developing		1	2	3	4	5	6
	Albania	-4.0	-1.9	-1.2	-0.6	0	46
	Antigua and Barbuda	-0.3	-0.1	0.0	0.0	0	100*
	Argentina	-40.6	-0.4	0.3	0.0	51	35
	Armenia	-1.1	-0.5	0.1	0.0	1	30
	Bahrain	-5.0	-0.7	8.3	1.1	20	12
	Barbados	-0.2	-0.2	-0.1	-0.1	0	40
	Belize	-1.3	-0.7	-0.7	-0.3	0	98
	Bolivia	-1.5	-0.5	0.8	0.3	2	19
	Botswana	-1.7	-0.1	-0.8	0.0	0	61
	Brazil	-100.3	-0.2	7.3	0.0	228	55
	Brunei Darussalam	-0.1	0.0	8.5	0.3	14	62
	Cameroon	-2.8	-0.1	-1.0	0.0	1	96
	China	-810.3	-0.2	1,274.6	0.4	5,930	80
	Colombia	-28.7	-0.3	19.5	0.2	36	70
	Congo	-0.4	0.0	0.0	0.0	0	30
	Côte d'Ivoire	-25.3	-0.7	-6.0	-0.2	0	59
	Cuba	-3.2	-0.5	-0.4	-0.1	2	39
	Dominica	-0.1	-0.3	0.0	-0.1	0	75
	Dominican Republic	-262.4	-5.5	-139.2	-2.9	3	88
	Ecuador	-43.7	-1.1	-6.8	-0.2	12	68
	Egypt	-49.4	-1.1	5.8	0.1	42	75
	El Salvador	-193.3	-9.1	-110.5	-5.2	4	67
	Gabon	-3.5	-0.2	-0.5	0.0	0	68
	Georgia	-0.7	-0.2	-0.1	0.0	5	79
	Ghana	-19.9	-1.4	-4.4	-0.3	0	59
	Grenada	-0.1	-0.6	0.0	-0.1	0	59
	Guatemala	-220.5	-6.5	-141.7	-4.2	4	100*
	Guyana	-1.6	-0.3	-1.0	-0.2	0	88
	Honduras	-303.2	-8.3	-167.0	-4.6	4	100*
	Hong Kong, China	-2.4	0.0	264.2	1.3	505	9
	India	-226.7	-0.7	94.8	0.3	569	55
	Indonesia	-159.1	-0.4	105.9	0.3	527	65
	Jamaica	-17.8	-1.7	-6.4	-0.6	0	91
	Kenya	-26.4	-2.2	-14.0	-1.2	0	49
	Korea, Republic of	-19.5	0.0	382.3	0.4	1,292	44
	Kuwait	-9.7	-0.1	1.4	0.0	54	42
	Kyrgyz Republic	-0.2	-0.3	0.4	0.7	1	9
	Macao, China	-8.7	-0.4	72.6	3.3	123	85
	Malaysia	-70.1	-0.1	46.6	0.1	303	53
	Mauritius	-81.9	-5.6	-31.0	-2.1	1	77
	Moldova	-1.5	-0.6	1.5	0.6	5	31
	Mongolia	-0.2	-0.1	6.9	3.0	12	37
	Namibia	-19.7	-2.9	-10.7	-1.6	0	53
	Nicaragua	-59.2	-6.7	-31.1	-3.5	1	100*
	Nigeria	-6.6	0.0	-1.3	0.0	5	90

Table A 4 (cont'd)

## Impact of NAMA MFN tariff reduction on preference value and scope for future preferences, 2003

(Swiss formula cut with a=10 applied on 2003 MFN applied rates)

QUAD + Australia							
		Change in the preference value for unadjusted and adjusted preference margin				Scope for additional preferences  Mill USD	Exports to Quad + Australia in %  Total Exports
		No adjustment		With adjustment			
		Mill USD	% of imports	Mill USD	% of imports		
Developing		1	2	3	4	5	6
	Oman	-3.3	-0.1	5.7	0.2	12	28
	Pakistan	-139.7	-2.2	3.3	0.1	138	52
	Panama	-3.9	-0.5	-0.4	-0.1	4	94
	Paraguay	-0.3	-0.1	0.1	0.0	0	33
	Peru	-14.9	-0.3	17.2	0.3	36	61
	Philippines	-46.9	-0.2	66.0	0.3	188	66
	Qatar	-2.1	0.0	3.0	0.0	19	55
	Saint Kitts and Nevis	-0.2	-0.4	-0.1	-0.1	0	100*
	Saint Lucia	-0.4	-1.1	-0.3	-0.7	0	95
	Sri Lanka	-22.3	-0.6	56.7	1.6	137	69
	St. Vincent & Grenadines	-0.1	-0.1	0.0	0.0	0	100*
	Suriname	-2.4	-0.7	-0.2	-0.1	0	55
	Swaziland	-19.2	-5.8	-11.9	-3.6	0	23
	Taipei, Chinese	-6.0	0.0	245.2	0.3	797	47
	Thailand	-182.5	-0.4	69.2	0.2	502	51
	Trinidad and Tobago	-15.8	-0.3	-2.8	-0.1	1	94
	United Arab Emirates	-21.7	-0.1	13.3	0.1	78	30
	Uruguay	-4.1	-0.4	-0.2	0.0	7	46
	Venezuela	-22.6	-0.1	-3.7	0.0	33	70
	Zimbabwe	-5.5	-0.7	-1.9	-0.3	4	62
Developing total		-3,348.9	-0.4	2,087.1	0.2	11,718.5	53.5
LDC							
	Angola	-0.9	0.0	-0.3	0.0	0	52
	Bangladesh	-335.2	-5.2	-61.6	-1.0	111	93
	Benin	-0.3	-0.7	0.0	-0.1	0	7
	Burkina Faso	-0.1	-0.1	0.0	0.0	0	17
	Burundi	0.0	0.0	0.0	0.0	0	81
	Cambodia	-215.6	-11.0	-18.8	-1.0	74	96
	Central African Rep.	0.0	0.0	0.0	0.0	0	87
	Chad	-0.1	-0.1	0.0	0.0	0	15
	Dem. Rep. of Congo	-0.1	0.0	0.0	0.0	0	
	Djibouti	0.0	-0.3	0.0	-0.2	0	6
	Gambia	-0.2	-1.8	0.0	-0.4	0	80
	Guinea	-2.1	-0.4	-0.2	0.0	0	84
	Guinea Bissau	-0.3	-3.2	0.0	-0.5	0	15
	Haiti	-40.3	-11.3	-21.7	-6.1	0	100*
	Lesotho	-49.6	-12.2	-30.1	-7.4	0	85
	Madagascar	-48.7	-5.0	-19.1	-2.0	0	100*
	Malawi	-3.3	-1.0	-2.0	-0.6	0	70
	Maldives	-3.5	-2.5	1.6	1.1	5	91
	Mali	-0.1	-0.1	0.0	-0.1	0	6
	Mauritania	-9.3	-2.3	-1.7	-0.4	0	100*
	Mozambique	-17.1	-2.5	-5.5	-0.8	0	81
	Myanmar	-79.7	-9.1	-8.3	-1.0	15	35
	Nepal	-2.6	-0.9	3.8	1.3	10	43
	Niger	0.0	-0.2	0.0	-0.1	0	5
	Rwanda	0.0	-0.2	0.0	-0.1	0	39
	Senegal	-19.3	-4.9	-3.6	-0.9	0	30
	Sierra Leone	-0.6	-0.4	-0.2	-0.2	0	100*
	Solomon Islands	-0.3	-1.2	-0.1	-0.5	0	32
	Tanzania	-7.2	-0.9	-1.2	-0.1	0	67
	Togo	-0.6	-0.7	-0.2	-0.2	0	13
Uganda	-3.3	-1.0	-0.7	-0.2	0	57	
Zambia	-0.4	-0.2	0.0	0.0	0	21	
LDC		-840.5	-3.8	-170.3	-0.8	216.6	61.6

\*: Imports from beneficiaries into Quad and Australia is greater than exports to world due to inconsistencies in data reporting.

Table A5: Impact of Swiss formula cut on preference margins by selected countries, 2003

			QUAD and Australia															
			Developing countries											LDC				
MTN	Description		Dom. Rep	Honduras	Kenya	Mauritius	Saint Lucia	El Salvador	Fiji	Guatemala	Namibia	Nicaragua	Swaziland	Bangla- desh	Cambodia	Haiti	Lesotho	Mada- gascar
02a	Clothing	Import share	44.2	72.2	16.1	61.3	7.6	82.9	30.7	52.8	6.2	55.4	42.3	83.8	90.0	85.1	98.6	33.6
		Pref.Margin adj.	9.3	9.6	10.8	5.5	12.9	9.7	7.0	12.0	10.6	9.8	12.4	1.9	-2.2	10.5	11.4	8.5
		Pref.Margin adj. after cut	3.2	3.3	3.7	2.4	4.3	3.4	1.7	4.1	3.9	3.4	4.0	1.1	-0.6	3.5	3.9	3.4
02b	Textiles	Import share	5.0	0.5	0.7	0.9	2.4	2.1	1.0	0.5	0.1	0.1	2.6	6.2	1.2	2.1	0.0	1.2
		Pref.Margin adj.	1.0	0.1	0.6	1.9	3.2	-0.6	6.1	-0.3	2.0	3.6	2.0	1.5	-0.2	8.0	4.8	2.3
		Pref.Margin adj. after cut	0.6	0.2	0.4	1.2	2.3	-0.4	3.7	-0.1	1.2	1.7	1.5	0.7	-0.1	3.4	2.8	1.4
03	Leather, rubber, footwear & travel goods	Import share	2.2	0.0	0.5	0.1	0.2	0.5	1.5	0.8	1.0	0.2	0.0	2.3	8.0	0.6	0.0	0.1
		Pref.Margin adj.	9.1	0.7	0.5	3.1	0.5	7.6	13.8	1.9	0.3	0.2	2.1	10.7	32.5	1.0	13.2	2.7
		Pref.Margin adj. after cut	3.6	0.2	0.2	1.7	0.2	4.1	5.5	1.4	0.2	0.1	1.5	3.0	3.4	0.6	5.5	1.9
08	Electric machine	Import share	9.1	2.8	1.5	1.0	19.7	1.6	0.5	0.1	0.1	4.5	0.6	0.1	0.0	1.6	0.0	0.2
		Pref.Margin adj.	1.0	0.4	0.1	0.1	1.0	0.1	3.9	0.6	0.3	0.3	0.1	0.5	0.5	0.8	0.0	0.3
		Pref.Margin adj. after cut	0.7	0.3	0.1	0.1	0.8	0.0	2.5	0.4	0.3	0.2	0.1	0.4	0.4	0.6	0.0	0.3
09	Mineral pdts, precious stones and	Import share	6.3	1.9	1.6	3.9	0.1	0.0	9.3	1.3	21.3	4.8	0.0	0.9	0.2	0.2	1.1	1.3
		Pref.Margin adj.	1.8	0.0	0.5	0.6	2.6	1.8	0.0	1.6	0.0	0.5	9.0	2.9	2.4	17.9	0.0	0.2
		Pref.Margin adj. after cut	1.1	0.0	0.3	0.4	1.7	1.2	0.0	1.0	0.0	0.3	3.4	1.5	1.6	4.8	0.0	0.1
10	Manufactured articles n.e.s	Import share	10.6	0.5	0.8	2.4	1.4	0.7	0.2	1.1	0.2	0.0	0.8	0.4	0.1	1.0	0.0	1.3
		Pref.Margin adj.	0.1	1.9	1.6	1.7	0.1	0.5	1.5	0.6	0.3	0.6	0.8	1.2	0.3	1.3	1.4	0.9
		Pref.Margin adj. after cut	0.1	1.3	1.1	1.3	0.1	0.3	1.0	0.4	0.2	0.4	0.5	0.8	0.2	0.7	1.1	0.7
11	Fish and fish pdts	Import share	0.1	5.0	4.8	5.4	0.2	1.0	15.3	2.0	46.8	9.2	0.1	5.0	0.1	1.0	0.0	22.3
		Pref.Margin adj.	0.1	0.7	1.6	4.0	0.0	1.9	-0.1	-0.3	6.3	0.0	8.6	2.6	0.2	1.7	9.6	3.5
		Pref.Margin adj. after cut	0.1	0.2	0.8	1.3	0.0	0.7	-0.1	-0.4	3.9	-0.1	4.2	2.3	0.2	1.2	4.8	2.4
Total imports (Million dollars)			4,806	3,656	1,184	1,462	38	2,113	468	3,386	684	880	333	6,478	1,965	357	406	972