BRIEFING PAPER

CUTS International

SAFIT 1/2006

Market Access for Least Developed Countries
The Hong Kong Effect

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Introduction

Half a decade has passed since trade ministers agreed upon the Doha Declaration that acknowledged the need to manage international trade in consideration of economic development and poverty alleviation. This mandate set out a special focus on least developed countries (LDCs) and how to integrate them into the multilateral trading system.

At the World Trade Organisation (WTO) Ministerial in Hong Kong, progress, supposedly, was made on the matter when it was confirmed in the final declaration, 'developed country Members shall provide duty-free and quota-free (DFQF) market access for all products originating from LDCs by 2008'. However, following this statement, a loophole was provided for developed country Members to protect their markets from LDC imports that may effectively compete with their domestic industries. This passage leaves enough room for developed countries to exclude the very products in which LDC's have export interest from DFQF market access.

This Briefing Paper discusses the potential economic impact on LDCs' trade in light of the outcome of the Hong Kong Ministerial on DFQF market access for LDCs' products.

Background

The proposal for DFQF market access for LDCs' products to developed nations' markets was first put forward at the Eighth Session of the United Nations Conference on Trade and Development (UNCTAD VIII) held in Cartagena, in 1992. Since then, little progress was made until the WTO Ministerial in Doha 2001, where the idea was re-vitalised and set out in the Doha declaration. The 32 LDC Members up to and throughout the Hong Kong Ministerial continuously pushed the issue, but their efforts came to naught with the final declaration agreed by all WTO Members.

In the Annexure on Special and Differential Treatment of the Hong Kong Declaration, it was asserted, 'Members facing difficulties at this time to provide DFQF market access…. shall provide duty-free and quota-free market access for at least 97 percent of products originating from LDCs, defined at the tariff line level, by 2008.' (Hong Kong Declaration, Annex F, para 36(a)(ii), December 18, 2005). This leaves three percent of LDC products, defined at the tariff line level, to continue to meet the expense of tariffs in developed countries' markets. *But what does this amount to exactly, in terms of LDC products to be restricted or confronted with tariff barriers from developed countries' markets?*

The largest markets encompass an average of about 10,000 tariff lines, where each of these tariff lines proscribe to different types of products. For instance, one tariff line will set a tariff for selected women's scarves, while another tariff line shall set a particular tariff for certain men's sports shoes and so on.

On the face of it then, there will be many developed countries' markets that are now freely available to LDCs products (see Table 1). This presents a great opportunity for LDCs *assuming* that their products are diversified enough to take advantage of the many markets open to them; and that they are capable of penetrating the markets, given that gaining free access to these markets is one thing and actually entering the market is another, in light of non-tariff barriers and both domestic and international competition in the market.

However, these assumptions are tentative. For two thirds of LDCs, their top three exports account for over 60 percent of their total exports and so they are unable to take advantage of the preferential access they currently receive, i.e. even though there are 97 percent of product markets free to them, this offers little benefit if LDCs do not produce any of these products. This high concentration in only three types of export products, moreover, means that an LDC's entire export may be classified under a few tariff lines; this classification is dependent on its product characteristics. For example, Guinea Bissau's top three exports make up more than 80 percent of its entire exports, which translates to only a few tariff lines. (WTO Report on LDCs, 2006)

The Hong Kong Declaration gives developed countries the option of continuing to impose tariff barriers on three percent of their market in terms of tariff lines (see Table 1). For example, the US would be able to restrict three percent of its 10,496 tariff lines, which calculates to

* *This paper is written by John Tabari of and for CUTS International, as part of the project: "WTO Doha Round and South Asia: Linking Civil Society with Trade Negotiations".*

With the support of Oxfam Novib The Netherlands

Table 1: Tariff Lines in Selected Developed Countries' Markets

Market	Total No. of Tariff lines	DFQF market Access for 97 percent of total tariff lines	No. of Tariff Lines able for exemption of DFQF Market Access (3 percent of total tariff lines)
Australia	6,102	5,919	183
Canada	8,497	8,242	255
European Union	10,404	10,092	312
Japan	9,296	9,017	279
New Zealand	7,414	7,192	222
Norway	7,165	6,950	215
Switzerland	8,477	8,223	254
United States	10,496	10,181	315

Source: WTO, Sub-Committee on LDCs, Negotiating Group on Market Access, 'Note by the Secretariat', 22 February 2006 – WTO Report on LDCs, 2006

around 315 tariff lines. Certainly, the US will be able to impose tariffs on Guinea Bissau's major three exports if the country wishes and still be left with a large number of lines for exclusion of DFQF market access. Hence, the DFQF market access for LDCs' products set out by the Hong Kong Declaration is questionable whereby developed countries can certainly restrict LDCs' highly concentrated products from their markets when they believe their domestic industries are threatened.

Preferential Trade with LDCs

In the given scenario, LDCs will no doubt continue their ongoing preferential arrangements for market access with developed countries. LDCs rely on the European Union (EU) and the US for the most part of their exports. In terms of market access, these two developed countries, among others, provide different preferences according to their wishes for many LDCs on selected products.

Access to the Market of the European Union

The sum of EU imports amounted to about US$992bn in 2003, of which US$13.7bn originated from LDCs, making up around one percent of the EU market for import; only US$120mn of these imports were dutiable (WTO Report on LDCs, 2006). The latest initiative by the EU is the Everything But Arms (EBA) Agreement, which came into effect in 2001. This, literally, offers DFQF for all LDCs' products except arms.

In comparison, the other major Generalised System of Preferences (GSP) scheme is the Cotonou Agreement that is ongoing and independent of the EBA and is only applicable to LDCs in African, Caribbean and Pacific (ACP) countries, while the EBA acknowledges the plight of all LDCs. Partly for this reason, in the early years of the EBA, Asian LDCs were seen to benefit mostly from the agreement. In addition, there are no periodic reviews of the EBA unlike the Cotonou Agreement, which offers investors within LDCs certainty of market access to EU.

Despite this, ACP countries have stuck to the Cotonou Agreement for the time-being considering that it provides them the same duty free market access for all their export products as does the EBA so there is no real incentive to adopt the EBA. Only the products that are delayed in liberalisation (bananas, rice and sugar) would be of greater reward for some ACP countries (i.e. Malawi, Sudan, Madagascar, Zambia and Tanzania) so there is time to wait.

But the foremost reason for ACP countries' restraint is that the EBA, fundamentally, differs from the Cotonou Agreement in terms of its 'rules of origin' (RoO) condition. The EBA allows countries to gain inputs (e.g. raw materials) for the assembly of their export products from selected regions; this activity of importing materials from other countries for production of product for exporting is a process known as 'Cumulation'. These inputs can be received/imported from the EU itself and from countries in the Association of Southeast Asian Nations (ASEAN), Central American Common Market (CACM), Andean Community and South Asian Association for Regional Cooperation (SAARC) regions for production of their exports but nowhere else. However, only Asian LDCs can benefit from cumulation in these regions. Cumulation within these regions is not achievable for ACP countries and so the Cotonou Agreement still remains preferable to them as it allows them full

Box I: An LDC on the Edge – The Condition of Cambodia

The WTO fails Cambodia by not opening developed countries' markets for its cloth exports, which would assist the country in the process of economic development. Cambodia is afflicted with a myriad of problems: about 78 percent of the population (14.2 million) live on less than US$2 per day and the average life expectancy was 56 years between 2000 and 2005.

At present, the country puts most of its effort, for export trade into producing clothes, which accounted for 72.1 percent of its total exports in 2003, and currently contributes to 14 percent of gross domestic product. However, these clothes have similar product characteristics and when classified under the Standard Industrial Trade Classification, are merely defined by three codes representing different types of clothing. The classification of these products can possibly translate to only a few different tariff lines. This is a major cause for concern since developed country Members are exempted from offering DFQF market access to three percent of tariff lines. Hence, the US (Cambodia's largest export market for clothing) could continue restricting access to its domestic market for all clothing imports originating from Cambodia, considering that nearly all its exports can be classified within a few tariff lines.

Source: WTO Report on LDCs 2006; UNCTAD 'The LDCs Report', 2004; UNDP 'Human Development Report', 2005; Economic Institute of Cambodia, 'Cambodia: Economic Watch', October 2005 cumulation within any region. ACP countries must push the EU to reform the EBA *vis-à-vis* its cumulation requirements and allow ACP countries to gather materials from fellow ACP countries for production of export products.

Access to the Market of the United States

Like the EU market, LDCs' imports represented about one percent share of total US imports in 2003. Unlike EU, US$4bn out of the total US$10.4bn of US imports from LDCs, was dutiable in the same year; meaning only 62 percent of LDCs' products entered the US market duty-free.

The US has divided its market access treatment of LDCs' imports into different distinct GSP schemes. The most superior scheme in terms of DFQF market access is the African Growth and Opportunity Act (AGOA), which came into effect in 2000. However, the AGOA applies strict RoO criteria. This is tantamount to apparel industries where fabric must originate from either the US or fellow AGOA countries. After a five-year review of the AGOA by the US Committee on International Relations, it was found that 80 percent of trade under the Agreement remained in extractive industries such as oil. Consequently, the greatest beneficiaries of the AGOA were oil exporters like Nigeria, South Africa, Angola and Gabon, which together claimed 81.4 percent of US imports from Africa in 2004 (House of Representatives, Committee on International Relations, 'AGOA: A Five-Year Impact Assessment', October 2005).

Yet, a few LDCs have taken advantage of the AGOA and used it as an opportunity to expand and transfer to new markets. Lesotho and Madagascar reallocated investment into the apparel sector from the common agricultural sector and reaped the rewards. Both LDCs have seen their exports to the US more than double between 2001 and 2004. Conversely, due to the complete phase out of textile and clothing (T&C) quotas, these exports have actually started declining as of 2005.

Access to other Developed Countries Markets

Among the developed countries, only Australia and New Zealand provide DFQF market access to all LDCs' products. In 2003, both imported US$89mn and US$31mn respectively, of products originating in LDCs. Although Canada excludes dairy, poultry and egg products from DFQF market access, it must be said that none of the US$769mn worth of total LDCs' product imports were dutiable in 2003.

Japan is slowly but surely providing more LDCs products DFQF market access since it began its GSP plan in 1971. The current '99 percent Initiative' scheme that was set up in 2001, granted further DFQF market access for LDCs' products. Japan opened up its prawn and fish fillet markets which are of potential benefit to fish-exporting LDCs though it still limits market access to some agricultural and non-agricultural goods.

Box II: Politics of Market Access

The political nature of LDC DFQF market access is represented on both sides of the North-South divide.

In the North, trade ministers often give in to the demands of the politically powerful lobbies in the T&C sector. These T&C lobbies are worried of T&C flooding their markets from LDCs exports, if the LDCs receive DFQF market access.

During Doha negotiations, National Council of Textiles Organisations (NCTO), the US T&C lobby, constantly used every trick in the book to restrict DFQF market access for LDCs. The Council decreed that if WTO Members committed to this issue it would negatively affect both US jobs directly and developing countries' exports. NCTO's major worry is LDCs' use of cost-effective raw materials from China. Hence, the US would be unable to dictate the RoO, which they are currently promoting under the AGOA and other GSP schemes. Before the Hong Kong Ministerial, NCTO released a statement, that DFQF treatment to textiles for LDCs would more likely hurt the poorest countries rather than help them. After the Ministerial, the Chairman of NCTO, Jim Chesnutt was pleased that 'the administration was able to beat back a concerted attempt to give Bangladesh and other competitive textile players duty-free status in the US market'.

The developed countries' T&C lobbies' tactics are not startling though, as their final aim is to protect jobs at home though via protectionism they do so at the cost of the world's poor. However, when Pakistan and Sri Lanka, two members of the SAARC put their own interests ahead of their poor South Asian fellow countries, Bangladesh, Nepal and the Maldives, it is rather more disconcerting. On December 17, 2005, the two countries proposed that although they supported the DFQF market access for all products from LDCs, if this access hurts developing countries exports, the latter should also gain such concessions. This presented an opportunity for developed countries to divide and conquer. And they certainly seized it by opting for 97 percent of LDCs' products to receive DFQF market access so that they would be seen to be trying to assist both developing countries, and LDCs at the same time. The Sri Lankan and Pakistani proposal could have been submitted after LDCs' DFQF market access was approved, even though their statement was fair.

Source: NCTO Press Releases, December 5, 2005 & January 10, 2006; WTO Document, Proposal of Pakistan and Sri Lanka, WT/MIN(05)/31, December 17, 2005; Adhikari R., 'LDCs should stay the course,' Kathmandu Post, January 20, 2006

Trading Across the South

Fast emerging markets in developing countries are becoming an interesting alternative to developed countries' markets, for LDCs' exporters. Fifteen LDCs exported more than 50 percent of their products to these markets in 2003. Nevertheless, it is often low value added LDC products that are imported by developing countries. Food, raw materials and especially oil accounted for 85 percent of the total LDC exports to developing countries in 2004 (WTO Report on LDCs, 2006).

The Hong Kong Ministerial Declaration also called for developing countries, in a position to do so, to provide DFQF market access for all LDC products by 2008. The two geopolitical powers of developing countries in relation to the Doha negotiations, Brazil and India, differ greatly in their market access treatment of LDC products. While Brazil allowed around 80 percent of LDC products to enter the market duty free, India was much more restrictive and less than four percent of LDC products entered the Indian market duty free in 2001. Although in the same year, it must be noted that India imported more LDC products than Brazil overall. The former imported US$ 1.3bn while the latter imported US$0.3bn (Figures from WTO Report on LDCs, 2006).

However, both these countries' imports of LDC products are dwarfed by that of China; it imported US$ 6.2bn worth of LDC products in 2003; 93 percent of these imports obtained duty-free treatment, though if the oil is removed from this calculation, only 49 percent of LDC imports received duty free access. China is actually LDC's third largest export market behind the EC and the US. It is evident that South-South trade is on the rise but still has a long way to go (Figures from WTO Report on LDCs, 2006).

Economic Implications

The Hong Kong WTO declaration clause, that requires *but does not bind* developed countries to provide 97 percent of product lines DFQF market access for LDCs' products, may cause only slight increase in LDC export revenue. The EU, Australia and New Zealand have already met this objective. Essentially the US and to a certain extent Japan will provide most of any extra export revenue, as it is their markets that are the most restrictive for LDCs. Still LDCs like Cambodia and Bangladesh will continue to receive harsh treatment against their exports; high tariffs will still be imposed on their clothing goods when exporting to the US market.

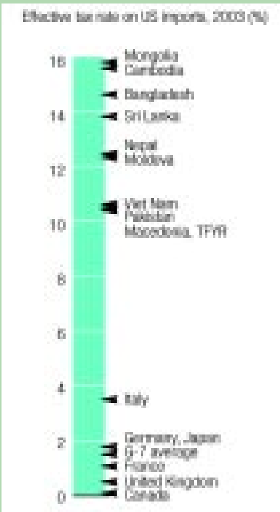
The fear of developing countries, that their export revenue will be damaged if LDCs are granted 100 percent market access to developed countries' markets is unfounded. A study of the EBA found that if DFQF access was given to all LDCs' products under the EBA, then there would be little negative impact on developing countries' exports within the EU market; generally decreasing slightly from 0.1 to 0.8 percent (W Yu and T V Jensen, 'Tariff Preferences, WTO Negotiations and LDCs', The World Economy, March 2005). There is also the possibility that developing countries may even increase exports in some sectors, since LDCs reduce their export from some sectors and transfer production to other sectors which are liberalised and are more viable in conjunction with their supply constraints.

Box III: Taxing the Poor

In 1969, Nobel Peace Prize winner, L B Pearson reasoned that 'in order to protect their own agricultural and commercial interests, trade policies of advanced nations have raised unfair obstacles to export earnings for many poorer nations'. His observation is still relevant today, where developed countries treat particular exports from LDCs much more heftily in terms of tariffs than they do on each other's exports.

The tariffs imposed by developed countries are one of the varieties of factors that determine why LDCs remain as agricultural or low value added exporters in products such as food, raw material and oil. It seems the higher the value added in manufacturing a good, the higher the tariff imposed by developed countries. In 2004, clothing, a higher value added good than raw materials oil and food, accounted for a third of LDCs' total exports to developed countries. The clothing industry employs the masses in LDCs. However, this is disregarded by developed countries such as US (see Figure 1), which imposes a higher effective tax rate on imports from LDCs, including Cambodia, Bangladesh and Nepal.

Figure 1: Tax Rates on US Imports, 2003 (in percent)



Calculated as tariffs over import volume.
Source: Calculated on the basis of data on imports and tariffs from USITC 2005.

Indeed, LDCs are left with this obstacle to climb when aiming to transfer from either agriculture or low value added manufacturing, to the high added value manufacturing level. In addition, Figure 1 indicates that even as LDCs are treated with disdain, fellow developed countries are treated with respect by the US in terms of tariffs.

Source: UNDP 'Human Development Report', 2005; Pearson L B, 'Partners in development', 1969

Future Thoughts

Target Audience	Recommendation
Trade Policymakers of LDCs	LDCs must improve their production and supply capabilities, as in certain cases they are unable to take advantage of the preferential access they currently receive. Thus, the expansion of DFQF market access will be of no avail, if LDCs cannot compete within these markets. Transfer of production into other sectors is a viable option, for example, Lesotho and Madagascar benefited in export revenue by shifting from agricultural goods to apparel in their exports to the US under the AGOA. The shift in production and improvement in supply capabilities must be a continuous process, however, so as to not be hindered by ongoing preference erosions.
Trade Negotiators of LDCs	Markedly, LDC preferences are constantly being eroded as markets become more liberalised due to market reforms. In the long run, LDCs must comprehend the impact of future competition in their current preferential markets. For example, sugar exporting LDCs that receive preferential access to the European Commission (EC) sugar market (e.g. Malawi) will see their revenue reduced as the EC reduces its high domestic price over the next three years. As the previous EC guaranteed sugar price drops, LDCs sugar export revenue shall also fall and so their preferential arrangement shall become less significant. LDC exporters will have to contend with more efficient exporters like Australia, Brazil and Thailand that shall become the dominant competitors in their markets. The continuing preference erosion beggars the need now for greater free market access to developed countries markets with less conditions, so that LDCs can gather maximum export revenue to invest in production or transferring production into new sectors, before the preferences are completely eroded. In regard to Doha negotiations, since it may not be possible for WTO Members to agree on 100 percent DFQF market access to developed countries markets, perhaps LDCs' trade negotiators may push for their top three exports to be exempt from the three percent of tariff lines exclusion of DFQF market access to developed country markets asserted in the Hong Kong declaration.
Trade Negotiators/Policymakers of Developing Countries	Developing countries can increase DFQF market access for LDC products. By opening up their markets further, they may also receive further support of LDCs in regard to trade negotiations on agriculture/non-agricultural market access (NAMA) where there is division between the two groups of countries, i.e. G-20 and G-90.
Trade Negotiators/Policymakers of Developed Countries	In this area, financial and technical assistance can certainly come into play, with strict conditions in the RoO requirements, donors of these preferences should offer assistance so that LDCs can benefit in other areas of export. In the long term this may prove cost effective for these donors as exports are cheaper. RoO requirements that restrict South-South trade should fundamentally be amended (e.g. RoO under the EC's EBA agreement), not only for the export interests of both LDCs and developing countries, but also consumers in developed countries.

The author would like to thank Ratnakar Adhikari, Programme Specialist-Textile & Clothing, Trade and Investment Cluster, UNDP Regional Centre in Colombo, Sri Lanka and Jacob George, Professor and Head at Faculty of Economics and Development Planning at Haryana Institute of Public Administration in Gurgaon, India for their valuable comments. The views are personal.

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