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Duty-free, Quota-free Market Access

A Perspective from South Asian LDCs

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Introduction

Least developed countries (LDCs), for their deficiencies in trade-related infrastructure and production and cost effectiveness, are in a disadvantageous position in the international trade integration process. To be competitive, they are in need of special and differential provisions in terms of quota facilities and/or preferential (lower) tariff rates that ensure better market access in the developed and in the advanced developing countries for the products of their export interest. At the same time, they require these facilities to be non-reciprocal to protect their industries, secure government revenue from import duties and to exercise control over the economy during the crisis periods.

In order to facilitate the participation of the developing countries and the LDCs, some developed countries offered 'Generalised System of Preference (GSP)' established in 1968 under the auspices of United Nations Conference on Trade and Development (UNCTAD) European Union and Japan (1971), Canada (1974) and USA (1976) initiated this. The GSP facilities for the developing countries are included formally in the WTO Agreement, with three basic characteristics: generality, non-reciprocity and non-discrimination among the beneficiaries, and therefore, are exceptions to the Most Favored Nation (MFN) provision of the WTO Agreement.

The numbers of GSP donor countries and the types of provisions have increased considerably over time. There are currently 13 national GSP schemes (UNCTAD, 2006). At present, the countries that grant GSP preferences include: Australia, Belarus, Bulgaria, Canada, Estonia, the European Union, Japan, New Zealand, Norway, the Russian Federation, Switzerland, Turkey and the US. Under the GSP facilities there have been improved market access for the developing countries as well as LDCs.

After the abolition of the Multi-Fibre Agreement (MFA) as per the WTO Agreement on Textiles & Clothing from January 2005, the textile and clothing markets in the developed countries virtually offer quota-free facilities to others, including LDCs. This trade integration brought about international competition for the LDCs, where they had to compete with more efficient exporters such as China and India. Besides, the preferential arrangements under different regional and bilateral agreements of free trade provided some LDCs and developing countries in Africa with special opportunities for exporting to the US market.

Further, LDC export interest lies in agricultural products as well as labour-intensive manufacturing products like textile and clothing. However, major developed country markets, like US and Canada have high protection for the textile and clothing sectors, whereas EU and Japan have high protection for agricultural imports. In the US market, the LDCs have DFQF access of their products up to 82.7 percent of the tariff lines. However, this apparently high proportion covers only 50 percent of the LDCs exports to the US. However, EU granted an almost full DFQF market access for LDCs products under Everything But Arms (EBA) facility but has strict Rules of Origin (RoO) restrictions, which is a limiting factor.

For Bangladesh and Nepal – two South Asian LDCs – EU and US markets are the major destinations of their export items. These two LDCs, especially Bangladesh, are heavily dependent on the export of ready-made-garments (RMG) for their export earnings. Bangladesh and Nepal enjoy DFQF market access in the EU for almost all products. However, these two countries face high tariffs in the US market on most of the products of their export interest. Bangladesh and Nepal, like other LDCs, also face high tariff barriers in some other developed and developing countries on a number of products.

Therefore, even under GSP or, EBA provisions, their lie improved market access potential for Bangladesh and Nepal as well as for other LDCs. In addition, in the advanced developing country markets, like those of Brazil, China and India, preferential treatments of duty-free access to LDC products have substantial market access potential and therefore, have welfare impact. A number of studies suggest that the enhanced market access for the LDCs in the developed and advanced developing countries in terms of DFQF market access provisions will benefit them substantially with both improved terms of trade and allocative efficiency.

Export Performance of LDCs

LDCs are the most structurally handicapped economies in the world. Over the last few decades, these economies have shifted their strategies of industrialisation as well as of economic development from a mere inward-looking stance towards an outward-looking and internationally integrated outlook. However, over time, the enhanced global trade liberalisation and increased participation of the developed and the developing countries in world trade resulted in a decreasing trend of LDCs' share in world exports. While for the developed

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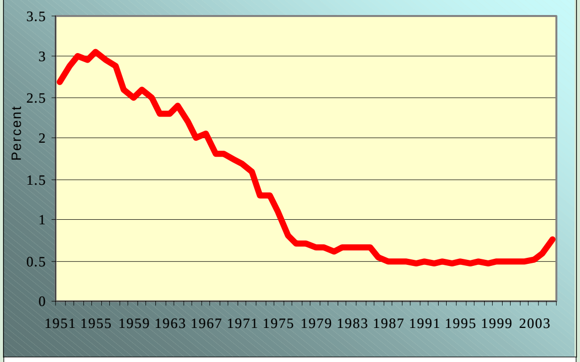
Figure 1: LDCs' Share in World Exports (1951-2005)



Source: UNCTAD World Trade Statistics (different years)

and developing countries, the shares in world exports are almost 70 percent and 30 percent respectively, the LDCs' share is only 0.7 percent in recent years (see Figure 1). In fact, Figure 1 suggests that LDCs share in world exports has declined significantly from three percent in mid 1950s to only 0.7 percent in the early 2000.

In the case of Bangladesh and Nepal, it is evident from Table 1 that the shares of their exports in world exports increased during the 1990s. In fact, these two countries were able to increase their export shares quite remarkably. However, during the early 2000, the share of exports from Nepal has dropped with a high margin, while that of Bangladesh declined by a smaller percentage.

Table 1: Bangladesh and Nepal in World Exports (%)

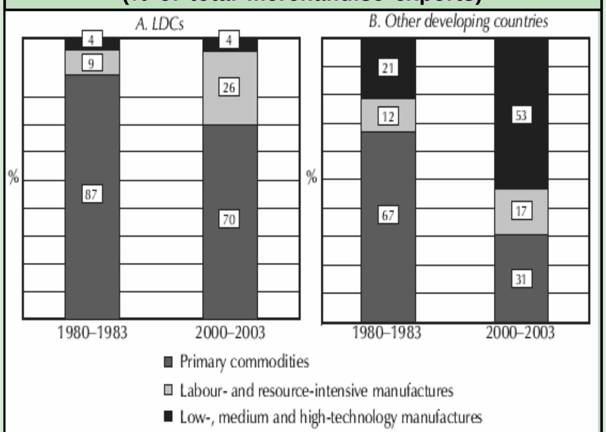
Country	1990	2000	2004
Bangladesh	0.0478	0.0994	0.0933
Nepal	0.0058	0.0125	0.0084

Source: UNCTAD, Handbook of Statistics (various issues) and World Bank, World Development Indicators (various issues)

An important feature of the trends in the merchandise export composition of the LDCs is that manufacturing exports have been increasing. During 1980-1983, manufactured exports constituted only 13 percent of total merchandise exports for the LDCs as a group. However, the shift away from primary commodities into manufactures is occurring much more slowly than in other developing countries and has not gone very far. Between 1980-1983 and 2000-2003, the share of manufacture in total merchandise exports of other developing countries increased from 33 to 70 percent (see Figure 2). Also, it is a fact that only three LDCs (Angola, Bangladesh and Cambodia) account for a majority of the LDC exports (UNCTAD, 2006).

In the case of Bangladesh, manufacturing exports in recent years constitutes more than 90 percent of its total exports, whereas for Nepal the corresponding figure is just over 70 percent (see Figure 3). It thus appears that both Bangladesh and Nepal have been able to perform quite differently than any average LDC as far as the composition of exports is concerned.

Figure 2: Composition of Merchandise Exports in LDC and other Developing Countries (% of total merchandise exports)



Source: UNCTAD (2006)

Hong Kong Ministerial Declaration on DFQF

In the Sixth Ministerial Conference of the WTO Members held in Hong Kong, China in December 2005, developed countries have made a binding commitment with regard to providing duty-free and quota-free access to products originating from LDCs. According to the Article 36 of Annex F of the Hong Kong Ministerial Declaration, there is the commitment that "*developed county members shall, and developing country members, declaring themselves in a position to do so, should provide Duty free Quota free market access on a lasting basis, for all products originating from all LDCs by 2008 or no later than the start of the implementation period*".

The Hong Kong Ministerial Declaration has the provision for 'members with difficulties' to cover 97 percent of products, defined at the tariff line level, originating from the LDCs for DFQF consideration, and the developing countries are allowed to enjoy 'appropriate flexibility'. Moreover, the Rules of Origin (RoO) requirements also make them simple, transparent and preferential for the LDCs to enhance their market access. It is, however, important to note that bilateral pressure from US to exclude some of the products from DFQF facilities may jeopardise the whole initiative. Some LDCs argue that to be effective, all countries and all commodities should be under DFQF provision (ICTSD BRIDGES, December 15th, 2005).

Figure 3: Export Composition of Bangladesh and Nepal

Source: UNCTAD, Handbook of Statistics (various issues)

Implications of Different DFQF Scenarios

In a recent study by Raihan *et al* (2007), a global general equilibrium model (the GTAP model) has been used to explore the implications of different DFQF scenarios for the LDCs and the developing countries. The authors simulated three scenarios:

- DFQF1 (LDCs' getting 100 percent DFQF market access on all products only in the developed countries)
- DFQF2 (LDCs' getting 100 percent DFQF market access on all products in both the developed and advanced developing countries)
- DFQF3 (LDCs' getting 100 percent DFQF market access on all products only in the USA)

Welfare Effects

The welfare effects of the afore-mentioned scenarios for some selected countries and regions are depicted in Table 2.

Table 2: Welfare Effects of DFQF Scenarios (mn US$)

Countries	DFQF1	DFQF2	DFQF3
Bangladesh	548.6	590.2	498.5
Other LDCs	477.2	654.2	90.2
India	8.8	-70.9	10.3
Other Developing Countries	-30.4	-57.8	-29.9

Source: Raihan et al (2007)

Table 2 suggests that under the DFQF1 scenario, the total welfare gain for the LDCs is US$1025.8mn where Bangladesh alone would account for US$548.6mn (almost 53 percent of the total gains of the LDCs). The DFQF2 scenario results in a larger welfare gain for the LDCs. The welfare gain for Bangladesh and all other LDCs increase to US$590mn and US$654mn, respectively. Under the DFQF3 scenario the welfare gain for Bangladesh becomes US$498mn, whereas for all other LDCs it is US$90mn. It appears that Bangladesh's welfare gain is mainly driven by its DFQF market access in the US market. However, for other LDCs, apart from the US market, DFQF market access to other developed countries are very important.

Growth of RMG Exports in Bangladesh

Raihan *et al* (2007) also find that under different DFQF scenarios the expansions of the woven and knit RMG sectors in Bangladesh are quite remarkable. Figure 4 suggests that the exports of the woven and knit RMG sectors would increase by more than 25 percent and roughly 20 percent, respectively under different DFQF scenarios.

Impact on Poverty in Bangladesh

Raihan *et al* (2007) also estimated the poverty impact of different DFQF scenarios by linking the GTAP model with a country computable general equilibrium (CGE) model for Bangladesh. It appears that all the three DFQF scenarios will have profound impact in terms of reduction in both the rural and urban poverty in Bangladesh.

Table 3: Poverty Impact of DFQF scenarios in Bangladesh

Scenarios	Percentage point fall in Rural Head-count Poverty Rate	Fall in the number of Rural Poor households	Percentage point fall in Urban Head-count Poverty Rate	Fall in the number of Urban Poor households
DFQF1	-0.51	114,240	-0.49	27,440
DFQF2	-0.56	125,440	-0.53	29,680
DFQF3	-0.41	91,840	-0.40	22,400

Source: Raihan et al (2007)

Preference Erosion for the Developing Countries!

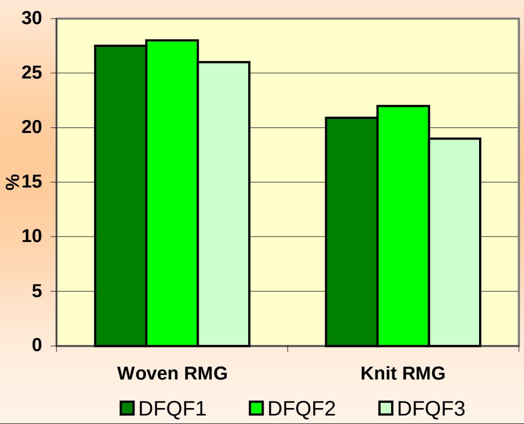
An important issue, as far as the interests of the developing countries are concerned, is that there is a possibility of preference erosion for the developing countries if LDCs are allowed DFQF facilities for all their exports. Therefore, gains to LDCs from duty-free, quota-free market access need to be weighted against the resulting preference erosion for the developing countries.

It, however, appears that under DFQF1 and DFQF2 scenarios (see Table 2), India registers some small welfare gains, and all other developing countries as a whole face a welfare loss of only US$30mn. A sizeable welfare loss incurred by the developing countries will only be under DFQF2 scenario (where the advanced developing countries also provide DFQF market access to the LDCs). However, compared to the huge welfare gains of the LDCs, the losses of the developing countries are not very high. Therefore, the concern of the developing countries regarding the possibility of their welfare losses, if LDCs are given the DFQF access to developed countries markets, is valid, though the magnitudes of these losses are very low.

Nevertheless, It is Not Enough

It is important to highlight the fact that there exist a number of non-tariff barriers (NTBs) in the developed and developing countries on the products of export interest of the LDCs, and one cannot undermine the potential use of NTBs. For example, even though Bangladesh has DFQF market access of its RMG products in the EU market, Bangladesh cannot exploit the full benefit of this due to stringent RoO in the EU. Bangladesh also

Figure 4: RMG Export Growth in Bangladesh under DFQF Scenarios



Source: Raihan et al (2007)

Table 4: Examples of NTBs Faced by Bangladesh and Nepal			
Country	**Country applying measures**	**Products affected**	**Types of measures**
Bangladesh	EU	Garments	Rules of origin (EBA)
	Brazil	Sacks and bags of jute, knitted or crocheted	Anti-dumping measure
	India	Lead acid batteries	Anti-dumping measure
Nepal	India	Zinc oxide, acrylic fibres	Anti-dumping measure

Source: WTO (2006)

faces a number of NTBs in some advanced developing countries like Brazil and India. It is interesting to note that Bangladesh and Nepal face NTBs mostly on non-agriculture products. Exportable products of Bangladesh, which are subject to NTBs, are jute yarn and jute products, toiletry products, pharmaceutical products, juices, jam, jelly, pickles, spices and lead acid batteries. Similarly, Nepal faces anti-dumping measures on zinc oxide and acrylic fibres in Indian markets (WTO, 2006). Table 4 provides some examples of NTBs faced by Bangladesh and Nepal. The afore-mentioned analysis suggests that mere DFQF market access may not help the LDCs if stringent NTBs are in place.

Conclusion

There are several causes of concern on current Doha Round of negotiation that leave room for LDCs to design further negotiating strategies.

- The DFQF market access commitment is a binding commitment for developed countries. Therefore, firm commitment from all developed countries, especially from the US and Japan, which have indicated their difficulties at this point of time, to provide DFQF market access for all products originating from LDCs needs to be reassured.
- The provision of DFQF market access for at least 97 percent of products originating from LDCs has an important implication, which should be a subject of further discussions and negotiation. The declared 97 percent is to be considered as the minimum, not the maximum level. That is, given the Hong Kong Ministerial Declaration, developed countries can make commitments at a much higher level than 97 percent.
- The Hong Kong Ministerial Declaration specifically provides that members facing difficulties "shall take steps to progressively achieve compliance". On this light, LDCs are to take a position that there must be a time line for phasing out of the exclusion list.
- The definition of providing DFQF access "on a lasting basis" in Paragraph 36 (a) (i) of the Hong Kong Ministerial Declaration is not clear. This should be considered as bound – that is that its implementation is mandatory and subject to dispute settlement at the WTO in case of breach.
- The same paragraph of the Hong Kong Ministerial Declaration, while providing DFQF access for 97 percent of LDC products, also mentions about "taking into account the impact on other developing countries at similar levels of development". One can argue that developing countries at similar levels of development should imply consideration of interest of other LDCs, and *not* non-LDCs
- LDCs' strategy will be to keep most of the duty-paid export items out of the exclusion list. One of the suggestions is to negotiate for having duty-free access of all those products that have existing high tariffs (for example, tariff rates higher than six percent).
- LDCs may negotiate to have those commodities that entered in the developed country markets with zero tariff facilities in the recent past to be included in the 97 percent duty-free list.
- LDCs are to point out that tariffs on apparels and other industrial goods are expected to come down because of the on-going NAMA negotiations. Therefore, if the US does not provide zero tariff market access now, the opportunity of benefiting from such preferential treatment will become insignificant in the near future.
- There has also been a suggestion to propose to the US for consideration of ceilings on the items in the exclusion list, beyond which specified duties may be imposed.
- There can be negotiations about safeguarding the export interest of LDCs, which they are already enjoying. It is of the view that, since many other developed countries have comprehensive GSP schemes for LDCs it is in the best interest of the latter that these schemes be brought under the ambit of the relevant special and differential treatment provision of the WTO Agreement.

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